The Australian Childcare & Early Learning Sector

Productivity Commission Submission

Introduction

This paper has been prepared by Guardian Early Learning Group (Guardian) to provide the Productivity Commission (PC) with our initial thoughts on a number of the issues that the PC has been asked to consider by the Treasurer in its Inquiry into Child Care and Early Learning.

The key issues we address in this paper are:

1) The National Quality Framework
2) Affordability of Care
3) Flexibility
4) Nannies
5) Staffing
6) Outside School Hours Care

Guardian, which was formed in 2004, today owns 47 early learning centres, comprising 37 suburban centres and 10 corporate centres, and manages another 35 centres on behalf of private investors who chose to outsource the day to day management of their centres to Guardian. Across our network we operate more than 6,700 places, supporting more than 10,000 families and more than 2,000 centre educators. Our centres are primarily located in Melbourne, Sydney and Brisbane, with a few in Adelaide, Perth and Canberra.

1) The National Quality Framework

Guardian is committed to the adoption of the National Quality Framework (NQF) across our network of 80 centres and we are already seeing enormous staff enthusiasm for, and commitment to the transformation of the sector from care to early years development.

Any suggestion that the country should be seeking to wind back the NQF's focus on early childhood development in favour of a simplified model of care for working parents is inconsistent with the nation's long-term interests and inconsistent with the aspirations of all parents to give their children the best start in life.

We refute outright the suggestion that the NQF has brought about new or excessive "red tape" or compliance costs. The two main impacts have been the pain of transitioning from the old system to the new system, and fees have risen as staff costs increased due to increased ratios (mainly in Victoria and partially NSW) and increased qualification requirements. However, where we have passed on the cost of these impacts to parents by way of increased fees, there has not been much resistance from families given that they have seen the tangible benefits of having more and better

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qualified staff in the rooms with their children and given that the operation of the rebate effectively halved the net amount of the fee increase payable by families.

The movement toward a national set of regulations has probably lessened our compliance costs and the requirement to prepare a Quality Improvement Plan is far less onerous than the previous accreditation system, with its focus on documented and checklist quality, compared to the NQF's greater focus on interactions between child and educator, and the environments within which these interactions take place.

Like all large scale reform projects, nothing ever goes to plan and there are a number of issues that could be addressed to facilitate the successful implementation of the NQF including:

- State Government's resourcing their various Departments to undertake the work required to implement the NQF. Now more than two years since the NQF's introduction, the fact that less than 30% of the sector has had their Assessment and Rating visit is most unsatisfactory. Further, we have experienced delays of more than 3 weeks to have a service approval issued upon the acquisition of a centre – it used to take 24 hours.
- Finding the staff numbers and qualifications required to meet the new ratio requirements. Yet while this remains challenging, the purpose of reform should be to stretch the participants to meet lofty goals, and provide relief to those who are trying but for reasons outside of their control, are not meeting standards. The waiver system allows for this.
- Investing the resources in workforce planning and staff development – we need to transform a sector of carers into educators and the more resources need to be invested in training and development to meet this goal.

2) Affordability of Care

2.1 Impact of NQS

While in most States the cost impact of the NQS was minimal due to pre-existing ratios meeting the requirements and/or deferral of the introduction of new ratios, our Victorian centres had fee increases of $6-8 per day in January 12 to reflect the introduction of the 1:4 staff ratio for children under 3 years old.

- For example, in a well occupied 90 place centre with 45 places for under 3 yo children and 45 places for over 3yo, we needed 3 new staff to meet the new ratios, one of whom had to be qualified, and the cost of those additional staff (including on-costs) was approximately $150,000. Allocating this cost over 90 places at 90% occupancy equated to an extra $7.26 a day, which we had to pass on to families to recoup these extra staffing costs.

- It should also not be forgotten that Victoria chose a 1:4 staff/child ratio for children under 3, not 2 as per the other States, and so Victoria was always going to be more expensive.

The rebate did help most parents, as effectively the Government was paying for 50% of the increase, but the few parents paying more than $15,000 a year in fees per child received no benefit as they had "maxed out" their rebate entitlement.

We do believe that current fee levels are at the upper limits of affordability for many parents, especially those families in inner-urban areas who are paying $100 a day plus. Many of the families in these areas include professional or semi-professional women who want to return to work, but at what point does the cost of care and the hassle of balancing family and work render the marginal gain of a secondary income redundant?

2.2 Affordability of Care – Today v Yesterday

Notwithstanding the above, childcare is less expensive today than it was in 2006 and earlier, as a result of the introduction of the 30% childcare rebate in 2006. For example:

- *A daily childcare fee of $80 today for 3 days care per week will cost a family approximately $6,000pa after the benefit of the rebate (assuming no entitlement to CCB)*
- *This compares favourably to 2006 and earlier, when the same care at say $60 a day would have cost a family with no CCB entitlement approximately $9,000 pa.*

Further, it is less expensive than it was pre-2009 as a result of the introduction of the 50% rebate. For example:

- *A daily childcare fee of $80 today for 3 days care per week will cost a family approximately $6000pa after the benefit of the rebate (assuming no entitlement to CCB)*
- *This compares favourably to 2009, when the same care at say $70 a day would have cost a family with no CCB entitlement approximately $7350 pa.*

2.3 Affordability of Care – Potential Measures

As an operator, we are nervous about future fee increases at many of our centres, as we feel the current fee levels are near the threshold of discouraging mothers from returning to work or if they must work, resorting to other, lower cost forms of care.

We set out below a range of ideas that may assist in addressing the affordability issue in childcare:

- Merge CCB + CCR into one benefit and re-allocate the administrative savings into increased parent funding.
- Increase the level of funding for the new benefit to help offset the cost of the NQS, both to date and into the future. It is proposed that this increase be funded by the administrative savings of merging CCB and CCR and by reallocating funds set aside for the proposed parental leave scheme to improve funding for childcare.
- It is almost a unanimous view that funding to help with the cost of childcare over the first five years of a child's life is more helpful to working families than mothers being

paid up to $75,000 for taking maternity leave in the first six months of their child's life. Given that employers are partially funding paid parental leave, we suspect their preference would be enhanced childcare funding to make it easier for their female staff to return to work rather than paid parental leave which encourages their female staff to stay away from work longer.

There should still be some enhancement to the current parental leave scheme as it is important that women have the ability to spend as much time at home with their new babies as financially possible. However, given the longer term benefits that families, employers and the country receive from families being able to access affordable care in the pre-school years, is it the best allocation of resources to invest $5bn into maternity leave when it is clear that a re-allocation of perhaps half of this money into the childcare sector would have a great economic benefit?

- The level of assistance must be structured so that lower income earners receive more assistance than higher income earners. But don't cap the assistance at a family income of $150,000 as it is simply too low. Most families in this income range still need help given both parents typically work to pay the mortgage and without subsidised care, one would most likely exit the workforce (most likely the mother).

  Even for those families who can afford to have mum stay at home – do we want to lose these women from the workforce or deny their children the opportunity to participate in the high quality Australian early years learning environments we are seeking to create?

  Maybe a cap of $250,000-300,000 is more appropriate, with a tiered level of assistance as your income increases.

- The methodology for calculating the entitlement and quantum of Government assistance needs simplification. Very few in the sector (staff and parents alike) really understand the methodolgy for the calculation of CCB, and the various payment options for CCR adds to the confusion. Maybe a tiered rate of support based on the family's marginal tax rate would be a simpler methodology.

- Tax deductibility of childcare costs might be a simpler form of assistance for families to understand, but it is highly regressive in nature (the families who can least afford childcare receive the lowest benefit) and most families will only receive the tax benefit when lodging their annual tax return, which is long after they have had to pay their centre full fees. We recognise the ability of employees to request a PAYG Withholding Variation, but is this a practical form of assistance for the approximate 1 million families using care?

- Pay the assistance direct to centres to minimise the gap fee being charged to parents. This occurs with the CCB today, but not the CCR, which most families probably receive as a direct credit into their bank account, which they probably rarely notice. Paying an expanded, merged benefit direct to the centre so that the parent gap fee is minimised would have a more favourable impact on parent's perceptions about fees than the current methodology.

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Further, in addition to CCB and CCR, there are a number of other benefits paid (eg ISS, Jet, kinder funding etc) and the more of these that could be consolidated to further reduce the gap fee, the better the outcome for parents.

- Increase the level of funding assistance for families with multiple children, as it is expensive having multiple children in care and work becomes marginal and the economics of nannies more attractive the more children you have in care.

- Similarly, as most centres are now charging an under 2/3 year old fee and an over 2/3 year old fee given the materially different staffing ratios, arguably the merged benefit should provide more assistance to families with children aged under 2/3.

- Making it easier and less expensive to develop new centres in inner-urban areas would enhance supply of more moderately priced care in these areas and limit fee growth. At present, the cost of land, the cost of spending 12-24 months in Council getting approval, the many development levies and charges, the imposition of land tax etc renders the development of new centres very challenging.

  In certain parts of the country (primarily inner Sydney and some suburbs of Melbourne), there is currently a shortage of places for families looking to enrol children under the age of three in care. While Sydney has historically had fewer centres providing care for children under the age of 2, we have experienced over the past 4 years a period where the supply of new centres was very low (primarily due to lack of bank funding for property development in the wake of the global financial crisis) coupled with the simultaneous growth in demand for childcare due to near-full employment and the benefits of the 50% childcare rebate.

  We are now seeing much more new supply being developed, but there is more the Government could do to facilitate the development of new supply, including identification of areas of short supply, making Crown land or facilities available to overcome the difficult land economics and in rural and remote areas, possibly providing capital grants to encourage the construction of new centres.

- Should the FBT exemption on company provided childcare be expanded? Currently, employers who provide childcare facilities for their staff "on their premises" are able to offer their staff the ability to salary sacrifice their childcare fees with immunity from fringe benefits tax. As the largest provider of these corporate facilities we note as follows:
  - Few companies have the resources or inclination to offer onsite childcare for their staff – only the largest Australian companies are able or willing to do so;
  - The definition of "premises" is sufficiently broad to allow employers to provide care at a site away from their corporate headquarters provided they control those premises. Further, it is possible for a syndicate of employers to provide such a facility – but few do.
  - Companies can today reserve places for their staff at nearby centres and/or subsidise the cost of care for their staff and any costs incurred by the company in

doing so are tax deductible and generally exempt from fringe benefits tax
- For most staff, the 50% rebate is more generous than the benefits of salary sacrifice, with only the highest paid being better off under a salary sacrifice model.

- But clearly employers receive great benefit from the current funding model given that it enables their female staff to return to work from maternity leave and assists working parents balance their work and family responsibilities – should these employers make some form of contribution in addition to the 30% tax they already pay? Arguably a childcare levy would be more appropriate than a maternity leave pay levy. Alternatively, is there some form of incentive that could be provided to employers to encourage them to take greater responsibility for the provision of childcare care services to their employees?

3) Flexibility

We do not believe that there is a material issue with flexibility. The great majority of Australian families are able to access the care they need and during the hours they require it.

There will always be some exceptions and further work is required in certain area, but this is tinkering around the edges rather than focusing on wholesale reform for the vast majority of working families.

Most childcare centres are open to 6.00pm or 6.30pm, which for the vast majority of families, is more than adequate. Rarely do we have many children in our centres beyond 6pm, except perhaps in the centres located on the urban fringe where the daily commute is arduous. Maybe there are some centres that close a little earlier than they should, but from our experience, most centres seek to serve their local market to optimise their business' performance, and if there was strong demand for longer hours, they would seek to meet it.

And even if there was strong demand for centres to be open later, which there is not, is it really in the best interests of children that they spend 10-12 hours in care, leaving after 7pm so as to enable their parents to work longer? Why have children if work is more important than getting them home at a reasonable hour to bath, feed and read them a story before bed?

And in a sector where staffing is already an issue, how easy will it be to find the staff required to work these extra, and late hours?

4) Nannies

In considering whether the rebate should be extended to nannies, our thoughts are:

- There are probably legitimate circumstances where families with several young children or professional women could benefit from care delivered by nannies as opposed to centre based care.

- But are there that many families who want and are able to afford the costs of a nanny? There is a big difference between paying someone $25 an hour cash to babysit your children as compared with the administrative requirements and costs of bringing nannies into the formal employment arena in order to qualify for government assistance. If the grossed up costs of a nanny equate to $40-50 an hour, the $400-500 a day cost is well in excess of centre based care, even for up to three children in most centres and in most family circumstances. And who is going to deduct the PAYG, pay the superannuation and workers compensation etc
- If we create an at-home, nanny care model for which there is high demand, where will we source the nannies from? The sector is already struggling to find a sufficient supply of suitably qualified early years professionals.
- What regulation would there be of the qualifications and experience of nannies?
- What regulation would, or could there be of the actual work that nannies do – how do you know if a nanny is truly looking after the children as compared with performing household chores?
- What educational experience do children receive through nanny care?

5) Staffing

5.1 Converting Carers to Educators

There needs to be improved dissemination of information about the level of assistance currently available to staff and employers to assist with the cost of "upskilling" the industry's staff. We need a better understanding of the Cert III, Diploma, Advanced Diploma and Bachelor studies training assistance at State and Federal levels to ensure all staff and employers are optimising this opportunity.

Maybe an industry training council could be pulled together under the ACECQA umbrella to receive all applicable State and Federal training funding, oversee the quality of training providers and course content and then grant "free study" to all members of the childcare industry willing to progress themselves.

ACECQA should be the provider on ongoing "on-the-job" training alongside Lady Gowrie and other reputable providers. It is not enough to just obtain or hold a qualification - the industry's staff need enormous help translating this theory into the dynamic teaching practices that an emergent curriculum requires.

To overcome the attractiveness of other education sectors for bachelor qualified teachers (eg schools, sessional kindergartens) without paying comparable wages and benefits, we should fund a specialist 0-6 bachelor degree for existing childcare workers to gain their teaching qualification and in return, they must commit to working in childcare industry on childcare terms and conditions for 5 years post completion of studies (ie maybe waive their HECS 5 years post completion on production of satisfactory evidence of having worked in the industry for past 5 years). Most early years educators cannot afford to undertake bachelor studies, so they would greatly appreciate the assistance.

Certain States provide some form of financial assistance to centres to assist with the cost of providing a kindergarten program within a childcare centre (eg Victoria) – should the Federal Government assume responsibility for providing some funding assistance to all childcare centres in all States to assist with the employment of kindergarten/pre-school teachers and the delivery of kindergarten/pre-school programs (ie enhanced planning time, additional resources, more annual leave etc)?

Full time, diploma qualified room leaders are the most difficult staff to source at the moment. There are not enough of them and many have chosen to work casually to avoid the requirements of the NQS or because they prefer the lower stress and higher pay of being casual. The Government should add Diploma Qualified childcare workers to the list of professions that qualify for s457 visas – if hairdressers, stockbrokers, glass blowers, dance therapists, disc jockey, tennis coaches can all qualify for a 457 visa, why not diploma trained childcare staff?

At present, many Diplomas come from the UK on 6 month working tourist visa's, but after 6 months, they have to move on and this only upsets parents and children and creates further instability in industry staffing. We can recruit teachers and centre managers on the 457 visa, but the biggest shortage in the industry at present is Diploma trained staff and it is not possible to recruit them even though there are many available.

Notwithstanding the above, we have managed to meet the new qualification requirements in practically all our centres from January 14, which for us is a much harder task than a single centre operator. Hence, if we can do it, so too should others.

5.2 Reducing Turnover through Professional Wages

For parents, staff turnover is most frustrating as it creates instability for their child.

It is also expensive for the employers and not positive for the industry.

There are many reasons staff leave the industry – it is not solely wages (eg tried it but didn't like it, burnt out, travel, other roles, don't want the responsibility, marriage/motherhood etc)

We are not seeing massive pressure from staff on wages – staff are attracted to the industry based on their passion for children

But, the role does involve lots of non-stop responsibility and it is a challenging, on-your-feet, all-day role. Staff have to be constantly alert to incidents such as the risk of choking, allergies, asthma, bone breakages, supervision & feeding, let alone manage the implementation of an emergent curriculum. It is a tough job with a lot of responsibility, and arguably the relative pay rates are behind other sectors.

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Addressing wages will help combat one of the reasons staff leave the industry. But any increases in staff wages will have an impost on affordability unless funded by Government, as the wage increases will be passed on by operators to parents.

Given our direction under NQS and the underlying principle that quality is best enhanced through the ratio of qualified staff to children in their care, wage reforms ought to be tied to attainment of qualifications and then the retention of those qualifications within the industry.

From our perspective, the current entry level points to each of the classifications in the Award are satisfactory, but the 3 or 4 increments that follow are insufficient in quantity and value, and fail to produce a longer term career path to reward those educators that remain in the sector and develop their skills through on the job experience and off the job training and development.

Payroll tax is a huge impost for this sector - given that wages are more than half of our revenue, the 5% payroll tax applicable in most states equates to 2-3% of total revenue, which is enormous. And this burden will only grow as wage rates and the level of qualifications increase. Further, is it fair that one third of the sector is exempt from payroll tax (ie the non-profit owners) when the other two thirds (the for-profit operators) are liable for it?

6. Outside School Hours Care

While this is only a small part of our business today and we are not especially qualified to comment, we do believe that many of our customers are struggling to find care for their children once they start school. Given that parents often structure their work arrangements around the longer operating hours of early learning centres, many families are looking to schools to continue providing access to care after school finishes around 3pm.

Anecdotally, many schools seem to be struggling with this demand.

And as more and more of our customers leave childcare and move into the school system, we suspect this will become an even bigger issue in the future, both from a supply perspective and from the perspective of the cost to Government.

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