

PRE-BUDGET SUBMISSION 2020-21

Department of Treasury,
Commonwealth Government

Family Day Care Australia

January 2020



1. INTRODUCTION

Family Day Care Australia (FDCA) welcomes the opportunity to provide a submission to the Treasury, in advance of the 2020-21 Federal Budget.

1.1 ABOUT FAMILY DAY CARE AUSTRALIA

FDCA is an apolitical, not for profit, national member association representing 12,813 family day care educators and 467 approved family day care services.¹ Our mission is to represent, support and promote the family day care sector in delivering high quality early childhood education and care (ECEC) to more Australian children.

FDCA publicly supports the National Quality Framework governing the ECEC sector and, as the national peak body for the family day care sector, shares many objectives in common with Australian governments and regulatory agencies including:

- promotion of continuous improvement in the provision of quality education and care services;
- reduction of the regulatory and administrative burden for education and care services, whilst simultaneously improving the efficiency and cost effectiveness of the regulation of ECEC; and
- measures to build a highly skilled workforce.

1.2 ABOUT THE FAMILY DAY CARE SECTOR

As acknowledged in the Alice Springs (Mparntwe) Education Declaration, a world class education system for young Australians “begins with making sure that every young child has the opportunity to benefit from structured play-based learning before they start school, because this helps build the social, emotional and cognitive skills they need to succeed in the years to come.”²

The family day care sector is an essential part of the ECEC sector, providing flexible, affordable and accessible education and care for more than 40 years. Regulated under the Education and Care Services National Law Act 2010 and the Education and Care Services National Regulations, it plays a vital role in meeting the diverse and changing child care needs of a significant proportion of Australian families, while at the same time responding to parents’ desire for a ‘home-based’ and ‘family-like’ environment for their children.³

According to the September 2019 version of the Child Care in Australia quarterly report published by the Commonwealth Department of Education, of the 1,340,410 children who attended approved child care services, 8.4% (112,360) attend family day care. The family day care sector supports more than 78,080 families across Australia.

While educators are registered with approved services, they effectively run their own small business, working from their own homes with small groups of no more than four children under school age, with the option to care for an additional three school aged children outside of school hours. This provides educators with a unique opportunity to personalise learning programs and to develop strong connections with children and families.

Importantly, the family day care sector offers significantly higher levels of flexible sessions than centre-based day care. For example:

84.7%	94%	65.3%
of family day care services offer shorter sessions (up to 6 hours) compared to only 17.2% of long day care services. ⁴	of family day care services also offer longer sessions (7-12 hours)	allow for the swapping of days/ sessions or sessions to be added or changed at short notice, compared to 51% and 50.2% of long day care services respectively. ⁵

1 FDCA Family Day Care Sector Profile, December 2019

2 Ibid

3 Pascoe, S. Brennan, D. (2017) *Report of the Review to Achieve Educational Excellence in Australian Schools through Early Childhood Interventions*

4 Baxter, J., Budinski, M., Carroll, M., Hand, K., Rogers, C., Smart, J., Bray, J.R., Gray, M., Blaxland, M., Katz, I., & Skattebol J. (2019) *Child Care Package Evaluation: Early monitoring report*. (Research Report). Melbourne: Australian Institute of Family Studies.

5 Ibid.

This flexibility is critical to catering for the current and future needs of Australian families, especially in the face of changing work patterns, where casual, contract and part-time work is common and women form 68.1% of the part-time workforce.⁶

Family day care also offers considerably higher levels of non-standard hours care, compared to the long day care sector:

88.2%	85.5%	47.5%
of family day care services offer sessions of care on weekdays before 7am or after 6pm, compared with 45.7% of long day care services. ⁷	of family day care services offer care on weekends, compared with a mere 0.5% of long day care services.	of family day care services offer overnight care, as compared with 0% of long day care services. ⁸

Availability of responsive ECEC services during non-standard hours is absolutely key to supporting a range of employees and contractors who work casual and on-call shift work, split shifts and irregular hours in a range of occupations including nurses, paramedics, police officers, FIFO workers, cleaning contractors, factory workers and those that work in the hospitality industry.

Finally, the family day care sector provides much needed ECEC for Australian families in areas of high disadvantage, with 22.6% of educators providing family day care in areas that are ranked in the two highest deciles on the SEIFA index and over half of educators (51.4%) being located in areas ranked in the first five deciles of the SEIFA index.⁹ Furthermore, 24.3% of family day educators operate in regional and remote areas of Australia.¹⁰ In some of these areas, family day care is the only option available for child care.

1.3 RECOMMENDED INVESTMENT MEASURES

This submission reflects the views of the family day care sector which we represent and outlines the case for two key funding priorities that are not only pivotal in ensuring the long term viability of the family day care sector, but represent an appropriate and equitable allocation of funding for the sector through amendments to the calculation of the Child Care Subsidy (CCS) hourly fee cap.

These recommended investment measures are:

1. raise the hourly CCS cap rate for family day care so that it more accurately reflects the cost of providing family day care; and
2. apply an additional loading of 20% to the recalculated CCS fee cap for non-standard hours family day care to adequately reflect the cost of this type of care.

FDCA contends that if the above proposed investment measures are not introduced in the 2020-21 Federal Budget, the family day care sector will experience market failure to the significant detriment of the Australian children, families and communities that rely on family day care. As detailed in Section 2 the family day care sector has been under sustained and significant viability pressures. The investment measures proposed herein are key in maintaining the viability of a sector that is highly valued for its flexible, responsive and affordable ECEC, as well as contributing to key policy objectives of the Australian Government including to:

- continue to build quality and access to early years learning and development in environments that meet the needs of all Australia families;
- facilitate greater access to affordable and flexible ECEC options for families to meet their changing needs and enable and encourage their participation in the workforce; and
- increase ECEC service delivery in regional areas and areas of high socio-economic disadvantage.

These investment measures are discussed in detail in Sections 2 and 3.

⁶ www.wgea.gov.au/data/fact-sheets/gender-workplace-statistics-at-a-glance.

⁷ Ibid.

⁸ Ibid.

⁹ FDCA Family Day Care Sector Profile, September 2019

¹⁰ Ibid

¹¹ Alice Springs (Mparntwe) Education Declaration, December 2019

2. ISSUES

2.1 FACTORS AFFECTING THE LONG-TERM SUSTAINABILITY OF THE FAMILY DAY CARE SECTOR

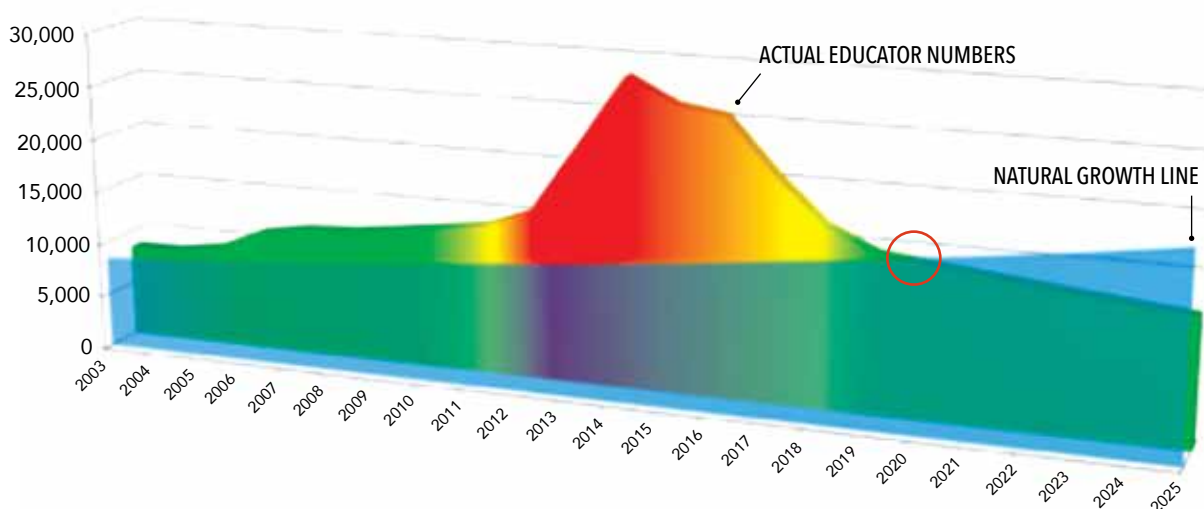
While the evidence is clear that the family day care sector is a flexible and responsive form of ECEC that is highly valued by almost 8.5% of Australian families who use approved child care, in recent years, a number of significant challenges have impacted on the future viability of the sector,¹² including:

- strong and sustained downward trend in educator and service numbers occurring since 2016; and
- an inappropriate hourly CCS fee cap rate for family day care.

SUSTAINED DECREASES IN EDUCATOR AND SERVICE NUMBERS

FDCA's quarterly Family Day Care Sector Profile¹³ reports show that over the past two years alone there has been a 33% decrease in the number of services and a 35% decrease in the number of educators. What is exceptionally alarming is that the actual numbers of educators in the family day care sector is now, as of early 2020, dipping below what should have been the "natural" projected growth line of educator numbers in the sector, according to internal modelling undertaken by FDCA, depicted in Figure 1 below. The drop in educator numbers below the natural growth line can be seen where the two separate lines intersect.

FIGURE 1: NUMBER OF FAMILY DAY CARE EDUCATORS: ACTUAL NUMBERS AND NATURAL GROWTH LINE, 2003 - 2025



While we acknowledge the impact of fraudulent and unscrupulous operators on the sector over the past few years, and have been an advocate for proportionate reform, the long-term viability of legitimate family day care services is now being jeopardised by the sustained decrease in the sector. While there are many likely reasons for this decrease, including the cumulative effect of an increased regulatory and compliance burden on sustainable growth and financial viability, if left unaddressed, it will almost certainly lead to a reduction in the availability of flexible and affordable ECEC for Australian families, especially during non-standard hours. The longer term viability of the sector can be partially achieved by the adoption of the recommended investment measures made herein.

¹² For a detailed discussion of these issues see FDCA's Sector Viability Brief at www.familydaycare.com.au/representing-you/sector-viability-strategy
¹³ Available online at familydaycare.com.au/representing-you/sector-profile

INAPPROPRIATE HOURLY CCS FEE CAP CALCULATION FOR FAMILY DAY CARE

A significant issue affecting the sustainability and viability of the family day care sector is the inappropriate hourly CCS fee cap. When the Government's Child Care Package was developed, the cap price for family day care was calculated differently than other service types.

The calculation that informs current cap rates was based on the projected mean fees at the time (2015) (post removal of top 5% of fees) and were increased by 5.75% for family day care and 17.5% for other service types. FDCA sought clarification of the rationale for this significant differentiation in treatment of family day care compared with centre-based care. In summary, the Australian Government Department of Education advised that this approach was taken due to the following assumptions:

- inappropriate practices in the family day care sector (at that time);
- family day care sessions of care being typically 10 to 12 hours long;
- lower overheads; and
- fees charged for non-standard hours were lower or similar to standard hours.¹⁴

FDCA accepted that the widespread unscrupulous activities in the family day care sector at that time would have impacted the data set the Government drew on, thereby contributing to an inaccurate picture of legitimate fee charging practices. However, due to the Australian Government's significant work over recent years in eradicating fraudulent behaviour in the sector, FDCA maintains that the primary assumptions underpinning the calculations leading to the current CCS fee cap rates for family day care are no longer applicable and therefore invalid. It is therefore imperative that, following the closure of over 400 family day care services, the above rationale and assumptions be reviewed.

A much cleaner data set is now available showing that the average hourly rate for family day care is higher than that of the centre-based day care sector: \$10.45 as opposed to \$10.30.¹⁵ FDCA contends that this represents a much more accurate picture of legitimate fee charging practices, and that the primary reasons for a comparatively higher mean fee in the family day care sector reflect that:

- overheads in family day care are on par with centre-based day care;
- family day care charges are significantly closer to actual usage; and
- family day care is the primary ECEC option delivering non-standard hours care.

OVERHEADS AND THE COST OF DELIVERING FAMILY DAY CARE

FDCA has always refuted that family day care has "lower overheads" than centre-based care. The overheads of both family day care services and family day care educators must be taken into account in any calculation of the CCS fee cap for family day care. Feedback from FDCA members shows that the costs associated with running a small business for family day care educators, as independent contractors, are significant and the CCS hourly fee cap should be amended to reflect this. As sole traders or independent contractors, educators have significant overheads including, but not limited to: equipment; property maintenance; mortgages or rent; insurances (home and contents, public liability, health, personal accident/income protection, car etc); bookkeeping and accounting expenses; leave entitlements; and superannuation. When combined with the overheads of the approved service itself, the costs of running a quality family day care service in its entirety are certainly comparable to those of running a centre-based service.

¹⁴ Letter to FDCA from the Department of Education and Training dated 9 December 2016.

¹⁵ Department of Education, Child Care in Australia report September quarter 2019

It is also important to note, as indicated in Table 3.4 of the Government's September 2019 Child Care In Summary Report (Table 1 below), that a significant percentage of family day care services are charging above the fee cap, which is occurring to cover family day care service and educator operational costs and provide for adequate remuneration for educators. Again, this may

be attributable in part to the CCS fee cap not accurately reflecting the cost of delivering family day care in a range of circumstances, including but not limited to non-standard hours care. This is negatively impacting the out-of-pocket cost of family day care for families and significantly undermining the sector's viability.

TABLE 1: NUMBER OF SERVICES UNDER AND ABOVE THE FEE CAP, SEPTEMBER QUARTER 2019

SERVICE TYPE	FEE CAP (\$)	UNDER OR AT THE FEE CAP	ABOVE FEE CAP	TOTAL	% SERVICES ABOVE THE CAP
Centre-based Day Care	11.98	7,024	1,032	8,056	12.8
Family Day Care	11.10	364	98	462	21.2
Outside School Hours Care	10.48	3,868	686	4,554	15.1

ADEQUATE REMUNERATION FOR FAMILY DAY CARE EDUCATORS

In December 2019, FDCA surveyed educator members in order to get a clear understanding of contemporary family day care educators' operating costs, business expenses, overheads, hours worked, fees charged and average net income received.¹⁶

Table 2 below presents a comparison of the hours worked and net incomes of centre-based care educators and family day care educators. The Children's Services Award 2010¹⁷ indicates that a Certificate III qualified employee at a centre-based care service, on a Level 3.3

award and after 2 years of service in the industry, which could be considered somewhat comparable to the base qualification requirement and role of a family day care educator, earns considerably more than family day care educators and work less hours, on average. This is in part due to the CCS fee cap for family day care not appropriately remunerating family day care educators while simultaneously negatively impacting on the out-of-pocket cost for families using family day care.

¹⁶ Based on 210 qualified responses.

¹⁷ Source: http://awardviewer.fwo.gov.au/award/show/MA000120#P350_34360

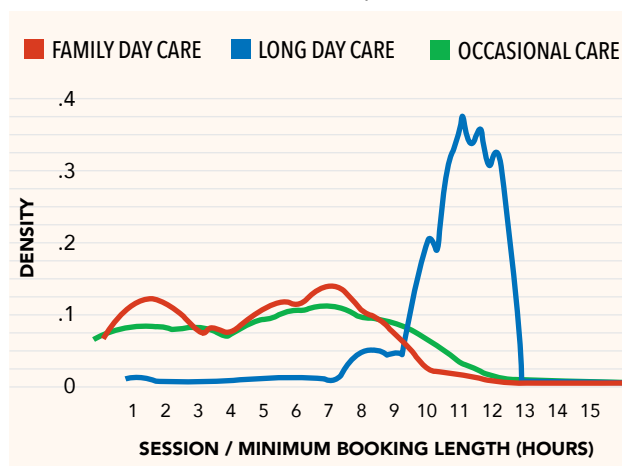
TABLE 2: COMPARISON OF HOURS WORKED AND NET INCOMES, CENTRE-BASED SERVICE EMPLOYEE AND FAMILY DAY CARE EDUCATOR

	CENTRE-BASED CARE EMPLOYEE	FAMILY DAY CARE EDUCATOR
Average hours worked (2018-19 Financial Year)	1,920 (40 hours per week)	2163.6 (45.1 hours per week)
Net income per annum	\$38,517.81	\$35,740.85
Net income per week	\$802.45	\$744.60
Net income per hour	\$20.06	\$16.51

SESSIONS OF CARE AND ACTUAL USAGE

The mean fee for family day care is higher than centre-based day care as, generally, booked sessions of care for family day care are shorter and a closer reflection of actual usage. The existing cap calculation was predicated upon the assumption that family day care services typically charged for sessions of care that were “10-12 hours long”. However, the cleaner data set now available shows a much clearer picture. Recent research undertaken by the Australian Institute of Family Studies (AIFS),¹⁸ as depicted in Figure 2 at right, indicates that unlike centre-based day care, family day care does not typically charge 10-12 hour sessions. In fact the vast majority charge for 8 hour sessions or less.

FIGURE 2: DISTRIBUTION OF SESSION LENGTHS OR MINIMUM BOOKING LENGTHS, BY SERVICE TYPE



Source: Australian Institute of Family Studies (AIFS) *Child Care Package Evaluation: Early monitoring report* (2019; 49)

Furthermore family day care services are charging significantly closer to actual usage hours than centre-based care, as indicated by Table 6.2 of the June 2019 Child Care in Australia report, revealing that 22.7% of charged hours were not attended in family day care, as opposed to centre-based care where 36% of charged hours not are attended (see Table 3 below).

18 Baxter, J., Budinski, M., Carroll, M., Hand, K., Rogers, C., Smart, J., Bray, J.R., Gray, M., Blaxland, M., Katz, I., & Skattebol J. (2019) *Child Care Package Evaluation: Early monitoring report*. (Research Report). Melbourne: Australian Institute of Family Studies. Child Care Package Evaluation: Early monitoring report (2019),

The standard '12 hour session' charging practice within centre-based care essentially dilutes the hourly rate by spreading the 'total cost' across a full day. By contrast, in family day care, where charging practices more closely reflect actual usage, although the average hourly rate may be slightly higher, the total cost (and government investment) is markedly lower.

TABLE 3: AVERAGE WEEKLY HOURS (PER CHILD) - CHARGED HOURS AND ATTENDED HOURS BY SERVICE TYPE, JUNE QUARTER 2019

SERVICE TYPE	CHARGED HOURS	ATTENDANCE HOURS	% OF CHARGED HOURS NOT ATTENDED
Centre-based Day Care	29.7	19.0	36%
Family Day Care	24.2	18.7	22.7%
Outside School Hours Care	11.1	6.2	44.1%

DELIVERY OF NON-STANDARD HOURS CARE

As stated above in Section 1.2, family day care is the primary regulated and Commonwealth approved ECEC option of care during non-standard hours, including evenings, weekends and overnight.

This type of care is increasingly important for Australian working families and their communities. FDCA members who offer non-standard hours care tell us their service is highly valued in their communities and meets the needs of a range of families, in particular shift workers from a range of industries e.g. aged care staff, disability support workers, nurses, paramedics, police officers. FDCA also services other important cohorts that require non-standard family day care, including single parents and grandparents, business owners needing to work weekends, families where both parents work in an owner operated business together, and importantly children transitioning from the care of emergency or state child protection services. The continued availability of regulated, high quality non-standard hours ECEC is exceptionally important for these groups.

The current CCS fee cap for family day care is not adequately recognising the actual cost of delivering family day care in non-standard hours care, and as such, is not allowing for family day care educators to be appropriately remunerated for the important work they do and/or disincentivises the provision of this care type. The impact of delivering this form of care on a family day care educator and their family is significant and this is not currently recognised by the child care family assistance payments framework. Importantly, this lack of recognition is also increasing out-of-pocket costs for families who need this type of care.

See the case study below for an example of the cost of non-standard hours family day care in a socio-economically disadvantaged area.



NON-STANDARD HOURS FAMILY DAY CARE CASE STUDY

Educator, Burnie, TAS

"L" is a passionate family day care educator who has been working in the sector since 2004. She holds Diploma and Certificate III qualifications in Early Childhood Education and Care and is registered with a service to provide care 24/7.

Care provided:

In response to the needs of her families, and following successful registration through her service, L has provided care during standard and non-standard hours, including weekends, evenings and overnight almost as soon as she began in the sector. When L provides overnight care she only accepts a maximum of 3 children.

Flexibility and high quality of care are important features of her business and as a result she has never been other than fully booked in that whole time. The deep connections and strong bonds that L develops with the children she has cared for over the years, and with their families, is evident in that these connections have endured well beyond the child care years in many instances.

Types of families supported:

In Burnie, there is a strong need for flexible hours' care in the area to support people who work in a wide range of occupations and professions, especially single parents who have no family close by. Shift workers often work a rotating roster; some may only work night shift and others are on call. Her clients mostly work as:

- Nurses and support staff at the local hospital
- emergency professionals such as paramedics and on call hospital staff
- factory workers
- miners

Child protection authorities have also used L's services when there is an urgent need to place a child in care due to families experiencing a crisis.

Fees charged:

- standard hours Mon-Fri (8 am – 6 pm): \$10 ph
- extended hours Mon – Fri (6 am – 8 pm) : \$13 ph outside standard hours
- overnight care Mon – Fri (8 pm – 6 am): \$ 17 ph
- weekend and public holiday care (daytime) : \$18 ph
- weekend / public holiday overnight: \$19.50 ph

Meals are charged separately. School pickup and drop-off also provided free of charge if child stays overnight. L sometimes picks up from centre-based day care centre if child staying overnight.

L would welcome an increase in the Government cap for non-standard hours care as it would lessen out of pocket expenses for parents.

3. RECOMMENDED INVESTMENT MEASURES

FDCA recommends two key investment measures to address the issues raised above to support the continued viability of a sector that is highly valued for its flexible, responsive and affordable ECEC:

- raise the hourly CCS cap rate for family day care to be on par with that of the centre-based care sector; and
- apply an additional loading of 20% to the recalculated CCS fee cap for non-standard hours care.

3.1 RAISE THE HOURLY CCS CAP RATE FOR FAMILY DAY CARE

Given the facts stated above, FDCA is urging the Australian Government to invest in supporting the future viability of the family day care sector through the application of an appropriate formula for the calculation of the CCS hourly fee cap for family day care, that is, that which is applied to the centre-based day care fee cap calculation (i.e. applying a 17.5% loading to the projected mean) which would more adequately reflect the actual cost of standard hours family day care service provision. If this was applied to family day care, based on the September 2019 average fee, the fee cap for family day care would sit around \$12.28,¹⁹ which is higher than the current CCS fee cap for centre-based day care and outside school hours care.

While it is evident that the current average hourly fee for family day care is greater than that of centre-based care, FDCA would support parity in the CCS hourly fee cap between the service types as this would be beneficial to the Australian consumer, would better reflect the actual cost of providing family day care and would not prejudice any of the approved ECEC service types that provide ECEC under the National Law.

3.2 ADDITIONAL LOADING FOR NON-STANDARD HOURS FAMILY DAY CARE

The current CCS cap is not only inappropriate for standard hours family day care, as outlined above, it is vastly inadequate in the case of non-standard hours care which, in many cases, costs more than care that is delivered in standard hours.

FDCA therefore urges the Australian Government to also invest in the provision of non-standard hours care provided by the family day care sector by applying an additional loading of 20% to the recalculated CCS fee cap for non-standard hours family day care. This measure will more appropriately reflect the actual cost of delivering this type of care, thereby ensuring that educators who provide this type of care are adequately remunerated and the future viability of this type of care is safeguarded. Family day care is a natural option of choice for families seeking ECEC in non-standard hours, given the small numbers in a family day care setting as well as the strong connections and personalised ECEC experience that it affords children.

Consultations with our members in late 2017 indicate that fees charged for non-standard hours are significantly higher than those for standard hours, with the average hourly fee for non-standard hours family day care being \$13.90 at that time, resulting in greater out-of-pocket expenses for many families.

It should be a priority for governments to incentivise and adequately remunerate this type of family day care service delivery given it is the primary regulated and Commonwealth approved ECEC option that can cater for non-standard hours and there is an increasing need for families to access this type of care due to the changing nature of the Australian workforce and communities.²⁰ This would see the base-level CCS fee cap for family day care increase to \$11.98, which is on par with centre-based care.

¹⁹ Subject to the removal of outliers.

²⁰ Productivity Commission (2014: 198) Childcare and Early Childhood Learning, Inquiry Report No. 73, Canberra.

4. CONCLUSION

As indicated herein, it is imperative that the Australian Government to increase in the CCS fee cap for family day care. The net effect of the current CCS family day care fee cap calculation error for family day care is a disproportionate level of out-of-pocket expenses for families in family day care, promotes inadequate remuneration for educators and is a significant detriment to the sector's viability, undermining this vital ECEC option for more than 100,000 Australian children.

As such, FDCA maintains that the CCS fee cap for family day care should be raised so that it is on par with that of centre-based care at \$11.98 i.e. provided with a 17.5% loading to the projected mean rather than the application of the inadequate 5.75% loading the sector is currently afforded. FDCA internal modelling projects that implementation of the proposal would equate to merely a 0.02% increase of total CCS expenditure, which is a negligible amount of funding as a proportion of total expenditure; however, the positive impact on 13,000 family day care educators and almost 79,000 families utilising family day care would be significant.

Additionally, FDCA contends that if the Australian Government is to adequately support working families requiring non-standard hours ECEC, a loading of 20% should be applied to the reformed CCS fee cap for family day care in non-standard hours.

FDCA strongly urges the Australian Government to implement these investment measures as they represent not only an investment in the viability of the family day care sector by adequately supporting the operational cost of family day care service delivery, and correct numerous defunct rationales for the current CCS fee cap calculation methodology, but importantly they will also reduce the out-of-pocket expenses for families and incentivise increased delivery of much-needed non-standard hour care from the family day care sector.

**FOR MORE INFORMATION ABOUT THIS
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