



## 2010 – 11 Budget Submission

**Australian Childcare Alliance**

Gwynn Bridge  
President

**Childcare Associations Australia**

Barbara Langford  
President

Under a Memorandum of Understanding for  
**Childcare Alliance Australia (CAA)**

E: [President@australianchildcarealliance.org.au](mailto:President@australianchildcarealliance.org.au)

M: 0418764779

The Australian Childcare Alliance and Childcare Associations Australia (hereafter 'Childcare Alliance Australia') offer our ideas and priorities for the 2010/11 Budget.

We do so, on behalf of Australia's approximately 3000 private and not-for-profit long day care centres providing approximately 60% of Australia's early child development and parenting support services known as 'childcare'.

Nationally, centres:

- Employ approximately 30,000 staff,
- Help parents support the early learning and development needs of approximately 240,000 children, mostly aged 0 – 5 years,
- Support approximately 200,000 families balance family life and paid work

We begin with a summary of overarching and specific priorities, and then offer supporting explanations.

### ***CAA's Overarching Priority***

We ask that the Budget provide specific funding to enable the high-quality decision-making needed to underpin high-quality regulation needed to underpin improved childcare centre affordability, accessibility and quality.

The wholesale reform of Australia's early learning and care regulatory framework is on the right path. The current COAG regulation-making has made a start but analysis needs to go much further to prevent unintended outcomes for families and children.

This funding is needed to ensure that the COAG decision-making complies with COAG's own Principles of Best Practice Regulation and with Infrastructure Australia's decision-making framework.

### ***Specific Issues***

1. Improve the efficiency, visibility, and value of parent subsidies:
  - By paying the Child Care Rebate weekly in arrears, using centres to help with administration of the payment.
  - By improving the targeting of Family Tax Benefit, Part B at lower and middle income families. The lower threshold should be brought into line with the general family taxation threshold.
2. Improve parent affordability and accessibility by applying the principle that parent subsidies should reflect *actual* costs of delivery. In particular:

- Increase Child Care Benefit for children aged two years and under to reflect the higher cost of servicing that age cohort. Subsidies for this cohort should be double the amount for older age groups.
  - Proposals to increase staffing for the 2 – 3 year cohort will generate the same affordability and accessibility pressure.
  - Index the Child Care Benefit against the greater of CPI increases or long day care sector wage increases with parent-subsidy to vary at the same time wage costs vary.
  - Increase the joint family-income ceiling for CCB purposes to at least \$150,000 for one child, and index that limit more fairly, at the same rate suggested above – namely, the greater of CPI or actual sector wage movements.
  - Specific additional funding to ensure access to early learning and care programs for children from disadvantaged families. This could be achieved by reintroducing flexibility into the Special Child Care Benefit.
3. Fund an effective planning system to ensure that growth goes where it is needed.
  4. Fund an effective public education campaign to increase awareness and understanding of the benefits of regulated-quality centre based early learning and care. In particular, Australian families need to understand that their investment in childcare centres helps parents deliver competency and coping skills that effect their child’s learning, behaviour, and health throughout life – whether or not parents are in the paid workforce.
  5. Improve the funding of Inclusion Support Subsidies for Special Needs Children.
  6. Help address skill shortages by funding more traineeships and apprenticeships.
  7. Broaden and streamline JET funding.
  8. Fund improved data-collection and distribution. A first priority is to identify the number of families who qualify for subsidised access of up to 24 hours per week but who will not benefit from any increase in the Child Care Rebate because such families do not satisfy the CCB work/study test.

## ***Explanations***

### ***Overarching Priority – Fund Good-Quality Decision-Making***

The Prime Minister’s economic message is that Australia will sustain its good economic performance by refocusing efforts on raising productivity and workforce participation. He explains that improving the well-being of Australia’s population requires productivity to improve, and that one of the important ways of doing that is to remove unnecessary regulatory barriers.

Productivity improvement and improved infrastructure investment are different sides of the same coin. In each, proper decision-making is a precondition to improved outcomes. This part of our submission identifies what may happen to children, parents, and jobs if COAG regulation-makers are not funded to follow the democratic and Rule of Law requirements set out in decision-making frameworks.

The point is well captured in the Australian National University Centre for Law and Economics submission to the current House of Representatives Inquiry into *Raising the Level of Productivity Growth in the Australian Economy*:

“Productivity is the long-term driver of income growth and prosperity of nations. Productivity depends on the... factors of production available to a country *and the social framework and institutions in which they operate.*” *That framework includes basic property rights, rule of law, openness, and sector specific issues such as regulation.*”(p.4) (our emphasis)

The Treasury extends this point in its submission to the Inquiry:

“Ultimately, improvements in productivity come from the decisions of thousands of firms in many industries in developing and adopting new products and processes and changing management, organisation and work arrangements. Thus, the Government can best promote productivity growth by ensuring that the environment in which firms operate facilitates sound decision-making.”(p.13)

That operating environment includes regulatory decision-making. Productivity improvement and improved infrastructure investment are necessarily about regulation and policy reform.

This matters in this Budget context because COAG childcare regulation reform is at risk of making things worse rather than better because of inadequate decision-making.

CAA’s concern is that the Department will claim that it ‘can’t’ do the required COAG Best-Practice analysis because of funding constraints.

CAA argues that COAG should not promise improved regulation if they either can’t deliver it or can’t deliver it effectively – that is, with a net gain to welfare. There are

clear risks that, without further work to design appropriate protections, many families will be excluded because of cost rises and reduced infant places.

There has been some economic analysis undertaken on behalf of COAG. That limited analysis says:

*On proposed national regulatory arrangements* – “costs associated with the development of new national regulation cannot yet be assessed because of inadequate details”. (Access Economics, page II).

“As the specifications of the regulatory arrangements are yet to be finalised, it is not possible to supply a reliable costing at this stage. Both the impacts on the cost of administering industry regulation...and the changing regulatory burden on industry cannot be reliably estimated until the parameters governing the new models are refined.”(Access Economics, p.V).

*On proposed changes to staffing and qualifications*—“... there is at present insufficient evidence to reliably quantify the impacts of improvements in the structural quality... resulting from the National Quality Standard...”

“Determining the net benefits of the National Quality Standard is not possible given the characteristics of the reforms proposed ...” (p. V)

The Productivity Commission analysed the COAG regulatory decision-making in September 2009 and concluded that, in the absence of further impact analysis and consultation with the sector, the decision-making would not comply with the COAG Best-Practice requirements.

This is exactly the further analysis which CAA is now asking to be funded.

CAA is pleased that Australia has a national government that understands the social and economic benefits which flow from investing in more access to Australia’s already good-quality early learning and care centres. This investment as part of Australia’s ‘Education Revolution’ *will* boost productivity and workforce participation.

But Australia cannot afford to waste resources. The increased investment must be spent efficiently. It cannot be spent efficiently if we don’t take the time to do the analysis needed to improve already good-quality but without excluding families because of cost. Getting that balance right is exactly why the COAG and Infrastructure Australia decision-making frameworks must be followed.

We offer the following brief explanation of our ideas on funding priorities, beginning with the important questions – what will it cost and, is it worth doing?

## ***Costs and Benefits***

The overall benefits of investing in early learning and care services are well-known. Childcare's contribution to the Australian economy and society has been established by the Department of Families, Community Services and Indigenous Affairs:<sup>1</sup>

Estimated average assessment of return on government investment:

- Every dollar spent on childcare returns total economic benefits of \$8.11.
- Every dollar spent on childcare directly and indirectly supports earnings of \$5.63.
- A dollar spent on childcare returns \$1.86 directly to the Government's bottom-line in the form of increased taxation and reduced government outlays.

Even those impressive estimates undervalue childcare centres' full contribution. The estimates don't assess value to the future workforce through promoting the social and intellectual development of children. Neither do the estimates value the economic contribution through the reduced amount of resources which may otherwise be required in areas such as health, legal or welfare through preventing or lessening any possible future dealings children may have with those services in later life.

Early learning and care services more than pay for themselves.

CAA would of course like to be able to supply much more detail of relevant costs and benefits.

That is exactly why a proper regulatory impact analysis is needed to support the current COAG regulation design process.

### ***Improved Efficiency, Visibility, and Value of Parent Subsidies***

#### ***Timing of Childcare Cash Rebate***

Because the new Child Care Management System is now operating, it becomes possible to give effect to the very sound proposal outlined in the lead up to the 2007 election to further adjust the timing of the payment.

The good reasons for adjusting the timing of the payment and for using centres to administer the subsidy on behalf of parents remain:

- Parents would not have to find fees 'up-front',

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<sup>1</sup> "More than just play dough – A preliminary assessment of the contribution of childcare to the Australian economy" – *Australian Social Policy*, 2004, J. Martin, Childcare Policy and Planning Branch, Department of Family and Community Services

- This important government parent-subsidy would become even more visible to parents,
- Payment weekly in arrears would help both parents and service-providers with cash flow,
- Best of all, a rebate payment delivered weekly will help make childcare much more affordable,
- CAA understand that these timing and administration changes add no significant cost, but could be portrayed as significant improvements to affordability and accessibility, thereby building on the Government's previous excellent decisions on the timing of the rebate.

### ***Family Tax Benefit Part B***

CAA understands that one of the central problems with the Family Tax Benefit Part B is that its inherent bias towards single-income families no longer reflects current family and workforce structures and needs.

Once childcare costs are accounted for properly, it seems likely that two-income families are facing higher effective marginal rates of tax. This could mean that their disposable income is less than for one-income families.

### ***Parent subsidies for under three-year-olds should reflect higher costs***

Childcare regulations mean that quality standards for children aged up to three years cost between two and three times as much in labour costs, which, in turn, make up approximately 85% of total expenses (for that age group) for most centres.

As other costs rise and pressure parent affordability, the incentives for providers are to reduce supply to that relatively more costly-to-service cohort.

But that incentive runs counter to the fact that regulated long day care centres are helping parents provide very important capacity-building and socialisation between the ages of zero to three years.

### ***Proper Indexing of Parent Subsidies***

There is a tension between rising incomes and parental Child Care Benefit entitlement (bracket creep). As incomes rise, Child Care Benefit payments to parents reduce. This has become a problem because the relevant family income ceiling has not been keeping pace with actual cost pressures.

Cost and price pressures are getting in front of parents' capacity to pay. In particular, the rate of wages growth has outstripped parent-subsidy support.

CAA believes that the COAG reform agenda will make this affordability problem much worse. This is why the nature and extent of that affordability and loss of supply risk needs careful analysis in order to underpin the design of appropriate protective mechanisms for families and for jobs.

### ***Improved Funding for Special Needs Children***

At May 2006, the proportion of children with a disability using long day care (including long day care services, family day care schemes and in home care schemes) was 2.5%. This is a slight increase on the proportion (2.2%) reported in both 2004 and 2002. Within long day care, in home care had the highest proportion of children with a disability (7.6% in 2006). This proportion represented a decrease on the 16.0% reported in 2004. Representation was lower in long day care centres (2.6%) and family day care (2.1%).

[http://raisingchildren.net.au/articles/what\\_does\\_child\\_care\\_cost.html](http://raisingchildren.net.au/articles/what_does_child_care_cost.html) accessed 13<sup>th</sup> February 2009

The long day care sector welcomes children with disabilities. The funding for the Inclusion Support Worker to assist the group with the additional attention that these children require has fallen well behind current wage rates. The current rate for ISS funding is \$15.33 per hour.

An assistant under the Modern Award, with a Certificate 111 in child care (minimum) and 1 year service receives an amount of \$16.78 (permanent) per hour plus on costs. At the casual rate it would be \$20.97 per hour plus 9% superannuation = \$22.85 per hour + additional costs for work related expenses (payroll tax, workers' comp., replacement for sick leave, holidays etc) say \$24.00 per hour (minimum).

Therefore for a centre to extend themselves to cater for a child with disabilities, the centre is subsidising the government to an amount of \$8.17 per hour x 5 hours per day (maximum time) = \$40.85 per day. Should the child remain in care for an additional two hours per day the full rate for the additional worker is paid by the service e.g. \$47.00. This added to the existing shortfall for the five hours = \$87.85. The service is in effect receiving no fees for the child for the day and paying additional to provide the care.

**CAA requests** that the amount of \$15.33 be increased to \$24.00 per hour in line with the actual costs of providing a support worker only at Cert 111 level. Should the only worker available or required through the National Quality Framework be a Diploma, these costs will be substantially higher and need to be addressed.

The Australian Government is not supporting children with additional needs under the current funding system.

### ***Funding for Disadvantaged Children:***

Budget funding is needed to ensure that disadvantaged are not locked out of centre based early learning program due to lack of affordability.

Government must recognise that there are children from disadvantaged households in most statistical local areas (SLA's) not just in defined communities. These children are not receiving the necessary skills in literacy and numeracy prior to commencing school which leads to the child experiencing extreme difficulty in the first years of

school and most often throughout their school lives. Early Learning Centres are prepared to work with government to ensure that these children do not perpetuate the cycle of unemployment, drug addiction and welfare dependence.

Children who are labelled “at risk” do attract Special Child Care Benefit however the children we are concerned about are not labelled and should not be labelled. They should however be entitled to attract funding to attend a formal centre based Early Learning program prior to commencing school.

Parental support resources and funding should also be available to Early Learning Services to assist families overcome barriers and challenges in their lives.

We do understand that the “strong parallels between the impacts that taxes and transfers have on individuals' behaviour, is important to apply a whole of system perspective when considering its implications for equity, efficiency and overall social wellbeing.” *Australia's Future Tax System: Section 2.1: The Legal structure of the tax- transfer system”.*

Funding is needed to help design mechanisms that can identify the families and children who would benefit from a ‘bridging’ arrangement, allowing the tax and transfer system to mesh better with the childcare system. This integrated approach might involve a programme that helps to identify these families and children and assist them in finding interactions with the tax/transfer system that improve the participation of children in centre based early learning centres.

### ***Matching Demand and Supply of New Providers***

CAA encourages the entry of new providers; however growth should go where it is needed and not where there is an oversupply or where there is simply no need. Effective business planning can't happen unless new entrants can access good-quality information about supply and demand and about existing vacancy rates.

New entrants should ultimately be free to locate where they want, not where government thinks they should go. On the other hand, there are good public-policy reasons why new Child Care Benefit assisted places should go where the Commonwealth is satisfied there is a demonstrated need for new supply.

The Australian Government collects attendance data weekly and will be able to exercise its responsibilities for effective planning only by ensuring that Child Care Benefit places are allocated to both the private and the community only to areas of need.

### ***Traineeships***

The excellent Commonwealth traineeships scheme needs to be expanded and better promoted. CAA contends that industry-based traineeships and apprenticeships are more valuable to students, children, families and services, compared with school-based training.

## ***JET funding***

JET funding is in need of revamping to ensure that it is adequately addressing the real needs of industry and participants.

This funding seems to work satisfactorily for people receiving CCB at the 100% level, but most women with young children, especially babies, who want to take advantage of the traineeship options are not at that 100% level and therefore find they cannot afford to do a traineeship or apprenticeship. The Commonwealth's commendable traineeship and apprenticeship scheme is therefore not working as well as it could be by attracting willing workers into the Early Years sector which has such a high demand for staff.

To put our ideas on specific funding priorities in proper context, we offer the following general-level observations about efficiency and value.

### *Productivity is about Value as well as Efficiency*

In its submission to the Commonwealth Inquiry into Raising the Level of Productivity Growth, the University of Melbourne Centre for Ideas and the Economy recognises that while:

“The prosperity of any economy depends on its productivity...productivity, contrary to popular usage, is more than just efficiency. It is equally driven by the value of the products and services a nation can produce, where value is measured by what customers are willing to pay for them.” (p 3)

“History teaches us that the private sector is the engine for innovation. The transformation of knowledge and new ideas into wealth-creating technologies, products, and services is the province of firms, not governments or universities. Nonetheless, national policy and public institutions create an environment that can encourage or detract from firms' innovative capacity.

Australia's future prosperity depends upon...creating high-value products and services.” (p.4)

Commercially-minded service-providers continually look for ways to deliver extra value, and to do so profitably, by either extracting a premium for the extra value, or producing the same amount of value at lower cost.

CAA is concerned that the COAG regulation design process misunderstands this relationship.

COAG regulation reforms *must* add big costs.

However, there is doubt about the size of any quality improvements for child or for parent.

The resulting risk is that, unless well designed and well supported by devices such as improved parent subsidies, COAG reforms will *reduce* value.

**Summary:**

CAA supports the Government's focus on improving Australia's well-being by improving productivity growth and workforce participation. We are mindful that this Government understands that childcare centres are specialists in the business of workforce-participation and productivity-improvement.

CAA agrees with the priorities outlined by the Treasurer at the release of the 2010 Intergenerational Report. Participation and productivity improvements are more likely to come from "a much more efficient economy" and from "regulation reform".

If so, the central questions become –what is the best way to improve economic efficiency? And, what is the best way to ensure regulation reform delivers a net welfare gain?

CAA argues that improved economic efficiency and improved regulation both depend on proper decision-making.

COAG's childcare regulation reform is at risk of worsening economic efficiency and regulation because the decision-making-making is unfinished.

The COAG process has not yet complied even with COAG's own Best-Practice Regulation Principles, or with Productivity Commission recommendations about evidence-based decision-making i.e. regulatory decision-making must be based on 'the right evidence', it needs to occur 'at the right time', and be 'seen by the right people'.

As the Secretary to the Treasury has explained, evidence-based decision-making takes time, and money.

It is the money needed to complete that decision-making which CAA asks be funded.

Unless the Commonwealth Department works with the sector to collect the evidence about *centre-level* cost and supply impacts, and then deals appropriately with that evidence, well-meaning regulation reform will make children and families worse off, not better.

As the Secretary to the Treasury said in his September 2009 speech to the Australian Research Alliance for Children and Youth Conference, dealing with how government policy can support parents build capabilities in our children:

"To start with, like all government spending, there is a need to ensure that any activity is cost-effective. Government spending that does not pass an appropriately defined cost-benefit test necessarily detracts from Australia's well-being. It is important, therefore, that policy-advisers are able to access

quality evidence and use robust frameworks to assist governments to judge the relative merits of alternative policies.”(p.4)

*Cost-effective* investment in building the capabilities of children is undoubtedly a good form of preventing problems before they arise. These investments are positive for the nation’s well-being, today, and for the future.

Cost effectiveness can’t happen by accident. It depends on proper-quality decision-making.

Cost effectiveness must apply to governments, business and the community. COAG decision-making started to look at costs and benefits and this must be completed.