Family Assistance Legislation (Cheaper Child Care) Bill 2022

Goodstart Early Learning submission
October 2022

About Goodstart

We are for children, not profit

Goodstart Early Learning (Goodstart) is Australia's largest not-for-profit social enterprise and Australia's largest provider of early childhood education and care, with 661 centres located across every state and territory, supporting more than 63,600 children from 53,700 families with a team of 15,000 employees.

As a not-for-profit social enterprise, our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. It is our view that all children should be supported to participate in quality early learning and care, regardless of where they live in Australia, their family circumstances, their inclusion support needs, or their early learning setting. We believe the best way to do this is to ensure all children have access to high quality, inclusive early learning and care no matter their location or life circumstances.

Overarching statement

Goodstart welcomes the Family Assistance Legislation (Cheaper Child Care) Bill 2022 (the Bill) and supports the timely passage of the Bill. The Cheaper Child Care Reforms extend more generous subsidies for children participating in early childhood education and care (ECEC), which will substantially improve affordability. This will help boost workforce participation for parents and carers – especially women – by lowering the effective marginal tax rates.

We welcome these reforms but, in order to realise the benefits for families, they must be complemented by significant investment in the ECEC workforce. We must support the ECEC workforce with improved pay and conditions, starting with an immediate increase in wages through a government-funded subsidy to ensure we have the educators necessary to deliver these reforms. Without this investment, families may not be able to fully realise the benefits of the changes and instead could be unable to access additional days of early learning or face long wait-lists.

There is one minor amendment necessary to the Bill, which is needed to extend the staff discount policy to centre cooks, so providers can apply staff discounts to their out-of-pocket fees, rather than full fees. Centre cooks are paid under the same award as educators, so this removes inequity in centres and also recognises the important role cooks play in children's health, safety and wellbeing.

We also note the Bill sits alongside other commitments to better understand the relationships between prices and costs of ECEC and improved transparency. We support these reforms to ensure the affordability measures flow onto families and to help shine a light on the genuine costs of service delivery for high quality early learning. These reforms should be complemented by a market stewardship and monitoring framework to ensure investment is delivering on policy objectives in relation to quality, accessibility, affordable and workforce stability for children, families and governments.

Recommendations

Goodstart supports the Cheaper Child Care Bill and recommends the following:

1. The legislative amendment to **extend staff discount policy to cooks**, i.e. discounts can be applied to gap fees for cooks too.
    - Cooks are also captured under the Children's Services Award and excluding them creates inequity in a centre. Educators sometimes move in and out of cook roles.
    - Centre cooks play a crucial role in ensuring the health and wellbeing of children and, yet, they have the highest rates of attrition in centre staff.

- Centre cooks play a crucial role in child safety, which is especially important for very young children who can't self-monitor their allergies. Reporting by quality authority, ACECQA, indicates that food-related incidents are one of the most commonly reported incidents, with reduced turnover in cooks likely to improve food safety for children.

2. Savings arising from integrity and other measures should be directed to a short term investment in an **interim wage supplement for ECEC educators and teachers**.
   - The proposed CCS reforms need to be complemented by wages supplement for early childhood educators and teachers to stabilise the workforce.
   - Without investment in after tax wages for educators to slow current attrition rates, staffing shortages are likely to see families unable to access the additional places they want, facing long wait lists and access issues.
   - Reforms estimated to generate 185,000-220,000[1] additional days of work, equating to 1.85-2.2 million hours of care. This will require 40,000-48,000 additional days of educator time – or around 9,000 additional educators.
   - Over the past two years, our educator attrition rate has climbed from 14% to 24% despite Goodstart offering above award wages and conditions. Reducing attrition to where it was pre-pandemic (10%) would go a long way to meeting the demand generated by the reforms.
3. **Increase the activity test result** for low income, low activity families (CCS24) to support at least two days per week of early learning, ideally this should be 3 days per week.
   - Children from low income, low activity families are more likely to experience vulnerability and disadvantage and are more likely to start school behind.
   - The current activity test result of 24 hours per fortnight does not support two days per week of early learning and should be increased to at least 40 hours per fortnight.
4. An **immediate increase to the hourly rate cap** is needed to effectively deliver on affordability and price control objectives (specifically, the hourly rate cap should be adjusted to reflect the original settings at the 85th percentile of fees).
   - The rate cap has been losing value as it is indexed at CPI, so is not keeping pace with wages and rents. It should be reset to at least its 2015 level of 17.5% above the mean hourly fee.
   - The review of the hourly fee cap is two years overdue and was a government commitment in its response to the AIFS Evaluation of the Child Care Package.
5. **Improved price transparency** needs to include transparent and regular reporting via a new market monitoring and market stewardship frameworks to ensure investment is delivering on policy objectives for children, families and governments. This should include transparent and regular reporting on affordability, price, quality, accessibility and inclusion indicators.

IF YOU WOULD LIKE TO DISCUSS ANY PART OF THIS SUBMISSION IN FURTHER DETAIL, PLEASE CONTACT:

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[1] Grattan Institute, Cheaper Child Care is a win-win-win policy, July 2022.

Recommendations in detail

Recommendation 1: The legislative amendment to **extend staff discount policy to cooks**, i.e. discounts can be applied to gap fees for cooks too.

Qualified cooks are a crucial part of each centre's team and are in high demand as we have to compete with the hospitality sector to attract and retain people. Like educators, cooks are paid under the Children's Service Award based on their qualification level. A Certificate III qualified cook is paid the same rate of pay as a Certificate III qualified educator. In come centres, the roles of educators and cooks are interchangeable.

Food-related incidents were the fourth most issue in critical incidents reported by ACECQA last year and it's in the collective interests of children, families, providers and Governments to stabilise and reduce turnover of these critical roles in early learning. Centre cooks play a crucial role in child safety, which is especially important for very young children who can't self-monitor their allergies and offering food service in centres can help address food insecurity, particularly for children experiencing vulnerability and disadvantage.

Extending the child care discount available to educators to cooks will provide this crucial group of employees with a tangible incentive to stay in the ECEC sector. Currently, in our centres educators receive a 50% child care discount as the discount is applied to the gap fee. But cooks receive only a 15% discount because we are required to apply it to the whole fee – so this reduces the Government's CCS liability as much as it reduces the cook's fees. We would urge the Senate to address this anomaly and apply to discount to all centre-based employees employed under the Children's Services Award and the Education Services Teacher's Award, in order to include educators, teachers and cooks.

Recommendation 2: Savings arising from integrity and other measures should be directed to a short term investment in an **interim wages subsidy for ECEC educators and teachers**.

The proposed CCS reforms need to be complemented by wages supplement for early childhood educators and teachers to stabilise the workforce. The Cheaper Child Care reforms are estimated to generate 185,000-220,000[2] additional days of work, equating to 1.85-2.2 million hours of care. This will require 40,000-48,000 additional days of educator time – or around 9,000 additional educators. The current attrition rate across the sector sits at around 20% but reducing attrition to pre-pandemic attrition rates (10%) would meet the demand generated by the reforms. Without investment in after tax wages for educators to slow current attrition rates, staffing shortages are likely to see families unable to access the additional places they want, facing long wait lists and access issues.

The best way of finding the 10,000 additional educators needed to deliver the extra places for parents responding to the Cheaper Childcare reform is to slow the record levels of attrition from the sector. Educator attrition rates at Goodstart have increased 10% over the past two years, with exit surveys citing low pay, burnout and lack of professional recognition cited as key reasons. Goodstart already pays above-award wages.

Educators and teachers enjoy much higher wages and conditions in publicly funded Government schools than in the ECEC sector. An experienced Certificate III educator on award rates earns around 30% less than an experienced teacher aide in a public (government) school. An experienced teacher earns around 40% less.

[2] Grattan Institute, Cheaper Child Care is a win-win-win policy, July 2022.

Table 1: Educator and teacher wages in long day care centres and public schools

Classification	Award rate (p.a.)	NSW Educ. Dept rate[3]	VIC Educ. Dept rate[4]	QLD Educ. Dept rate[5]
Educator Cert III commencement[1]	$49,095	$62,620	$53,301	$54,761
Educator Cert III maximum rate[1]	$52,384	$70,254	$68,260	$70,963
Teacher graduate[2]	$66,395	$74,070	$74,976	$75,471
Teacher proficient[2]	$72,572	$89,336	$79,782[6]	$82,917[6]
Teacher maximum rate[2]	$79,005	$110,473	$111,221	$104,780

[1] Children's Services Award 1/7/2022, NSW Education Paraprofessional (Cert III qualified), Victorian Education Support Officer Level 1 Range 2; [2]Educational Services (Teachers) Award as determined from 1/1/2022 following 2021 work vale case; [3]NSWCrown Employees (Teachers in Schools and Related Employees) Salaries and Conditions Award; [4]Victorian Government Schools Agreement 2022; [5]Teacher rates 1/1/2022, teacher aide rates 1/3/2022. New Enterprise Agreement currently being balloted will increase these rates by 4%. [6] Third pay-point assuming 2 years of service to reach proficient.

With wages making up around 70% of our total costs, a 30% increase in wages would require a fee increase of 21%, which would defeat the Government's objective of making child care more affordable. The Prime Minister has acknowledged that educators wages need to be addressed. This needs to happen before the 2023 CCS reforms commence.

We recommend the $900 million in savings from integrity measures introduced through this Bill should be reinvested in the ECEC sector, starting with investment in an immediate increase in the after-tax wages of early childhood educators and teachers to support delivery of high quality early learning. An interim wage supplement set at 10% of wages should be paid to all teachers and educators in long day care centres, to commence as soon as possible to secure the workforce ahead of next year's reforms. The Australian Government should seek an assurance from the State and Territory Governments that these supplements would be exempt from payroll tax, which would simplify administration considerably. Providers should be required to pay the supplements into staff as wages or improved conditions.

Over time, the supplement could then be folded into new wage rates established when the new funding arrangements are finalised post the Productivity Commission review and changes to bargaining arrangements and new Fair Work Commission rules are in place.

Recommendation 3: Increase the activity test result for low income, low activity families (CCS24) to support at least two days per week of early learning; ideally, this should be three days per week.

Children from low income, low activity families are more likely to experience vulnerability and disadvantage and are more likely to start school developmentally vulnerable[3]. The evidence that tells us at least two days a week (and preferably consecutive days) is the minimum amount children should participate in early learning programs to provide a protective factor against developmental vulnerability and other forms of disadvantage. The current activity test result of 24 hours per fortnight does not support two days per week of early learning for vulnerable children and must be increased to at least 40 hours per fortnight.

The previous Government's Jobs for Families package reduced the minimum entitlement to subsidised hours from 48 to 24 subsidised hours per fortnight for low-income families who do not meet the activity test. As a result of this policy change, children from low income, low activity families have been disappearing from ECEC. The reduction has been so staggering that, although this element of the CCS Safety Net was intended to support approximately 5% of CCS recipients, it is only supporting around 1%.

[3] p.208-209, AIFS (2021) Child Care Package Evaluation: Final Report.

The AIFS evaluation highlighted that, where low income, low activity families were accessing two days of early learning per week, they were paying significantly more than other working families. This is because shorter sessions (e.g. 6-hour and 9-hour sessions) are rarely offered due to the economic limitations of recovering fixed costs, such as wages and rent, over a shorter period and still staying under the CCS hourly rate cap. As a result, families were either paying high out of pocket costs due to higher hourly costs of shorter sessions or high out of pocket costs due to unsubsidised hours when accessing longer sessions. As a result, families who are least able to afford preschool and early learning have a higher out-of-pocket cost than other families with more hours of CCS entitlement, as demonstrated by the example below:

Table 2. Low-income families with only 36hrs/fortnight (preschool exemption) can pay double the cost

Example - Two families with CCS90% enrolling for preschool in an LDC		
SCENARIO **Daily preschool fee $127.50**	**Family A has CCS48hrs+ and can enrol in a 10, 11 or 12-hour day**	**Family B has only 36hrs and therefore enrols in a 9-hr day**
Current hourly fee cap $12.72	Hourly rate - $10.62 - $12.75 (Under hourly cap)	Hourly rate - $14.16 (Over hourly cap by $1.44 p/hour or $13.02 each day)
Total annual fees for 2 days a week $13,260	CCS therefore covers $11,934 p/year Leaving $1,326 residual OOP or **$25.50 a week/ $12.75 a day**	CCS therefore covers $10,715 p/year Leaving $2,545 residual OOP or **$48.95 a week/ $24.48 a day**

We also now know that children who are only eligible for 24 or 36 subsidised hours per fortnight are the most likely to drop out of early learning. Recent statistical analysis by Goodstart of children leaving early learning before school and involving approximately 160,000 children, found that children on CCS24hrs and CCS36hrs are the most likely to exit and are significantly more likely to exit than children with more CCS hours (34% more likely) and children who are not experiencing vulnerability at all (39% more likely).[6]

Like Minister Clare, Goodstart strongly believes that a child's chances in life should not depend on their postcode, what their parents do or the colour of their skin. Abolishing the CCS24hrs and CCS36hr categories and instead establishing a minimum entitlement to at least 40 hours per fortnight (2 x 10 hr days per week) will ensure that children in jobless households, in households with irregular work, Indigenous children and other vulnerable children can access at least two days of early learning each week. We note this measure has broad support across early childhood peak bodies and the sector. An even simpler approach would be to provide all children with the activity test rest of 72 hours per fortnight, which would streamline the activity test and reduce administrative burden on families.

Recommendation 4: An **immediate increase to the hourly rate cap** is needed to effectively deliver on affordability and price control objectives (return to original settings – 85th percentile of fees).

When it was released in 2015, the Jobs for Families Child Care Package introduced an hourly rate cap. The hourly fee cap plays an important role in targeting of financial assistance to families. However, the indexation of the fee cap has not been keeping up with the increases in fees. As a result more and more families are finding that their fee exceeds the fee cap, and that their out of pocket costs are rising faster than fee increases as a result. In December 2018, 11.0% of centre based care service and 20.6% of family day care services had an average fee that exceeded the hourly fee cap. By September 2021, that rose to 15.7% of centre based care services and 31.8% of family day care services.[4]

[4] Departmental quarterly data https://www.education.gov.au/child-care-package/early-childhood-data-and-reports/data-usage-services-fees-and-subsidies

The proportion of actual sessions that exceed the hourly fee cap is likely to be much larger than that because:

- Nursery (birth to 3) rooms tend to have higher fees because of the higher staff ratios;
- Shorter sessions (9 and 10 hours) have higher hourly fees than longer session (11 and 12 hours);
- Inner metro services have higher fees than outer metro or regional services because of high property costs.

In the original CCS reform package designed in 2015, the hourly fee cap for long day care was set at the mean hourly fee plus 17.5%. This covered around 85% of fees charged at the time.[5] By September 2021, the hourly fee cap for centre-based day care had fallen 5% below the benchmark. By July 2022, we estimate it is probably around 8% below the benchmark and is likely to be even further behind by July 2023. This also means it is also losing effectiveness in containing fee growth and maintaining affordability for families within many localised markets.

The following example highlights how an inadequate fee cap impacts on families, with a 6% fee increase turning into a 9.6% increase in out of pocket costs because of the fee cap:

Table 3: Family paying $123/day fee in 2021 for a 10 hour session facing a 6%[6] fee increase in July 2022

	July 2021	July 2022	Increase
Daily fee	$123.00	$130.38	6%
Hourly fee	$12.30	$13.04	6%
Hourly fee cap	$12.30	$12.74	3.5%
Out of pocket cost @ 60% CCS per day	$49.20	$53.94	9.6%

The review of the hourly fee cap is two years overdue. It was in the Government's work program for 2020 but was delayed due to COVID. It was a government commitment in its response to the AIFS Evaluation of the Child Care Package that this review would occur in 2022 and it is urgently needed. Ideally, the hourly fee cap should be reset ahead of the commencement of the reforms in July 2023. For the affordability objectives of the Cheaper Child Care reforms to be realised, the hourly rate cap must be reset to at least its 2015 level of 17.5% above the mean hourly fee.

Recommendation 5: Improved price transparency needs to include transparent and regular reporting via a new market monitoring and market stewardship frameworks to ensure investment is delivering on policy objectives for children, families and governments. This should include reporting on affordability, price, quality, accessibility and inclusion indicators.

Goodstart supports the Government's proposals to expand the requirement for large providers to report fees, fees increases and costs to the public through the Starting Blocks website. We note that we already publish much of this information publicly in our Annual Reports, which are on our website, and provide a breakdown of fees to our families each year.

Real time transparency of fees provides multiple benefits. It gives families good information as they shop around local centres. It gives providers real-time information on local market conditions and strengthens competition at a local level. It also gives policy makers real-time information on what is happening with fees and affordability.

[5] Department of Education and Training submission to the Senate Education and Employment Legislation Committee "Inquiry into the Family Assistance (Jobs for Families Child Care Package Bill) 2016 Jan 2016 p.13

[6] CPI to June 2022 was 6.1%

Unfortunately, the Government's Starting Blocks website falls well short of providing this information. Less than half of fees reported on the sector are up to date. Further, it is not clear which fee a service is reporting – as the requirement is only for a service to provide a 'typical fee'. We would encourage the Department to be much more explicit about which fee is reported – and suggest it should be the service's standard 10-hour fee for a three day booking (or the closest comparable fee). The Department also needs to enforce compliance in the requirement for services to report fees to the site.

Regarding the additional reporting requirements on 'large providers', we would encourage the Government to be more ambitious and to cover a larger pool of providers. By limiting reporting to providers with 25 or more services, fee increase data will only be provided for around a quarter of services (and only 1% of providers), as most services are held by smaller providers. Perversely, this could adversely affect large providers as only they will be reporting fee increases, which, on a quick web-search, might be enough to push a parent to a smaller provider that has not reported their fee increase/s.

Currently, around 62% of the revenue of centre-based day care services comes from the Federal Government through CCS. As a result of these reforms, this figure will rise to over 70%. With that level of public funding should come an expectation of complying with a higher level of stewardship from government. We would recommend that the Government considering lowering the threshold for reporting additional fee data to 10 or more services, which would cover 36% of services. Indeed, over time, we would argue that all services should report this information.

Table 3: Centre based care services by provider size – Dec 2021

Provider size	No of centres	% of total
100+	1581	19%
50 to 99	192	2%
25 to 49	479	6%
10 to 24	732	9%
5 to 9	601	7%
3 to 4	804	10%
2	954	11%
1	3115	37%
Total	8458	

Other statements

Base entitlement for First Nations children (36 hours per fortnight)

We strongly support the introduction of a base entitlement for all First Nations children, regardless of their family's income or activity as important first step. Goodstart also supports the policy positions of SNAICC – as an Aboriginal and Torres Strait Islander voice for children and encourages the Committee to reflect on their submission and requests.

Aboriginal and Torres Strait Islander children are twice as likely to start school behind[7] and children who start school behind tend to stay behind. This base entitlement is therefore an important first step to improve access to early learning for First Nations children, which is proven to reduce the risk of children starting school developmentally vulnerable.

[7] AEDC 2021 Key findings, available here.

The level of entitlement of 36 hours per fortnight is unlikely to be sufficient for First Nations children to support affordable access to two full days of early learning, which the evidence tells us is the minimum dosage to improve school readiness. An entitlement of 36 hours per fortnight could subsidise two 9-hour sessions per week. However, not all providers offer shorter sessions, largely due to the affordability impacts for families of recovering fixed costs, such as wages and rent, over a shorter period. Doing so results in a higher hourly rate, which is generally more likely to exceed the hourly rate cap, thereby leaving families with a higher out of pocket cost. The alternative is families accessing longer sessions but, although they may have a lower hourly cost, families still face out of pocket costs for unsubsidised hours when they 'run out' of hours, e.g. families with CCS36hrs pay full fees for 4 unsubsidised hours when accessing 4x 10-hour sessions. Either way, First Nations children and their families may still face affordability barriers when accessing early learning.

It will also be important to ensure families can easily access the additional subsidy and, ideally, providers should be able to apply for this on behalf of services if they would like their approved early learning provider to do so.

In order to meet the 2030 Closing the Gap target to reduce the number of Aboriginal and Torres Strait Islander children starting school developmentally vulnerable, the base entitlement should be increased to at least two full days per week, so at least 40 hours of subsidised ECEC per fortnight. Ideally, First Nations children – and other children experiencing vulnerability and disadvantage – should have access to at least 30 hours per week (60 hours per fortnight) of subsidised early learning to support them to be ready for school and life[8]. This proposal is supported by ECEC peaks and stakeholders, including SNAICC – A Voice for Our Children.

[8] SNAICC (2021), Targeted early years support essential for Aboriginal and Torres Strait Islander children.