Children's Services
educating and caring for our children

# SDN Children's Services
# Response to the Senate Education and Employment Reference Committee Inquiry:
# *Family Assistance Legislation Amendment* 2014

## 1. Introduction

SDN Children's Services is a not-for-profit organisation established in 1905, and is one of Australia's most experienced and trusted leaders in early childhood education and care.

SDN provides mainstream early childhood education and care services in NSW and the ACT through our long day care centres and pre-schools, in addition to our services for children with disabilities and families facing challenges, and our support services for other children's services providers.

Our mission is to:

- provide high-quality, inclusive early childhood education and care. This means our services are safe, affordable, inclusive and as inspiring as possible
- strengthen families and communities. This means we build strong connections within communities
- address inequalities faced by children. This means we challenge discrimination and help remove barriers to full inclusion.

SDN is pleased to have the opportunity to make a submission to the Senate Education and Employment Reference Committee Inquiry into the Family Assistance Legislation Amendment, and makes the following comments.

## 2. SDN's integrated services

SDN operates 23 long day care centres for children from birth to six years that also deliver a pre-school program, and two stand-alone pre-schools, in total educating and caring for more than 3,300 children each year.

An additional 3,200 children in our other children's services benefit from the advisory and support work we do. Without our services, these children would likely have been excluded from care. SDN works with more than 1,700 services in addition to our own, with the aim of reducing inequalities for children and families.

Our annual revenue from child care fees is approximately $31 million, representing 64.5% of our total revenue of $48 million.

## 3. Discussion

SDN believes the review of any policy for the early childhood sector needs to be tested against the outcomes achieved for three 'communities of interest': children, families, and society as a whole.

Good early childhood education and care, that is delivered well, will provide benefits for children and their families and the community. A good public policy solution delivers benefits for all three of these audiences.

From a 'whole of society' point of view, our society is advanced when those families not already in the workforce are given the most support to be a part of and contribute to society. Access to affordable quality early childhood education and care is essential to achieving this.

Evidence shows that children who access quality early education and care perform better academically at school, and that it is particularly effective in ameliorating educational and economic disadvantage. Studies of early childhood education and care interventions for disadvantaged children show very clearly that there are both short and long term positive effects on the outcomes for those children who access high quality early education and care.

SDN is concerned that the proposal to continue to freeze the Child Care Rebate and to freeze the income thresholds for the Child Care Benefit is not supported by any economic modeling nor has as its aim the achievement of any public policy outcomes. It is purely cost cutting, to the short term detriment of children and families and the long term detriment of the community.

SDN is also concerned that the proposed changes are independent of and pre-empt any recommendations of the Productivity Commission inquiry into early childhood education, which is not due to release its draft report until July and its final report until October 2014.

The Productivity Commission inquiry has as a focus the development of a system that supports workforce participation as well as addressing children's learning and development needs, and its Terms of Reference specifically include consideration of rebates and subsidies:

> *4. Options for enhancing the choices available to Australian families as to how they receive child care support, so that this can occur in the manner most suitable to their individual family circumstances. Mechanisms to be considered include subsidies, rebates and tax deductions, to improve the accessibility, flexibility and affordability of child care for families facing diverse individual circumstances.*

The proposed changes will tie the hands of the Productivity Commission in recommending systematic changes to improve the efficiency of funding for families to support their access to early childhood education and care.

### International comparison

Most European countries provide all children with at least two years of free, publically funded early childhood services before they begin primary schooling. For OECD countries in 2013, Australia and Ireland spent 0.1% or less of GDP whereas Denmark, Iceland, Israel and Spain spent 0.8% or more, with the average being 0.5% of GDP.

These OECD figures indicate that Australian governments already underspend on early childhood education and care, and freezing the indexation of CCB and CCR will leave Australian children even further behind the OECD average.

### Families, CCB and CCR

Cost is only one of the barriers that families can face in accessing early childhood education.

SDN adjusts its fees yearly, and we know that even the smallest increase can be too much for a family already under stress. Responses can include reducing the number of days the child attends our service, or removing the child from the service altogether.

The Child Care Benefit and the Child Care Rebate can significantly reduce the cost pressure on families. A family who qualifies for 100% of CCB must have a combined family income of only $41,902. If the upper and lower levels of CCB are not indexed, then as family income increases in line with CPI, the family creeps down the sliding scale of CCB rebates, and the percentage of CCB they receive reduces, while costs and therefore fees inevitably increase.

The maximum combined income for a family with one child in an early education and care service is $145,642. Above this income, a family receives no CCB payment. With no indexation of the upper income level, more and more families will likewise exceed this upper limit and receive no CCB at all.

The only support for families who do not receive CCB is the Child Care Rebate. The Rebate is currently frozen at $7,500 per annum, on the assumption that this supports 50% of out of pocket costs. However, for a family with a child in care five days per week, this means they would need to be in a service with a daily fee of $60 in order for this to represent 50% of out of pocket costs. In the current market, particularly in Sydney, this is completely unrealistic. SDN's lowest cost service is in Lithgow, at $74 per day for our pre-school room. Our lowest cost service in the Sydney area is at Riverwood, at $84 per day for our pre-school room.

For a child in care for four days per week, the daily fee would need to be $75 for CCR to represent 50% of costs, and for three days per week, the fee would need to be $100.

Attachment One is a real life example of one of our families at SDN Lois Barker in inner-Sydney Waterloo. They do not qualify for CCB and rely on CCR. SDN expects its fees to increase overall by around 4% each year, based on salary increases built into our Enterprise Agreement.

For this family, if CCR is not indexed to CPI, let alone actual costs, the out of pocket cost for this family will increase by $3,200 over three years, with CCR failing to keep up with market rates and covering an ever decreasing proportion of fees. By the end of three years, CCR will only cover 35% of this family's expenses.

### Service operating costs

As a service provider, the largest proportion of our costs are staff-related, with overheads including rent and maintenance costs as the second highest element.

While we can control costs, it is extremely difficult to reduce them such that we could reduce fees, without direct funding support.

Our wages costs increase each year thanks to our Enterprise Agreement with our staff, and to reduce costs would be difficult. Evidence shows that the quality of a service is positively correlated with the level of qualification of the educators. It is also linked to the ratio of educators and carers to children, and these standards are embedded in the National Quality Framework.

Reducing staff costs either means reducing wages, which we can't do; or reducing the number of staff or the qualification level of educators, both of which will negatively impact on the quality of education and care for the child.

The other option is to reduce overheads, the main one of which is rent. As with many other not-for-profit and community providers, SDN either owns its own properties or pays ongoing rent at a very low rate. There is considerable pressure on rents to increase to commercial levels, restricting our ability to reduce this element of our costs.

## SDN's proposal for CCB and CCR

SDN's recommendation to the Productivity Commission inquiry was that the means tested Child Care Benefit (CCB) and the non mean tested Child Care Rebate (CCR) should be combined into one payment with a base amount and then a sliding scale that is means- tested. The combination of these two payments alone would reduce an administrative burden on services. The administrative burden would be further reduced by streamlining the payments, for example making the calculation of the benefit more transparent and less changeable so families' fees can be more easily calculated.

Payments directly to services on a regular schedule will give a more secure cash flow for services, particularly smaller services. One of the benefits for all families is that their cash outlay for fees is reduced (rather than, for example claiming back CCR on tax). This is a particular benefit for families where the parents are not working and need the immediate reduction in cash outlays.

This proposal was made in conjunction with other recommendations including direct funding for services in vulnerable populations, and budget-based funding for specific services. This would be achieved by redirecting the proposed funding for the extension of the paid parental leave into these services.

SDN believes the focus of public policy and the subsequent government funding should be on supporting early childhood education and care services to increase the participation of families experiencing disadvantage, by improving the affordability of services for families and increasing the number and location of services.

This continues to be SDN's position.

## 4. Conclusion

SDN does not support the proposed amendments to freeze the indexing of CCR and the CCB income thresholds. These changes will impact on all families, but more so on families from disadvantaged backgrounds. Yet these are the families whose children will benefit most from accessing quality early childhood education and care.

Funding support for early childhood education and care is not a cost, it is an investment in the future.

No changes to CCB and CCR should be considered until the Productivity Commission has handed down its report, so decisions can be made in the context of the research undertaken by that Inquiry, and based on a coherent public policy position.

## 5. For more information

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# Attachment One

## Example: Family at SDN Lois Barker Children's Education and Care Centre

SDN's real life example is a family at SDN Lois Barker, with a child in our birth to 2 years room four days per week. The father works full time and the mother works four days per week and cannot reduce her number of days of work without losing her job. This family does not receive any Child Care Benefit (CCB) but does receive the Child Care Rebate (CCR).

SDN Lois Barker is a long day care centre located in Waterloo in Sydney's inner city area. It is open daily from 7.30am to 6.00pm for 50 weeks of the year, and is located in the midst of public housing, on a site leased from Housing NSW. Daily fees are in the mid-range of fees for across centres.

In 2013-14, the daily rate in our birth to 2 years room is $90 per day. For 2013-14, the full fees for their child equates to $18,000. After CCR of $7,500, the out of pocket cost to the family is $10,500. This means that CCR only covers 42% of expenses, already less than the advertised 50%.

In 2014-15, the daily fee at Lois Barker will increase to $98 per day. Full fees for the family will be $19,600, and if CCR remains at $7,500 the out of pocket cost for the family will rise to $12,100. In this case, CCR will cover only 38% of expenses.

SDN's Enterprise Agreement commits us to 3% increases each year for the next three years. Assuming an average annual increase in fees of 4%, for the 2016-17 year the daily fee will be $106 per day, or a total of $21,200 for the year. With CCR remaining at $7,500, the out of pocket expenses will be $13,700, in which case CCR will cover only 35% of expenses.