

**A.B.C. Learning Centres Limited
(Receivers and Managers Appointed)
(Administrators Appointed)**

**Submission to Regulation Impact Statement for
Early Childhood Education and Care Quality Reform**

**Council of Australian Governments
Early Childhood Development Steering Committee**

31st August 2009

Executive Summary

The considered views in this response are those of ABC's management and not those of the Administrators nor the Receivers. This should in no way diminish the validity of the opinions and facts expressed, as ABC collectively retains the most experienced group of childcare professionals in the industry, many with years of experience at the 'coal face'.

Evidence that the early years of a child's life influence their future well-being and learning capability is clear and well-documented. Therefore there is no doubt that a regime of ongoing improvements in early childhood education and care is desirable. However the following submission seeks to demonstrate that the rate and costs of the forms must be cognisant of what the industry can bear.

A.B.C. Learning Centres Limited (ABC) fully supports the National Early Childhood Development Strategy ('Strategy') and all associated efforts to improve the regulatory regime.

All regulatory regime changes are assessed on an affordability/benefits basis with recognition of who pays the costs. To this end, it should be noted, the reform agenda was established prior to the global financial crisis and at a time prior to ABC (Australia's largest childcare provider) being placed into receivership. ABC's receivership has led to a level of transparency in the true performance of Australia's largest provider which has highlighted that the childcare industry operates on much narrower margins than was the perception.

The proposed reforms to ratio requirements and staff qualification levels while understandable in the context of raising standards have the potential to render a large number of childcare centres unviable and significantly increase the cost of care to both parents and/or government. To achieve the desired increase in perceived quality Australia's expenditure on pre-primary education (the lowest in the OECD, at 0.1% of GDP), would likely need to be closer to the OECD average of 0.5% GDP.

ABC understands that some State and National industry associations have surveyed parents to determine their views. Without seeing the survey responses we would anticipate that parents will vote a resounding 'yes' if asked whether they would like to see standards of childcare increase and resounding 'no' if asked whether they want to pay significantly more for childcare.

ABC's experience is that there is very little price elasticity in the market and that increases in fees above CPI relate directly to lower demand. It is our view that parents will move to alternative sources of childcare if the financial burden of the proposed reforms falls at their feet. Unless the government is prepared to fund the vast majority of the costs, the proposed COAG productivity and quality improvements may be lost, despite having the best of intentions. We consider that the result would have a profound negative impact on the provision of childcare in this country.

ABC believes that the disparate nature of the current state regulatory environments prevents a single national solution in the short term. As such Options 2, 3 and 4 appear to be difficult to implement because of the impact on childcare places and the potential for considerable capital works. The establishment of national goals or standards will only be successful if implemented on a state by state basis. ABC agrees that younger aged children should benefit immediately from lower ratios across Australia. As such, ABC proposes that the uniform introduction of 1:4 ratios for children under the age of 18 months be adopted as a national standard.

Other proposed changes should be addressed on a state by state basis; taking into consideration different ratios, different space requirements and different grouping arrangements and most significantly, the associated level of government financial support.

ABC believes that option 1 should be adopted. A national standard should be established with a set of key desired regulatory arrangements and a quality rating system that is applicable across jurisdictions. States should be charged with managing the transition to those standards within an acceptable timeframe.

Background

ABC operates over 700 LDCs providing care to approximately 73,000 children per week and is by far the largest provider of Long Day Care (LDC) in Australia. With approximately 13,000 employees, across all Australian states and territories, ABC is in the unique position of being the only LDC service provider able to provide a national response to the Regulation Impact Statement.

ABC was placed into Administration and Receivership on the 6th November 2008. The scrutiny placed on ABC since November 6 2008 has revealed the true underlying state of the company and industry. It has exposed the distortions its rapid growth has created in the perceived profitability of childcare centres under the current regime of ratios and staff qualification requirements.

It has also exposed that ABC, despite its reputation in some quarters, is at its core a very high quality childcare provider with an excellent reputation with parents of the service, and an enviable record of NCAC accreditation.

The 'new' ABC has committed to working transparently with the regulators, government and various authorities to find the practical approach to improving standards in childcare. Striking a balance between the aspirations of COAG's agenda and the commercial and social realities is the goal.

ABC has taken each of the consultation questions provided in the Strategy and addressed them in turn. The responses should be read in consultation with the Executive Summary which sets out ABC's broader position.

It is important to note that our conclusions are materially different to those of Access Economics. Our analysis is based on ABC' current age configuration and the basis on which the Centre has been constructed or refurbished. Whilst we are confident that our figures are accurate we believe further material analysis is warranted to understand such differences.

1. Governments are proposing to implement consistent minimum standards of care across Australia. Do you agree with this approach?

ABC supports the notion that a national approach to minimum standards would enable greater transparency and equity in the assessment of childcare paradigms. Under the current process our policies, procedures and practices are checked and monitored by both licensing and accreditation bodies and there are obvious incongruities between state and territory legislation.

ABC is accepting of the fact that any new model would not necessarily be an exact science but rather an aspirational system that continually evolves reflecting trends, demands and innovations within the industry. Minimum standards cannot be 'black letter laws'. The love and nurture displayed at ABC Centres is not founded on command and control regulation.

Consistent minimum standards would set a benchmark which providers must adhere to and would ensure greater peace of mind for families when making emotive decisions regarding care options.

The proposed minimum quality standards should allow for easy implementation and be readily observable rather than require verified evidence.

The administrative toll that regulations and standards have on Centres and Centre staff is something that needs to be considered in the implementation of consistent minimum standards. ABC has been working diligently to reduce the administrative burden on our staff, whilst maintaining current legislative requirements.

ABC believes that a state by state evolution to compliance with national minimum standards will be necessary to avoid the burden that would accompany a single centralised process.

2. For each care type, which of the options set out in Chapter 5.3 do you believe would best achieve a good balance between meeting the government's objective of enhancing learning and development outcomes for children, and affordability for parents, and why?

As set out in the Executive Summary, ABC supports Option 1. This is not because ABC does not believe, that in some areas, quality changes are necessary, but rather that Options 2, 3 and 4 appear impractical given the current state of play.

Whilst ABC can see the merit in considering arguments in favour of Option 2 in that it may enable service providers, and their staff, longer time to prepare, it will mean distinct disadvantages for our Centres who will be affected by the reduction of five children per day in the 25-35 month age groups.

Our rationale is that it is hard to suggest a single model that would best meet the needs of children, the industry and the affordability for parents for all care types.

Any policy change will incur increased costs to the government, service providers, families and taxpayers. Furthermore, such costs are compounded for Long Day Care due to the number of children in attendance.

The current margins in the childcare industry mean the costs of additional staff, in order to comply with staff: child ratios would be passed on to families via increases to fees. Even with government subsidies, industry cost absorption and future funding arrangements, the actuality remains that Child Care will be more expensive for families if providers are to survive.

Another indirect cost which should be considered is the availability of places across the nation. The ratio changes will impact on group sizes. An example being a ten place nursery, with a ratio of 1:4, may only operate at a maximum capacity of eight. This will result in lost revenue for service providers and lost child care places for all families. The net effect of this occurrence across multiple service providers will impact significantly on the number of child care places available nationally. (Please refer to Q14 response for details of potential loss of child care places at ABC Centres)

ABC believes that the Governments' objective of enhancing learning and development outcomes will be partially achieved through the implementation of The Early Years Learning Framework. However

if a policy change does transpire then services should be funded directly to provide for increased staff child ratios.

Changes in ratios will in some instances, lead to substantial capital works to re-configure centres that have been constructed or refurbished to comply with existing regulations.

The younger age groups are, in many states, subsidised by the margin received from the older age groups. As demand decreases across a centre as a result of fee increases, this subsidy will be diminished. There are currently full baby rooms and waiting lists across the country. (refer 14.2 table for additional costs per age group.)

3. Do the proposed standards address different cultural and diversity requirements and considerations adequately? If not, do you have any suggestions for how the standard could be further improved?

There has not been a great deal of focus on cultural and diversity constraints within the regulatory impact statement or discussion paper. ABC believes that it is important that universal standards are imposed on all services, including those in local and rural locations. Any quality standards and or minimum criteria must be culturally inclusive, sensitive and achievable for all services.

Centres that achieve 'excellence' will have higher demand, resulting in higher occupancy and in turn potentially higher fees. This will force families from lower socio economic or disadvantaged backgrounds to choose Centres that might not necessarily be operating at the 'National Quality Standard', and consequently these families may feel they are not providing the best possible environment for the early childhood education for their children.

It is crucial that any standards are all-encompassing, indiscriminate and attainable for all service providers in all communities.

The current QIAS process managed by the NCAC is a rating system. An integration of the QIAS processes with state licensing regimes would be a significant improvement. ABC notes that the Expert Advisory Panel Report comments that much more is required on the concept of a rating system.

ABC currently has in excess of 90% of its centres with the highest possible quality rating from the NCAC. Notwithstanding that position ABC continues to pursue improvements to service quality.

4. What would be the impacts of changes to the FDC arrangements?

Other than the fact FDC will potentially become a more viable and affordable childcare option, ABC will not comment on the impact to FDC.

5. What would be the impacts of the proposed changes to staff qualifications on services, particularly small, or rural or remote services?

There would be quite a few consequences for small, rural and or remote service providers should proposed changes be enacted.

The more obvious concerns would involve costs; the difficulty of attracting staff into childcare due to comparatively low wages and the subsequent complexity of attracting qualified childcare staff to remote areas.

Page 25 of the RIS suggests qualified staff are the drivers of quality child care. While we have many excellent staff with exceptional formal qualities, some of ABC's best staff are not those that are 'qualified' but indeed those who are experienced. ABC has observed repeatedly that part of the selection criteria parents use to choose a child care service is the 'experience' of the staff, the quality of interactions between the carer and the child and their child's emotional response to a carer. It is our belief that extended, exemplary, employment history should ideally be given the same Recognition of Prior Learning (RPL). In the child care industry a long and committed tenure in the industry should equate to the same as a formal qualification.

It should be acknowledged that there is the potential for long term staff to feel overlooked with the introduction of a minimum qualification. A review of the current RPL system is required to ensure experienced staff are given the credit and appreciation they deserve, otherwise services risk being required to employ qualified staff to replace unqualified staff and redundancies will be inevitable. RPL should be given based on Centre based training, workshops, in-service and through other tangible and equitable measures. Existing staff should have the option to apply for RPL to obtain their qualification at no cost to them or the service provider – ideally as funded by the government.

Under the proposed policy change valuable knowledge will prospectively be lost as employees who do not wish to (further) study, even with the offer of RPL, will cease their employment / association with the industry. This will be a potentially devastating loss of experience to the industry.

The introduction of university qualified staff in all services should be correlated with adequate funding and the implementation of the Early Years Learning Framework. Loading could be applied to rural and remote areas to entice staff to work in areas that are notoriously difficult to recruit in. It may also be necessary to consider tertiary qualifications that differ from 'teaching' qualifications (for example, a mothercraft nursing qualification).

In a perfect model wages should be subsidised to allow services to pay university trained staff the same rates as the Early Childhood Award.

Rather than introducing changes that focus on increasing our teacher's formal qualifications, changes should improve the effectiveness of early childhood education including improved professional development activities.

It is already impossible for LDC to compete against primary schools for teacher qualified staff. The larger holdings, and more generous base rates and leave provisions are practical barriers.

An increased cost to future industry workers will result in additional time and money being spent on education before entering the workforce or during on the job training.

It is essential that there is a short and long term plan to address the shortage of qualified carers.

6. Do you think the proposed quality rating system would be an effective indicator of service quality?

A proposed quality rating system would certainly be a measure of ensuring services were subject to the same standards analysis however there are a variety of contentious points to consider in ensuring an equitable system.

An objective set out in the RIS is to drive continuous improvement and provide parents with robust and relevant information about the quality of care and learning. Whilst ABC believes it is important to provide parents with the tools to make decisions about the education and care of their child it is not certain that the rating system is the most effective way to do this.

(Please refer to Q5 response for further justification.)

Conversely, parents do not have the choice to attend a Centre implementing the national standards or not. Because the standards will apply to all service providers, the minimum standards will be enforced on all parents, regardless of their financial status. Pragmatically this is not dissimilar to providing families with the option of public or private schooling.

When awarding each service a 'rating' all visits over a set period should be taken into consideration. The same representative should visit the service over the rating period to develop a tangible understating of the genuine ongoing practices. The visits should be supportive and where possible genial, rather than scrutinising and taking the form of assessment. And furthermore reasonable and timely provisions to address non compliance (particularly where child safety is a risk) should be available.

7. Would the quality rating system help to drive continuous improvement in the ECEC sector? If not, do you have any suggestions for how the quality rating system could be further improved?

ABC is currently committed to continuous improvement and uses the existing QIAS processes and state licensing regulations as a measure of this.

The rating system would assist in driving this continuous improvement by encouraging Centres to strive for the highest possible standards. Should any degree of a system be introduced, it is crucial that incentives are introduced to motivate Centres to continuously improve.

8. What criteria do you think should be used to rate a service as Excellent? How should the rating be assessed and by whom?

Under the proposed rating system not all Centres will have the capacity to attain 'excellence'. As mentioned earlier it is possible that service providers in rural and or remote areas will be disadvantaged without peer groups to share knowledge and practice.

ABC suggests that an 'excellence' rating should be awarded through successive 'high quality' ratings rather than via nomination. Other services are less likely to nominate each other due to the competitive environment within the industry.

The 'excellence' rating should be assessed by the same regular representative rather than through an isolated visit. The rating should take all the visit results from a particular period (i.e. one or two years) into consideration, in a similar fashion to the current NCAC moderation process. This will ensure services are assessed fairly and not solely on their performance on the day of the visit. Staff

are less likely to perform well under pressure knowing they are being observed – particularly in a situation intended to procure ‘the highest rating’.

The difficulty with an ‘Excellent’ rating is that it will be regarded as the ultimate result in a program that should remain aspirational.

9. Do you think integrating the existing regulatory arrangements will reduce costs for the industry and for governments? Do you think this approach will be sufficient to ensure ECEC provided is high-quality?

The integration of the existing regulatory arrangements may reduce costs for the government in streamlining their state licensing departments after the initial set up costs (training and transition costs) are met.

There will be industry costs for adequate consultation, professional development and additional resources.

ABC suggests that the integration of the existing regulatory requirements is the most beneficial aspect of the quality agenda. National regulations will help to drive ECEC on the condition that the minimum standards are equivalent to current state legislation.

Beneficially, service providers will only be required to deal with one department/organisation in relation to regulatory and licensing requirements. This would be particularly advantageous to a national provider such as ABC.

10. What do you consider to be the key advantages and disadvantages of the proposed reforms?

In plain terms the advantages to the proposed reform:

- A unified and singular government agency; and
- Consistent regulations nationally (with the potential exception of staff to child ratios and staff qualifications).

The disadvantages of the proposed reform include:

- Increased costs for all stakeholders;
- Qualified Staff Shortages;
- Possible Staff Resignations/Redundancies resulting in the loss of experienced, unqualified staff;
- Increase training requirements;
- Lack of funding and subsidies which are direct to the service providers in support of the new agenda;
- Capital costs associated with centre re-configuration; and
- Reduction in child care places nationally, based on the potential for group size reduction as a consequence of staff: ratio changes.
- Affordability of care for families

11. What do you consider to be the key challenges associated with the implementation of the proposed reforms?

The more apparent challenges result from timeframes, staffing availability / shortages and diminished income for service providers.

The foremost challenge will be the cost increases for the industry. Without funding and subsidisation child care operators may cease to operate, reducing the number of child care places available to Australian working families. This will have a devastating effect; not simply limited to the child care industry, but serious ramifications for the national economy also.

(Please refer to Q14 response for details of potential increases to child care costs at ABC Centres).

A secondary challenge will be that any fee increase that is passed onto families will result in termination of care in some cases which denotes lower occupancy, lost revenue and diminished return to work rates and no improvement in national productivity.

There is already an ongoing challenge in attracting and retaining qualified staff to the childcare industry and this will be significantly magnified.

The issue of attracting early childhood qualified staff will be further compounded by the requirement of employing an additional professional (yet to be determined in the RIS). There is the challenge of reaching unanimity amongst the States and Territories regarding proposed reforms.

And finally, how long do we propose the timeframe for implementation of any changes be and how equitable will this transition (taking into consideration size) between providers?

12. What factors may impact on the ability of ECEC services to implement reforms?

There are a number of factors that would need to be considered in assessing the implementation of suggested reforms including (but not limited to):

- Location;
- Staffing Shortages;
- Funding Support;
- Sufficient time for education and training on any revised standards; and
- The amount of support delivered from government / governing agencies and or support groups.

13. What transition arrangements do you consider appropriate for implementing the proposed staff-to-child ratios and staff qualifications?

Should the staff: child ratios be implemented, state by state Option 2 would be the most appropriate allowing the longest timeframe (under 3 ratios to be implemented by 2015 and over three by 2016).

Over a five year period, existing staff should be recognised and RPL should be awarded based on Centrebased training, workshops, in-services and the like. Existing staff should have the option to undertake the RPL process to obtain their qualification at no cost to them or the service provider, i.e. funded by the government.

At least for the transition period, the introduction of university qualified staff in all services should be linked to funding and the implementation of the EYLF. Loading should also apply for rural or remote areas to entice staff to work in areas that are renowned as ‘hard to staff’

Other considerations include the possibility of a grandfathered clause / the ability of existing staff to up-skill.

It is imperative that there is considerable planning for the execution of a public notification and awareness campaign highlighting the significant change to the industry. Furthermore, it must be made apparent that this is a mandated, industry wide change, as opposed to service providers simply enacting changes to suit their agenda(s).

14. What is the overall impact of the proposed changes on you and what would be your response?

The overall and most significant impact will be the increase in cost to families, governments, service providers, and taxpayers. This cost includes the reduction of available child care places due to group size reduction following staff: ratio changes.

ABC supports the integration of the existing regulatory requirements to sustain and maintain the most beneficial aspect of the quality agenda. National regulations will help to drive high quality ECEC so long as the minimum standards are equivalent to current state legislation.

The quality rating system may in fact cause inequality rather than quality. Centres that achieve ‘excellence’ will have higher demand, resulting in higher occupancy and in turn higher fees. Under the proposed system it will not be possible for all services to achieve an ‘excellence’ rating.

The tables below set out the impact to ABC Centres of Option 1 and Option 4 by way of comparison.

Table 14.1

State	Option 1 Costing Model (year ending 2015)			Option 4 Costing Model (year ending 2019)		
	Increased Cost/Day	Potential Loss of Childcare Places/Week	Potential Loss of Childcare Places as a % of Licence Capacity	Increased Cost/Day	Potential Loss of Childcare Places/Week	Potential Loss of Childcare Places as a % of Licence Capacity
Victoria	\$12.75	1,660	2.27%	\$17.75	1,160	1.58%
New South Wales	\$7.50	1,405	3.00%	\$16.25	1,170	2.49%
Queensland	\$6.25	3,075	3.23%	\$19.25	6,825	7.46%
Western Australia	\$3.50	0	0	\$9.75	225	1.04%
Tasmania	\$6.25	90	2.93%	\$12.00	110	3.61%
South Australia	\$9.50	180	1.05%	\$20.00	265	1.55%
A.C.T.	\$9.25	55	1.64%	\$21.25	150	4.61%
N.T.	\$10.75	40	1.14%	\$21.25	85	2.45%
	\$8.25	6,505	2.46%	\$17.75	9,990	3.83%

Table 14.2

Age	Option 1 Costing Model (year ending 2015)			Option 4 Costing Model (year ending 2019)		
	Increased Cost/Day	Potential Loss of Childcare Places/Week	Potential Loss of Childcare Places as a % of Licence Capacity	Increased Cost/Day	Potential Loss of Childcare Places/Week	Potential Loss of Childcare Places as a % of Licence Capacity
0 – 24 months	\$13.50	5,630	8.55%	\$32.75	6,285	9.64%
25 – 36 months	\$9.00	630	0.96%	\$13.50	3,140	4.98%
36+ months	\$2.75	245	0.18%	\$6.50	565	0.43%
	\$8.25	6,505	2.46%	\$17.75	9,990	3.83%

(The assumptions used for the above costing model are set out in Appendix 1)

APPENDIX A

- The Average Open Hours for ABC Centres is 11.5 hours per day compared to the Modelling prepared defining 50 hours / week.
- ABC has a limited number of centres in A.C.T, N.T and Tasmania. The analysis provided is based on the impact to the centres noting the small sample size.
- The costing and reduction of places available to the public is affected by the Centres configuration and is different under each scenario depending on whether the Centre has been purpose built or refurbished under the current regulatory requirements.
- Following on from the above point, it is important to note the disadvantage of national regulations to certain States that have limited the standard room size when adjusting staff: child ratio, especially in Queensland.
- The defined costs do not include any potential capital outlay. The potential cost to the parent is limited to the additional wage cost and the loss of income through reduction of places. This differs to Access Economics assumption, as no reduction in places would lead to further increased costs and passed to the parent through higher fees.
- The costs have used the Average Wage Rates for each qualification as outlined on page 64 of Access Economics reports.
- The training costs have been calculation using the same assumptions listed on page 49 of Access Economics Report and based on ABC Contributing towards either partially or in full to the cost of existing staff upgrading qualifications to Cert III and Diploma.
- The real wage Growth for the years 2010 to 2020 is modelled at 2% similar to page 49 of the Access Economics Report. This should not to be considered as ABC's agreement with the Real Wage Rate increase that the proposed changes will have on the wage rates for ECEC workers. The affect is 110.4% increase for Baseline model and 121.9% increase for Scenario 4 to the 2020 year.
- The costing has been completed based on the difference between the Current Ratio requirements under the regulations for 705 Centres. There has been no reduction of costs through the speculation that Centres in each State already meeting the Baseline requirements for the age groups.
- Specifically, for Queensland it should be noted that for Rooms with children of the 15-24 age group there is current requirement of 1:5 ratio and also for children of the 30-36 age group being 1:8. The impact of the adjustment does not appear to be considered in Access Economics Report to the suggested ratios under Option 1 for the uniform age groups.