

Chapter 4

Funding childcare

...[W]e're paying a fortune in this country, as indeed in most western countries, on trying to fix up problems in children in the adult population, many of which we know begin in pathways that start much, much earlier in life...it's pay now or pay later. We don't question how much we spend on education. Why do we question how much we spend on the first five years of life when the research so powerfully demonstrates that that makes even a larger difference than the school system?¹

4.1 The committee believes that calls for a return to capital and recurrent funding are unlikely to be accepted by the government, but it also believes that a case can be made for the expansion of current provision for direct capital funding in particular circumstances. This chapter examines the characteristics of childcare funding and makes funding recommendations which are consistent with the generally agreed needs of quality and equity in childcare provision.

Increased funding

4.2 The committee considers that overall funding of the childcare sector should be increased. The need for increased funding of the sector was the overall message in submissions to this inquiry and it appears to have been acknowledged in part through the COAG initiatives on early childhood education.

4.3 In response, the committee notes the government's commitment to early childhood education and care through a range of initiatives, including:

- the government is spending \$16 billion over the next four years on early childhood education and childcare.² The Minister believes that this represents an increase in funding of one billion dollars per year to ECEC. The majority of these funds are to be directed to the childcare sector;³
- CCB was raised by 10 per cent over and above indexation in 2007-08 bringing the total increase in the maximum rate of CCB to 13.63 per cent;⁴

1 Professor Frank Oberklaid, *Life Matters*, Radio National, Transcript, 20 August 2008. Available at <http://mediacentre.dewr.gov.au/mediacentre/mckew/releases/changestochildcareandearlylearninginaustralia.htm>, accessed 15 January 2009.

2 Hon Julia Gillard MP, 'First Ever National Measurement of Early Childhood Development', Joint Media Release, 19 September 2009.

3 Hon Julia Gillard MP, 'First Ever National Measurement of Early Childhood Development', Joint Media Release, 19 September 2009.

4 DEEWR, *Submission 41*, p. 31.

- the Child Care Rebate (covering families out-of-pocket childcare expenses) has been increased by 20 per cent, bringing the rate to 50 per cent;⁵
- the maximum level of rebate available has been increased to \$7 500, effective from July 2008;
- the rebate intervals of payment have also been amended. CCR can now be paid quarterly, offering more timely financial assistance to families. DEEWR informed the committee that these measures have improved the affordability of childcare for families across income levels and are particularly beneficial to low and middle-income families; some families, for instance, have experienced more than a 20 per cent decrease in out-of-pocket costs for childcare;⁶
- the Universal Access to early childhood education initiative which provides access to 15 hours per week over 40 weeks of preschool education for all children in the year before school;⁷ and
- a paid parental leave scheme is to be introduced in 2011.⁸

4.4 The major development of 2009 has been the introduction of the online CCB administrative tool, the Child Care Management System (CCMS), which was initiated under the Howard Government in 2006 with \$72.3 million in funding. This is a computer-based payment system holding information regarding childcare usage and vacancies as well as CCB entitlements and payments for use by providers, families and government bodies.⁹

4.5 It is difficult to identify where Australia's level of investment in ECEC stands in relation to other OECD countries. UNICEF found that the overall funding of early childhood services (childcare and pre-primary school) based on OECD research, was less than half of the benchmark of one per cent of GDP.¹⁰ In addition, levels of public funding for childcare are typically far below public funding of other educational areas such as preschool education.¹¹ However, the Institute of Public Affairs has criticised

5 Hon Julia Gillard MP, 'Increase to Child Care Benefit and Child Care Tax Rebate from 1 July', Joint Media Release, 3 June 2009.

6 DEEWR, *Submission 41*, pp 18-20.

7 Hon Julia Gillard MP, 'Government Invests \$970 m in High Quality Early Childhood Education', Joint Media Release, 17 September 2009.

8 DEEWR, 'Australia's Paid Parental Leave Scheme – Supporting working Australian families', 2009, available at <http://home.deewr.gov.au/Budget/documents/PPLBooklet.pdf>.

9 DEEWR, *Submission 41*, p. 23; see also DEEWR, 'Child Care Management System', available at <http://www.deewr.gov.au/EarlyChildhoodPrograms/ChildCareforServices/Operation/Pages/ChildCareManagementSystem.aspx>.

10 UNICEF, 'The Child Care Transition – A league table of early childhood education and care in economically advanced countries', *Innocenti Report Card 8*, 2008, p. 27.

11 The Victorian Local Governance Association, *Submission 58*, p. 4.

the OECD research, questioning whether aggregate public spending is a useful indicator of the effectiveness of any particular nation's ECEC sector.¹² In addition, researchers from the Social Policy Research Centre at UNSW found that 'overall Australia spends more than the average of OECD countries on the early years, but that a much higher proportion of this expenditure is spent on cash transfers to parents'.¹³ Such cash benefits were excluded from the OECD research.

4.6 The challenges facing childcare and the need to fully resource the sector to address the lack of access for disadvantaged groups, provision in rural and regional areas, raising qualification levels in the sector and improving remuneration levels for carers suggest that funding increases beyond those already foreshadowed by the government will need to be contemplated.

4.7 The Universal Access to early childhood education initiative provides all children access to 15 hours per week for 40 weeks of preschool education in the year before school.¹⁴ The committee notes that such a policy, if implemented, will have a significant interface with the childcare sector.

4.8 The government has allocated \$970 million to state and territory governments under the National Partnership Agreement on early Childhood Education through COAG. However, the committee notes the importance of having information available relating to the delivery of this commitment and the impact on the childcare sector, and how Commonwealth expenditure will complement, rather than replace, state and territory funding.

4.9 Under the Partnership Agreement, COAG stipulates an output is that a 'preschool program is delivered across a range of settings at a cost which is not a barrier to access', which will clearly impact on the childcare industry.¹⁵

Recommendation 2

4.10 The committee recommends the government makes public detailed information pertaining to the use of Commonwealth funding by state and territory governments, to clarify the scope and impact of its promise to provide

12 Alex Robson, *How Much Do We Actually Spend on Early Childhood – A review of international comparisons and the OECD's 'Starting Strong II'*, Institute of Public Affairs, Research Paper, September 2009.

13 Ilan Katz & G. Redmond, 'Investment in Early Childhood in Australia – International comparisons and recent trends', *Health Sociology Review*, Volume 18, Issue 1, pp 94-107.

14 Hon Julia Gillard MP, 'Government Invests \$970 m in High Quality Early Childhood Education', Joint Media Release, 17 September 2009.

15 Council of Australian Governments, 'National Partnership Agreement on Early Childhood Education', 2009, available at:
http://www.coag.gov.au/intergov_agreements/federal_financial_relations/docs/national_partnership/national_partnership_on_early_childhood_education.pdf.

universal access of 15 hours per week of preschool services for all four year-olds in Australia in the childcare sector.

4.11 In 2006, the Australian Council of Social Services estimated that families contribute 54 per cent, or \$2 billion, to the cost of childcare each year. About \$1.8 billion of that is for children aged from birth to four attending long day care or family day care.¹⁶ Productivity Commission estimates (based on 2003-04 figures) indicated that three quarters of the total expenditure on children's services came from Commonwealth funding, nearly 80 per cent of which was in the form of fee assistance to families through the CCB and other schemes.¹⁷ Nearly 80 per cent of the expenditure from state and territory sources was on the provision of preschool services.¹⁸

Funding models

4.12 UNICEF noted the different ways in which OECD countries funded ECEC. There was a basic division between a public model and private model.¹⁹ Public funding of childcare comprises services that are subsidised or entirely funded by taxpayer funds and delivered by government-funded providers. Under a private funding model, services are funded by businesses which charge fees from users to cover their costs and allow for a margin of profit. In practice, the funding of early childhood services in many developed countries is a combination of these models.

4.13 The model of funding determines not only the cost and affordability of childcare services but also the accessibility and quality of such services and the diversity of the sector in general. Funding models, therefore, influence a child's experiences in care and the benefits (or adverse effects) that they derive from that care. In turn, this affects the gains to society that should result from quality ECEC.

Return on investment

4.14 A number of submissions quoted from studies which concluded that investment in ECEC can reap significant benefits for governments and society in general, as described in chapter three. Childcare Queensland advised the committee that the cost of childcare is 'cost positive' for the government.²⁰ Beneficial outcomes range from

16 Australian Council of Social Services, 'Fair Start – 10-Point plan for early childhood education and care', *ACOSS Info* 383, 2006, p. 9.

17 Productivity Commission, *Overcoming Indigenous Disadvantage – Key indicators 2005*, Productivity Commission Steering Committee, available at <http://www.pc.gov.au/gsp/reports/indigenous>.

18 Frances Press, *What about the Kids? Policy directions for improving the experiences of infants and young children in a changing world*, NSW and QLD Commissions for Children and Young People and National Investment for the Early Years Organisation, 2006, p. 27.

19 UNICEF, 'The Child Care Transition - A league table of early childhood education and care in economically advanced countries', *Innocenti Report Card* 8, 2008, p. 8.

20 Childcare Queensland, *Submission* 22, p. 4.

parents' increased workforce participation, increased productivity and, in turn, economic growth to, among other things, support for disadvantaged groups; quality care can contribute to life-long improvements in children's achievements as well as social equity in general. These long-term advantages are seldom considered in the provision and planning of ECEC programs because it is difficult to quantify such benefits.

4.15 The analysis carried out by Access Economics as part of the COAG process included a review of the investigations of and attempts to quantify the return on investment in ECEC.²¹ Such research investigated groups of disadvantaged children and the committee notes that the sometimes exaggerated results from these studies would not be representative of the childcare sector in general.

4.16 The most famous of these studies is possibly the High/Scope Perry Preschool Project. This intervention program for young, disadvantaged children was found to deliver more than a 17-fold return on investment to society. By contrast, it was reported in 2003 that return on investment in Australia's childcare sector was \$1.86 per dollar spent 'through increased taxation revenue and reduced social assistance outlays'.²² On the other hand, the Victorian Local Governance Association informed the committee that the long-term total economic returns from early childhood education could be as high as \$8.11.²³

Historical overview of funding policy

4.17 The historical record of government funding policy for childcare over the past 37 years, beginning with the McMahon government's funding initiative in 1972, shows a gradual shift from the funding of supply to the funding of demand, as direct funding to providers was replaced by Commonwealth payments to parents. This has gone hand in hand with the withdrawal of Commonwealth specific subsidies for not-for-profit and community-run childcare and has led to greater provision from the private sector.

4.18 Commonwealth government funding support for childcare services came first in the form of capital, operational and other funding for community-based providers of centre-based care.²⁴ This funding was linked to the cost of employing qualified

21 Access Economics Pty Limited, 'An economic analysis of the proposed ECEC national quality agenda', Report for the Department of Education, Employment and Workplace Relations, July 2009, p. 30.

22 See the discussion in Joy Goodfellow 'Childcare Provision – Whose responsibility? Who pays?' in *Kids Count – Better early childhood education and care in Australia*, Elizabeth Hill, Barbara Pocock and Alison Elliott, (eds), 2007, p. 245.

23 Victorian Local Governance Association, *Submission 58*, p. 4.

24 DEEWR, *Submission 41*, p. 10.

staff and it was calculated upon the number of qualified staff on award wages.²⁵ This funding was later extended to other services including family day care and OSHC.

4.19 In 1984, the Labor government moved from funding staff to funding places through the introduction of fee relief. This was available for the cost of long day care offered by non-profit providers. Extra childcare places were introduced from 1988 through cost-sharing arrangements between the state, territory and Commonwealth governments.²⁶

Shift to funding demand for childcare

4.20 Commonwealth funding policy significantly changed in emphasis in 1991, from subsidising the supply of childcare services to subsidising the demand for childcare services. This, following from the abolition in 1985 of subsidies based upon qualified staff numbers, was the beginning of the childcare 'market'.²⁷ Government funding was extended to private providers in addition to community providers. Funding was in the form of fee assistance but community providers still received operational subsidies.²⁸ However not-for-profit providers were restricted in terms of the locations in which they were able to establish due to this funding. In contrast, limits were not placed upon private long day care places until 1997-98.²⁹

4.21 The Childcare Cash Rebate was introduced in 1994, to assist families with the cost of work-related childcare, and was then means-tested two to three years later. Child Care Benefit (CCB) and Family Tax Benefit were both introduced in 2000 and fee relief along with the Childcare Cash Rebate were both abolished. Following these measures, Child Care Tax Rebate (CCTR) was introduced in 2004, based on 2004-05 taxation returns and paid in 2006-07.³⁰

4.22 Mrs Tempe Harvey informed the committee of the importance of 'funding the child' whereby each child is supported by government funds regardless of the care options chosen by families.³¹ In fact, 'funding the child' was at the core of changes made to the mechanisms of childcare funding by the Howard government.

4.23 Operational subsidies for non-profit long day care providers were abolished in the 1996-97 Budget. It was argued that the loss of this funding measure would be balanced by CCB paid directly to the users of childcare. The Department of

25 Professor Deborah Brennan and Associate Professor Sue Newberry, *Submission 64 (Attachment 2)*, p. 214.

26 DEEWR, *Submission 41*, p. 10.

27 Professor Deborah Brennan and Associate Professor Sue Newberry, *Submission 64*, p. 1.

28 DEEWR, *op. cit.*

29 *Ibid.*, p. 11.

30 *Ibid.*, pp 11-12, 18.

31 Mrs Tempe Harvey, *Committee Hansard*, 15 July 2009, p. 27.

Education, Employment and Workplace Relations noted, however, that the end date of operational subsidies, July 1997, long preceded the commencement of CCB payments. The result of this was the closure of some non-profit centres and increased fees or fewer places offered by other non-profit providers.³²

4.24 Incentive schemes were introduced in 2000-01 to support the establishment of rural childcare services by private providers.³³ Start-up assistance for large for-profit providers of long day care and OSHC (more than 10 services) was abolished in July 2008. This restriction does not apply to community providers.³⁴ The committee notes the scope of this continuing provision which allows for renewed funding for rural and remote areas.

Increasing marketisation

4.25 Professor Brennan hypothesised that the introduction of demand-side funding mechanisms and market forces (originally by the Hawke government) was also motivated by a wish to maximise the choices available to families and to put downwards pressure upon childcare fees.³⁵ The introduction of demand-side subsidies led to an expansion of private provision in the sector. This growth was needed in response to demand which, it has been suggested, was unlikely to be met by not-for-profit and community-based providers for financial reasons.³⁶ ABC Learning's rapid growth, for instance, was largely a result of the introduction of subsidy payments direct to parents, as described in chapter two.

4.26 An oft-repeated view was that the rise of private childcare has come at the cost of not-for-profit and community-based childcare. There was certainly a decline in the number of not-for-profit and community-based providers as a result of policy changes. In addition to this, the growth of corporate providers in general and ABC Learning in particular in the childcare sector has led to the decline of small, independent private providers.³⁷

4.27 However, the delivery of wider choice and improved provision of childcare services has not been uniform across the sector. Media reports have claimed a 'blow-out' in childcare costs;³⁸ in addition, witnesses told the committee of their belief that

32 DEEWR, op. cit., p. 10.

33 Ibid., p. 11.

34 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, p. 21.

35 Professor Deborah Brennan, *Committee Hansard*, 16 July 2009, p. 31.

36 Julie Novak, 'ABC Failure Doesn't Condemn Corporate Child Care', *The Age*, 2 December 2008.

37 Deborah Brennan, 'Reassembling the Child Care Business', *Inside Story*, 19 November 2008. Available at <http://inside.org.au/reassembling-the-child-care-business/>, accessed 19 January 2009.

38 Jeanne-Vida Douglas, 'Suffer the Children', *Business Review Weekly*, 27 November 2008.

the quality of some childcare services had declined as a result of 'an over reliance' upon market forces.³⁹ As noted in earlier chapters, there has been increasing dissatisfaction, based in part upon a growing awareness of the critical importance of early childhood development and further emphasised by the collapse of ABC Learning, that the market is not adequately meeting the needs of families.⁴⁰

'Marketisation' of childcare has not realised its promise of more places, lowered cost and higher quality. Supply of places still does not meet demand, costs have risen faster than inflation, and the percentage of services requiring 'review' in the quality assurance system has increased along with the pressure to lower standards for qualified staffing.⁴¹

Current funding arrangements

4.28 Current funding arrangements for the provision of childcare consist of both demand-side and supply-side mechanisms. The main demand-side subsidy available is CCB. There are a range of Commonwealth supply-side subsidies available through the *Child Care Services Support Program*. These are discussed below.

Funding for childcare users

4.29 Demand-side funding mechanisms subsidise the demand for childcare services and consist of funding provided to the users of childcare services. These subsidies comprise CCB and Child Care Rebate (formerly Child Care Tax Rebate).

Child care benefit

4.30 The major component of government funding of ECEC services is the payment of CCB. CCB represented, for instance, 78.8 per cent of government spending on early childhood services in 2003-2004.⁴² The projected figure for CCB in 2008-09 is \$1.984 billion.⁴³

4.31 Eligibility criteria for receipt of CCB include both parents meeting 'the work, training, study test' whereby each parent is required to be in employment or training in any given week. Payment to families is calculated upon the type of care chosen (family day care or long day care, for instance); whether the care is accredited or registered (registered care attracts lower levels of payment) and the number of

39 The Commission for Children and Young People and Child Guardian, *Submission 23*, p. 3.

40 See, for instance, Lady Gowrie Child Centre Inc, *Submission 21*, p. 1; Penrith City Council, *Submission 81*, p. 3.

41 LHMU – The Childcare Union, *Submission 51*, p. 7.

42 Christiane Purcal and Karen Fisher, 'Affordability Funding Models for Early Childhood Services', *Australian Journal of Early Childhood*, Vol 31, No. 4, December 2006, p. 4.

43 Access Economics Pty Limited, 'An Economic Analysis of the Proposed ECEC National Quality Agenda', report for the Department of Education, Employment and Workplace Relations, July 2009, p. 13.

children in care. In addition, CCB is means-tested and cuts out at income levels of approximately \$130 000 for a family with one child in accredited care. The subsidy may be reimbursed at the end of the financial year or, alternatively, directed to the childcare provider at the request of the user (for accredited care only).⁴⁴ As at July 2009, a family on an annual income of less than approximately \$37 000 with one child in care could receive the maximum weekly rate of CCB of \$180 (dependent upon number of hours in care).

4.32 CCB is a progressive funding mechanism whereby the benefits increase in line with need; low-income families and families with more children receive larger amounts of CCB.⁴⁵ CCB is indexed but is not linked to the actual cost of childcare. Yet, childcare fees have risen markedly and much more rapidly than the CPI in the last five to ten years.⁴⁶ As the gap fee for families rises, childcare becomes less affordable for low-income families; affordability directly affects families' decisions about using childcare.

4.33 Demand-side funding mechanisms tend to encourage the growth of private providers and market forces.⁴⁷ This type of funding typically costs less than supply-side mechanisms, discussed below, but researchers have criticised demand-side subsidies on the basis that they do not necessarily lead to the provision of high-quality childcare.⁴⁸ In Australia, however, quality of services is a key consideration and quality assurance is carried out by the National Childcare Accreditation Council (NCAC). In instances where a service fails to meet accreditation standards, the NCAC can withdraw a service's eligibility for CCB (following a set process including providing the operator with opportunities to rectify the situation).

4.34 The National Foundation for Australian Women indicated to the committee that, without strong regulatory measures, subsidising the users of childcare services can result in reduced diversity in the market, increased prices but lower quality of care and more opportunities for market domination.⁴⁹ The committee acknowledges the need for strong regulatory processes alongside demand-side funding mechanisms and

44 DEEWR, 'Fact Sheet 6', *Information for Families Using Child Care*, Available at http://www.deewr.gov.au/EarlyChildhood/Resources/Documents/FactSheets/Fact%20sheet%206_260609.pdf, accessed 10 September 2009.

45 Press, op. cit., p. 29.

46 South Australian Government, *Submission 79*, p. 7; See also AIHW, 'Trends in Affordability of Child Care Services 1991-2004', *Bulletin*, Issue No. 35, April 2006; and Rebecca Cassells, Justine McNamara, Rachel Lloyd and Ann Harding, 'Perceptions of Child Care Affordability and Availability in Australia – What the HILDA survey tells us', Paper presented at the 9th Australian Institute of Family Studies Conference, Melbourne, 10 February 2005, p. 14.

47 Professor Deborah Brennan and Associate Professor Susan Newberry, *Submission 64 (Attachment 3)*, p. 2.

48 Gordon Cleveland and Michael Krashinsky, 'Financing ECEC Services in OECD Countries', *OECD Occasional Papers*, 2002, p. 41.

49 National Foundation for Australian Women, *Submission 7 (Supplementary)*, p. 9.

notes that CCB is accompanied by strong regulatory practices as provided through the NCAC and state and territory licensing bodies.

Child care rebate

4.35 The Child Care Rebate (CCR) is linked to CCB in that only those families eligible to receive CCB are eligible for CCR. Currently, CCR is set at 50 per cent (previously 30 per cent) of a family's out-of-pocket expenses, up to an indexed maximum level. CCR can be paid quarterly or annually.⁵⁰ The projected figure for CCR in 2008-09 is \$1.112 billion.⁵¹

4.36 This subsidy was formerly called 'child care tax rebate' (CCTR). The name change reflects the fact that CCR is not a 'tax offset under taxation legislation'.⁵² The original CCTR, paid at the end of the following financial year, was based upon a person's income tax liability and offered more benefit to families on higher incomes.⁵³ CCR can be paid quarterly or annually, is not limited by tax liability and is directly linked to families' childcare costs.⁵⁴ This type of funding is not regressive, in that it does not benefit middle to high-income families more than low-income families but offers a similar level of support to all families.⁵⁵

4.37 Taxation-expenditure methods such as rebates or credits have been criticised in that they require 'co-payments' or up-front payments from users at the time of accessing the services. When (even partial) reimbursement of the cost of these up-front payments is delayed, budgets of low-income families can be severely strained. Moreover, such mechanisms may encourage providers to concentrate services in high-income areas where there is more certainty that up-front payments can be made. It is believed that this can 'distort supply' of childcare services leaving places in low-income areas undersupplied.⁵⁶

4.38 Uniting Care Children's Services told the committee that CCR has not made childcare more affordable but, rather, has had the reverse effect.⁵⁷ The Victorian

50 DEEWR, 'Fact Sheet 10', *Information for Families Using Child Care*, Available at http://www.deewr.gov.au/EarlyChildhood/Resources/Documents/FactSheets/Fact%20sheet%2010_260609.pdf, accessed 10 September 2009.

51 Access Economics Pty Limited, *op. cit.*, p. 13.

52 Hon Maxine McKew MP, 'Increase to Child Care Benefit and Child Care Tax Rebate from 1 July', Joint Media Release, 3 June 2009.

53 Australian Council of Social Services, 'Fair Start – 10-point plan for early childhood education and care', *ACOSS Info* 383, 2006, p. 10.

54 DEEWR, *Submission 41*, pp 18-19.

55 Guyonne Kalb, 'Child Care Funding Models', A presentation to the NACBCS 25th Anniversary National Conference, *Children Not for Profit – Community ownership for a better world*, Melbourne, 16 November 2007, p. 8.

56 National Foundation for Australian Women, *Submission 7 (Supplementary)*, pp 2, 7.

57 Uniting Care Children's Services, *Submission 40*, p. 40.

government stated that improvements to the affordability of childcare delivered by both CCB and CCR have largely been limited by the increasing cost of childcare.⁵⁸ The committee observes the likelihood that increases in the amount of CCB will inevitably be followed by an increase in fees, thus negating the value of increased payments. On the other hand, the committee received evidence from DEEWR showing that both CCR and CCB have improved childcare affordability for families.⁵⁹ In addition, because CCR is applied to out-of-pocket expenses, it maintains its value relative to inflation and increases in childcare fees.

Funding for childcare services

4.39 Supply-side funding mechanisms subsidise the providers of services. Supply-side funding is available from the different levels of government, although it represents only a small proportion of total funding. In addition to Commonwealth funding measures, states and territories also fund ECEC services to varying degrees.⁶⁰

4.40 Separate from the demand-side mechanisms of CCB and CCR, Commonwealth funding for providers of childcare services is delivered through the *Child Care Services Support Program*.⁶¹ This program is aimed at increasing the supply, availability and quality of childcare services. It consists of a number of sub-components which are the Community Support Program, the Professional Support Program and various programs which support childcare services to help families.

4.41 For each of these funding programs, taxpayer funds are designed to support particular phases or aspects of the business of childcare such as operational and capital funding as well as funding to assist with start-up expenses. These funding options are subject to eligibility criteria largely based upon need and type of service offered. Areas of need can be identified by a range of criteria including geographical location, the community's socio-economic status, the demand for places and the shortage of similar services nearby.

Community Support program

4.42 A sub-component of the funding for childcare services, the Community Support Program is intended to assist the provision of childcare services in areas of need where the market would not normally deliver such services.⁶² Payments are

58 Victorian Government, *Submission 68*, p. 17.

59 DEEWR, *Submission 41*, pp 18-19.

60 See, for instance, Victorian Government, *Submission 68*, p. 20; Tasmanian Government, *Submission 70*, p. 4; South Australian Government, *Submission 79*, p. 13; Women's Electoral Lobby Australia, *Submission 66*, p. 1.

61 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, pp 18-32. See also DEEWR, 'Child Care for Services', Available at <http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/Pages/default.aspx>, accessed 10 September 2009.

62 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, p. 18.

available to establish new services or support existing services. This funding is available to providers of long day care, OSHC, family day care, occasional care, in-home care and non-mainstream services.⁶³

Inclusion and professional support program

4.43 This program is intended to support inclusive care for all children and to assist carers and staff to improve their skills.⁶⁴ The Professional Support Program includes funding for state-based Professional Support Co-ordinators and Indigenous Professional Support Units and is available for the benefit of all approved childcare services.⁶⁵

4.44 The Inclusion Support Program is intended to provide care to children with additional needs. It is managed by KU Children's Services nationally, and includes the Inclusion Support Subsidy (ISS) and the regional Inclusion Support Agencies (ISA) which manage the process of including children with additional needs in services. Eligible providers are those approved for CCB, offering family day care, long day care, occasional care, OSHC and in-home care services.⁶⁶

Other support for childcare services

4.45 The department sets out various other funding options available to providers of childcare services in order to help families. These measures include Grandparent CCB, JET Child Care Fee Assistance, Adult English Migrant Program as well as some funding for non-mainstream services.

63 DEEWR, 'Child Care for Services- Community support program', Available at <http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/SupportforChildCareServices/Pages/SCCS.aspx>, accessed 10 September 2009.

64 DEEWR, 'Child Care for Services- Inclusion and professional support program', Available at http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/SupportFamilyCCS/Pages/InclusionSupportProgram.aspx#inclusion_and_professional_support_program, accessed 10 September 2009.

65 DEEWR, 'Child Care for Services- Professional support program', Available at <http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/SupportFamilyCCS/Pages/InclusionSupportProgram.aspx>, accessed 10 September 2009.

66 DEEWR, 'Child Care for Services- Professional support program', Available at <http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/SupportFamilyCCS/Pages/InclusionSupportProgram.aspx>, accessed 10 September 2009.

Start-up funding

4.46 Funding available through the Establishment Sub-Program is designed to assist with start-up costs of new services.⁶⁷ Funding measures of this kind have a limited duration and are available for services such as in-home care, family day care and OSHC; long day care services attract this start-up funding only when deemed by the department to be located in areas of need.⁶⁸

Operational and capital funding

4.47 Operational support payments are designed to encourage and support the provision of flexible care services. Accordingly, eligible services comprise family day care, in-home care and occasional care. Often, higher levels of assistance are available for services provided in more remote areas.⁶⁹

4.48 Sustainability assistance supports services that would not be financially viable without assistance. It is available to services that are identified by the department as 'in areas of need'. Eligible services include OSHC and long day care; new providers of family day care and in-home care services are not eligible to receive this funding but existing providers of these services may continue to receive payments. Only services offered by not-for-profit providers are eligible for sustainability funding of more than a year.⁷⁰ Capital funding is available to long day care services for the purpose of upgrading infrastructure. The payment depends on the provider securing equivalent state funding and proving a demand for such upgrades.⁷¹

Service-specific funding

4.49 As indicated above, funding is available for various childcare services, depending on the eligibility criteria. Examples include Budget Based Funding, available to non-mainstream services that are not eligible for CCB, the Regional Travel Assistance Grant for family day care and in-home care services in remote areas and the Long Day Care Incentive Scheme.⁷²

67 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, pp 29-31. See also DEEWR, 'Child Care for Services - Support for child care services to help families', Available at <http://www.deewr.gov.au/EarlyChildhood/Programs/ChildCareforServices/SupportFamilyCCS/Pages/home.aspx>, accessed 10 September 2009.

68 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, p. 18.

69 Ibid., p. 24.

70 Ibid., pp 22-23.

71 Ibid., p. 22.

72 DEEWR, *Child Care Service Handbook 2008-2009 – For all child care services*, 2008, pp 18-32.

4.50 In addition to start-up grants, family day care services may attract Family Day Care Network Support Funding. This funding assists the co-ordination units which develop, support, train and monitor the individual family day carers. Family Day Care Australia reported to the committee the difficulties that have resulted from changing the funding model from a three-day estimate to actual utilisation of numbers. It was claimed that co-ordination units should have indirectly retrieved these funds via the CCB paid to parents, but this did not occur. A reduction of up to one-quarter in the funding levels for co-ordination units has resulted in less support for family day carers in areas such as training, resource provision and relief care.⁷³

Funding levels

4.51 The requests for improved government funding put forward in a number of submissions (such as requests for funding of services in regional areas, not-for-profit childcare providers or the early years in general)⁷⁴ indicate a critical need for increased levels of government funding of childcare services. It is to be noted again that Australia's overall investment in early childhood education and care is poor by OECD standards.⁷⁵ Catholic Social Services informed the committee that significant under-funding was a major reason for the low ranking of Australia's ECEC services in the UNICEF report, as well as other international comparisons of ECEC services in developed countries.⁷⁶ Funding levels affect not only the affordability of childcare for families but also the availability and quality of services. Insufficient funding can result in poor quality services that are difficult to access. In addition, funding provides government with 'a powerful lever' to promote quality and 'to shape the development of the ECEC sector'.⁷⁷

4.52 In addition to arguing for increased government funding of the childcare sector in general, witnesses argued that funding for particular services and those that cater to specific target groups should also be increased.⁷⁸ The committee notes a number of support measures already available to particular target groups. Those services which cater for children with additional needs are eligible to receive extra financial assistance in the form of the Inclusion Support Subsidy. Furthermore, low-income families receive a significantly higher rate of CCB than families on higher incomes to assist with the cost of childcare. The committee believes that these are important

73 Family Day Care Australia, *Submission 53*, p. 2; Ms Rhonda Bignell, *Committee Hansard*, 16 July 2009, p. 69.

74 See, for instance, Kindergarten Parents Victoria, *Submission 54*, p. 6; Moreland City Council, *Submission 30*, p. 5; Ms Kay Thomas, *Submission 16*, p. 3; Wheatbelt Organisation for Children's Services, *Submission 17*, p. 1; Abacus Child Care, *Submission 84*, p. 1.

75 UNICEF, 'The Child Care Transition – A league table of early childhood education and care in economically advanced countries', *Innocenti Report Card 8*, 2008, p. 27.

76 Catholic Social Services, *Submission 71*, p. 7.

77 Shire of Yarra Ranges, *Submission 26*, p. 7.

78 See, for instance, Municipal Association of Victoria, *Submission 65*, p. 19.

support measures. In addition, the committee believes that there is a need to increase the general funding level for disadvantaged children and those target groups for which it is more expensive to provide childcare such as indigenous children and children with additional needs.

4.53 Some submissions claimed that community providers offer more inclusive care, catering for substantially more children with additional needs.⁷⁹ A representative of a long-established community childcare provider informed the committee of evidence that corporate providers and some other private providers did not provide inclusive services to the same extent as did community providers. This was, in part, due to the fact that the funding levels for this target group were simply not adequate.⁸⁰

4.54 Moreland City Council advised, for instance, that proposed funding for the next three-year period for Inclusion Support Agencies, which promote more inclusive services, is insufficient, and did not allow for growth through indexation.⁸¹ Furthermore, the committee was advised that those providers who did offer places for children with additional needs were often required to cover the extra funds from their own budgets.⁸² One submission indicated that calls for increased funding for the inclusion of children with additional needs in mainstream services had largely been unheeded for more than two decades.⁸³

4.55 It was suggested to the committee that government could provide incentives to exceed minimum quality standards in the form of extra government funding above the base funding level for those centres or providers that achieve a higher quality of care.⁸⁴

Cost and affordability

4.56 Weekly fees for long day care – private, community and family day care – are currently around \$240, with family day care being less expensive. For most families, this fee is subsidised by the CCB, with the maximum support from this means-tested subsidy covering around two thirds of the total cost. Analysis has indicated that CCB was of more benefit to those using part-time care rather than full-time care because of the loading paid to those using less than 20 hours per week.⁸⁵

79 Kindergarten Parents Victoria, *Submission 54*, p. 3.

80 Ms Sheridan Dudley, *Committee Hansard*, 15 July 2009, p. 31.

81 Moreland City Council, *Submission 30*, p. 5.

82 Ms Sheridan Dudley, *Committee Hansard*, 15 July 2009, p. 31; Frankston City Council Children's Services, *Submission 60*, p. 3.

83 Childcare Association of WA, *Submission 48*, p. 2.

84 Mrs Denise Taylor, *Committee Hansard*, 7 August 2009, p. 21.

85 See discussion in Press, *op. cit.*, p. 29.

4.57 According to Productivity Commission reports, out-of-pocket costs of childcare, as a proportion of weekly family income, increase with gross annual income.⁸⁶ Costs rise significantly if more than one child is in care. An analysis of trends in childcare use has found that, before 1996, the major reason for deciding not to use childcare for a three year-old was shortage of places. By 1999, the major reason had become cost.⁸⁷

4.58 Analysis conducted by the Australian Institute of Health and Welfare (AIHW) established that childcare affordability declined during the 1990s and again between 2000 and 2004.⁸⁸ The initial decline was addressed by the introduction of CCB to various extents for different family groups. The second decline was largely due to childcare fees rising more rapidly than average weekly earnings.⁸⁹ Childcare fees rose faster than the CPI.⁹⁰ In fact, between late 2003 and late 2004, the rate of increase in childcare fees was only exceeded by the rate of increase in the price of fuel.⁹¹ The AIHW noted in 2005 that the only family group for whom childcare became more affordable was where both parents earned high incomes.⁹²

4.59 It has been suggested that the cost of full-time care may be a disincentive for parents on low incomes and may influence decisions to have more children.⁹³ Some families choose not to access childcare due to the high costs and inconvenience, particularly low-income families.⁹⁴ In a report prepared for the New South Wales and Queensland Children's Commissioners, the cost of childcare is noted as directly affecting a family's decision to use childcare and, in turn, the decisions that parents and typically mothers make about returning to the workforce.⁹⁵ Lack of affordability is the main contributing factor in low ECEC participation rates by disadvantaged

86 Productivity Commission, 'Overcoming Indigenous Disadvantage – Key indicators,' Series of papers by the Productivity Commission Steering Committee, Available at: <http://www.pc.gov.au/gsp/reports/indigenous>.

87 Julie Lee, Ellen Carlson and William Mitchell, *Child Care for Low-Middle Income Families - Current trends and unmet demand estimates*, Centre of Full Employment and Equity, University of Newcastle, 2001, p. 42.

88 AIHW, 'Trends in Affordability of Child Care Services 1991-2004', *Bulletin*, Issue No. 35, April 2006, p. 5.

89 AIHW, *Australia's Welfare 2007*, No. 8, 2007, pp 41-42.

90 Deborah Brennan, 'Reassembling the Child Care Business', *Inside Story*, 19 November 2008. Available at <http://inside.org.au/reassembling-the-child-care-business/>, accessed 19 January 2009.

91 Press, op. cit., p. 28.

92 AIHW, op. cit., pp 96-97.

93 See discussion in Press, op. cit., p. 29.

94 Victorian Government, *Submission 68*, p. 17. See also Deborah Brennan, 'Child Care and Australian Social Policy' in *Children, Families and Communities – Contexts and consequences*, Jennifer Bowes and Rebekah Grace (eds), 2009, p. 215; and Cassells et al, op. cit., p. 8.

95 Press, op. cit., p. 29.

groups including low-income, migrant and indigenous families as well as those families living in remote areas.⁹⁶

4.60 Many stakeholders in the sector believe that the government's planned reforms and improvements to quality indicators will lead to increases in childcare fees.⁹⁷ There are small profit margins in childcare. The new management team of ABC Learning has acknowledged that one result from ABC Learning's receivership has been a growing understanding that the profit margins in childcare are much tighter than previously assumed.⁹⁸

4.61 The committee notes measures to increase the level of fee assistance available to families. Increases in line with indexation in CCB rates and income thresholds, for instance, became effective earlier this year. The Child Care Rebate has also been raised by 20 per cent. Increasing the general level of funding to the ECEC sector, if this is properly targeted, will help to address the identified issues. Increased funding of services catering for specific target groups will improve the availability and affordability of such services. Furthermore, a strong planning process will help to address supply problems, both oversupply and undersupply of services, thus improving the sector and reducing overall costs.

Options for increased funding

4.62 As noted at the beginning of this chapter, there are no easy options in the provision of additional funding to the childcare sector and the committee acknowledges this. While it is easy to arrive at a consensus that funding should be increased, the committee heard no evidence about how this might be achieved in ways which are efficient and equitable. Not surprisingly, there is no reference to this problem in any official publication.

4.63 The committee has considered the option of increasing CCB payments but, as noted earlier, it takes the view that this will not ensure that childcare will become more affordable. Centre operators will adjust their fees to take account of the increase.

4.64 Nor is there any practical way to reintroduce operational grants to assist with recurrent funding or payment of salaries. The 1972 model of providing subsidies based on salaries of carers and other professional staff is inappropriate in a sector which is now dominated by private childcare operators. Some would argue that subsidies for community or not-for-profit centres may be justified but the exclusion of small-business operations from a similar subsidy might equally be hard to justify. There are no parallels with the school system to provide any guidance in this regard because there are no private schools which are run as enterprises for profit.

96 Victorian Government, *Submission 68*, p. 17.

97 Alex Tilbury, 'Backyard care fear – fees 'too steep' for parents', *Courier Mail*, 22 August 2009, p. 31.

98 ABC Learning, *Submission 86 (Supplementary)*, p. 1.

4.65 The committee does, however, see a strong possibility for increased government funding through the established supply-side mechanisms described earlier in this chapter. Government funding is available through the *Child Care Services Support Program* to assist with the establishment of childcare centres where private providers find it financially unviable to set up a centre because of remoteness or socio-economic characteristics of a location which may well need childcare provision. This funding program also supports the provision of childcare services for children with additional needs, a target group requiring more care services. Table 4.1 indicates the current and recent funding levels of this program. The committee believes that increases in the level of funding to this program are warranted.

Table 4.1: Child Care Services Support Program Expenditure 2005-06 to 2008-09

	2005-06*	2006-07*	2007-08*	2008-09**
Bill 1	\$221 534 000	\$191 347 000	\$262 316 000	\$328 605 000
Bill 2	\$10 865 000	\$55 695 000	\$48 662 000	\$47 981 000
Total	\$232 399 000	\$247 042 000	\$310 978 000	\$376 586 000

*Figures derived from the estimated actuals from the relevant Portfolio Budget Statements.

**Figure derived from draft 2008-09 Annual Report.

Source: Department of Education, Employment and Workplace Relations.

4.66 In addition, there are strong arguments, on grounds of equity, for increased funding to childcare centres which are attended by a high proportion of children from disadvantaged backgrounds or who live in remote areas. As noted in chapter three, the benefit to be derived from early intervention in social and learning development of disadvantaged children has been demonstrated in a number of studies. The committee believes that this is one funding initiative that would be highly worthwhile, is in line with current thinking in early childhood learning and is administratively feasible.

Recommendation 3

4.67 Noting recent funding increases, the committee nonetheless recommends that there be further funding increases for ECEC.

Recommendation 4

4.68 The committee recommends a substantial increase in the level of funds paid directly to childcare operators in particular areas of need, through programs such as the Inclusion Support Subsidy: services for disadvantaged children, such as children with additional needs or indigenous children; and services operating in rural and remote areas or areas of high unmet demand such as low socio-economic areas.

Further analysis and modelling

4.69 Noting the dearth of strong evidence, stakeholders in the field of early childhood have called for further research into childcare funding models and the various effects upon quality care that particular models may have. It is important that any changes to policy or funding mechanisms are evidence-based.

We actually do not know enough about what forms of funding impact on the quality of child care. We were unable to find information that says to us that this form of funding results in this form of quality child care or has this impact on child care.⁹⁹

4.70 In addition, we must consider which model(s) represent real value for money in terms of government policy. There has been little study, for instance, of the relative merits and shortcomings of demand-side and supply-side subsidies.¹⁰⁰ Funding reviews should be conducted periodically to account for changes in the childcare sector, family structure and society in general.¹⁰¹ The committee heard evidence from a number of witnesses who advocated such a review, particularly following the collapse of ABC Learning.¹⁰² The committee agrees with calls for such a review. It recommends that detailed economic modelling of the benefits of various funding models be carried out to ascertain the most effective ways of funding affordable, accessible and high quality childcare.

4.71 The committee heard evidence that the current taxation system, along with the general system of government support for families, was inequitable.¹⁰³ The committee also heard evidence that any such review of the funding of childcare should be linked to the current review of the tax system, the 'Henry Review', so that childcare funding issues are investigated 'in the broader context of all the other family support payments' for which families may be eligible such as the Baby Bonus and Family Tax Benefits.¹⁰⁴ This would reveal a comprehensive picture of the level of support for young families as well as the efficacy of funding mechanisms. A review panel led by Dr Ken Henry has been commissioned to examine the taxation system; its terms of reference include improvements to the tax and social support payment system for working families and the role that these play in encouraging workforce

99 Ms Marie Coleman, *Committee Hansard*, 16 July 2009, p. 51; Professor Deborah Brennan, *Committee Hansard*, 16 July 2009, p. 22.

100 Professor Deborah Brennan and Associate Professor Susan Newberry, *Submission 64 (Attachment 3)*, p. 3.

101 Associate Professor Susan Newberry, *Committee Hansard*, 16 July 2009, p. 23.

102 See, for instance, Charlton Brown, *Submission 38*, p. 2, 5; National Foundation for Australian Women, *Submission 7*, p. 3.

103 See, for instance, Mr Dean and Mrs Tempe Harvey, *Submission 62*, p. 20.

104 Ms Cora-Ann Wilson, *Committee Hansard*, 7 August 2009, p. 38.

participation.¹⁰⁵ It is likely that the Review Panel's final report will cover to the issues that have been raised with the committee as part of this inquiry. However, the committee can not be aware of the consideration that the Review Panel has given to childcare issues specifically, in advance of the panel releasing its final report. The committee believes that such matters should most appropriately be investigated by the Review Panel as part of the investigation into *Australia's Future Tax System* and the committee is of the view that any recommendations made here relating to childcare funding, the taxation system and family benefits would not be helpful in advance of the findings from the review of the taxation system. However, if the panel's report does not make specific recommendations regarding improvements to the funding of the childcare sector, the committee believes that the government needs to implement effective amendments to the current funding system, based on further economic modelling.

Recommendation 5

4.72 The committee recommends that economic modelling of various childcare funding models be carried out to establish the most efficient means of funding the quality provision of childcare services that meet the needs of families.

Recommendation 6

4.73 The committee recommends that funding of childcare services continue to be increased and, following a review of the current funding models including economic modelling of alternative mechanisms, increases to funding be implemented in accordance with those funding mechanisms that are identified as most effective.

Recommendation 7

4.74 The committee recommends that the government await the report of the Australia's Future Tax System Review Panel and recommendations within regarding the funding of the childcare sector. If no specific recommendations are made, the government should consider amending the current funding system based on the economic modelling to be carried out.

105 Department of Treasury, 'Australia's Future Tax System – Terms of reference', 11 February 2009, available at <http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/reference.htm>.