

Early Childhood Education and Care Funding Transition Recommendations

Family Day Care Australia

May 2020



1. Overview

The purpose of this submission is to make recommendations regarding the measures that should be considered and implemented for the family day care sector in relation to the transition back to the Child Care Subsidy System (CCSS).

Herein FDCA is making recommendations on behalf of the family day care sector to return to the Child Care Subsidy (CCS) on 29 June 2020¹.

We know there is significant uncertainty surrounding the economic landscape over the coming months and, therefore, herein we also propose a number of adjustments to the CCS settings to ensure that the system is responsive, adequate and equitable in order to support affordable, accessible and quality early childhood education and care (ECEC) for all Australian families.

2. What is family day care sector saying?

Through ongoing consultation with the FDCA membership, FDCA's COVID-19 Advisory Committee, direct engagement and a dedicated online survey, it is clear that an overwhelming majority of family day care educators and services favour a transition back to the CCSS as scheduled on 29 June 2020 (see Table 1 below).

On Wednesday 20 May 2020, FDCA released a survey seeking the views of educator and service members in relation to when and how the sector should transition out of the temporary ECEC Relief Package funding arrangements, which was closed on Friday 22 May 2020.

Of the 1,988 educator respondents, which represents 15.9% of total FDCA educator members, 1,637 (82%) indicated that they were in favour of a return to the CCS system on 29 June 2020, albeit with amendments.

Of the 232 service respondents, which represents 46.5% of total FDCA service members, 197 (85%) indicated that they were in favour of a return to the CCS system on 29 June 2020, again, with amendments.

Respondent type	Total respondents	Number in favour of transition back to the CCSS on 29 June 2020 (with amendments)	Percentage of total
Services	232	197	85%
Educators	1,988	1,637	82%
TOTAL	2,225	1,834	83%

Table 1: Number of members in favour of transition back to the CCSS on 29 June 2020 (with amendments)

¹ Given the current uncertainty around whether this will be the actual transition date at this time, a supplementary recommendation is also made should the current ECEC Relief Package be retained for a further 3 months. Please see Appendix C for detail.

3. Why does the sector want to return to the CCSS on 29 June 2020?

The ECEC Relief Package is not adequately tailored to the family day care model for a number of reasons:

- The Department of Education, Skills and Employment (DESE) stated, at the public hearing for the Senate Select Committee on COVID-19 dated 19 May 2020, that the rationale for the original calculation of the ECEC Relief Package base relief payment was calibrated at 85% revenue (50% base relief payment and JobKeeper combined) to support 60% attendance of the reference fortnight. However;
- Family day care has not experienced significant downturn in attendance (see Appendix A), and in some cases has actually seen an upturn. As such, the base relief payment is inadequate in supporting the ongoing delivery of high levels of attendance.
- The ECEC Relief Package was designed as a viability safety net and is not adequately responsive to support increasing and/or variable demand as social restrictions are adjusted across the country.
- Although the Exceptional Circumstances Supplementary Payment program was designed as the mechanism by which variance in demand are accounted for, and to moderate the bluntness of the base relief payment instrument, the program and its administration have failed family day care (see Appendix B).
- The ECEC Relief Package does not fund the crucial function of the family day care service (that is to support and monitor educators). This has resulted in a scenario that is not seeing educators being adequately remunerated as services must withhold a proportion of the base relief payment in order to fund their own operations.
- There is an important distinction to make between the family day care and centre-based care models in relation to the functioning of variable costs. Unlike centre-based care, the family day care service's staffing ratio obligations under the Education and Care Services National Regulations are linked to the number of educators, not the number of children. Given the sector is not seeing a wholesale reduction in educators, and the service's staffing ratio is linked to the number of educators, as outlined above, regardless of attendances at the educator level, there is no change to the service's staffing requirements and therefore no change to its variable costs.
- The relative simplicity of how the system works for centre-based care services is at odds with the complexities of how it is applied to family day care. In relation to base relief payment disbursements to educators, services are grappling with the challenges involved in the equitable administration of this process, due to the complexity of varying educator fees, hours, current levels of activity and accommodating the service fee are overwhelming services.
- Furthermore, in a period of unprecedented social disruption and unemployment, there are new educators seeking to enter the sector to establish a new career; however, the current funding framework does not allow for this, as the fixed baseline funding does not allow for remuneration of this cohort.
- The sector must be suitably supported to remain viable in the short term and to "scale up" operations as social distancing measures begin to ease and we transition through and out of the COVID-19 pandemic. As parents return to work and children return to school, family day care will continue to play a crucial role in the nation's social and economic recovery; yet, for this to occur, we must ensure that the fundamental viability of the sector is not eroded in the interim.

- The failings of the system have generated immense financial and emotional distress for a majority of family day care educators and services.
- Family day care educators are, for the most part, small business operators; however, in an already challenging environment, the ECEC Relief Package has crippled their capacity to autonomously manage their business affairs.
- The ECEC Relief Package has placed immense pressure on the educator/service relationship, which is a key underpinning of high quality service delivery.

4. What changes are required for the 29 June 2020 transition?

Despite an overwhelming desire from the family day care sector to transition back to the CCSS at 29 June 2020, it is widely acknowledged that significant social and economic uncertainty remains and as such, the ECEC landscape may be highly unpredictable.

In order to ensure that the funding framework is agile, adequate and equitable upon transition, it is also widely acknowledged by the family day care sector, and ECEC stakeholders more broadly, that a number of adjustments to the CCSS must occur.

The recommendations outlined below have been tested with the FDCA membership and are widely supported.

4.1 CCS-specific recommendations (sector-wide)

- Adjust the CCS Activity Test for 12 months from 29 June 2020 to provide for a minimum 36 hours a fortnight of subsidised ECEC;
- retain the 60 allowable absences for 12 months from 29 June 2020;
- retain the capacity to waive gap fees on absences for 12 months from 29 June 2020;
- raise the CCS rate by 10% for each income threshold for 12 months from 29 June 2020; and
- make provision for a baseline of fully funded ECEC for Australia's most vulnerable children.

4.2 CCS-specific recommendations (family day care specific)

- permanently raise the CCS fee cap for family day care in line with centre-based care;
- permanently provide a 20% loading to the CCS fee cap for non-standard hours family day care.

4.3 Complementary funding

A complementary, scaled, and attendance-based "top up" funding mechanism, that provides for baseline viability, working in parallel with the CCS, should be developed and implemented.

5. The Child Care Subsidy transitional model from 29 June 2020

5.1 CCS-specific recommendations (sector-wide)

5.1.1 Adjust the CCS Activity Test

Upon return to CCS, within the context of significant unemployment and financial uncertainty, the CCS Activity Test as it currently stands will be excessively prohibitive in supporting the ECEC needs of children and families.

FDCA proposes an adjustment to the activity test for 12 months from 29 June 2020 to allow for a minimum 36 hours a fortnight of subsidised ECEC. To access more than 36 hours of subsidised ECEC, the existing provisions would apply.

Hours of activity per fortnight	Hours of subsidy per fortnight
For families earning up to \$68,163	
< 8 hours	24 hours
For families earning up to \$352,453	
> 8 hours ≤ 16 hours	36 hours
> 16 hours ≤ 48 hours	72 hours
> 48 hours	100 hours

Table 2: Current Activity Test

5.1.2 Retain the 60 allowable absences for 12 months from 29 June 2020

It was identified prior to the announcement of the ECEC Relief Package that the previous limit of 42 allowable absences was, in the context the COVID-19 pandemic, inadequate and a barrier to ongoing engagement between services and families. As such, given the ongoing uncertainty regarding the potentially non-linear trajectory of the pandemic, the measure should be temporarily retained.

5.1.3 Retain the capacity to waive gap fees on absences for 12 months from 29 June 2020

Further to recommendation 5.1.2, it was also identified prior to the announcement of the ECEC Relief Package that the requirement to charge gap fees on absences was, in the context the COVID-19 pandemic, a significant financial barrier to ongoing engagement between services and families. As such, given the ongoing uncertainty regarding the potentially non-linear trajectory of the pandemic, the measure should be temporarily retained.

5.1.4 Raise the CCS rate by 10% for each income threshold

Upon return to CCS, within the context of significant unemployment and financial uncertainty, the CCS rates, as they currently stand, will be excessively prohibitive in supporting the ECEC needs of children and families.

FDCA proposes raising the CCS rate by 10% for each income threshold for 12 months from 29 June 2020. In conjunction with the proposed adjustment to the Activity Test, the most vulnerable and families will be eligible for 36 hours of almost fully subsidised ECEC. It also provides additional transition funding support for all families in an exceptionally financially uncertain time.

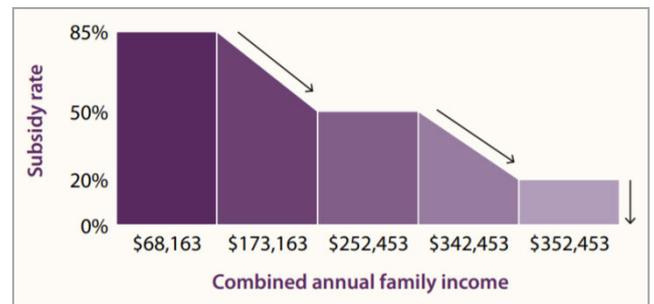


Figure 1: Current CCS rates

5.1.5 Make provision for a baseline of fully subsidised ECEC for Australia's most vulnerable children

Despite the inadequacies of the ECEC Relief Package to support a more normalised ECEC landscape, the "free child care" principle has significant ongoing merit in that it may facilitate increased engagement between vulnerable children and families and the ECEC sector. Given the extensive evidence of the increased long term benefit of engagement with high quality ECEC for vulnerable and disadvantaged children, the importance of this recommendation cannot be understated.

There may be a number of mechanisms by which this could be achieved, including streamlining the Additional Child Care Subsidy (ACCS) approvals process and/or the allocation of a standardised baseline of fully subsidised ECEC for eligible children.

5.2 CCS-specific recommendations (family day care specific)

5.2.1 Permanently raise the CCS fee cap for family day care in line with centre-based care

A significant ongoing issue affecting the sustainability and viability of the family day care sector is the inappropriate hourly CCS fee cap. When the Australian 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.

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. 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.

Please see [FDCA's Pre-Budget Submission](#) for more detail on the rationale for increasing the CCS fee cap for family day care.

5.2.2 Permanently provide a 20% loading to the CCS fee cap for non-standard hours family day care

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.

Please see [FDCA's Pre-Budget Submission](#) for more detail on the rationale for increasing the CCS fee cap for non-standard hours family day care.

5.3 Complementary funding

A scaled, attendance-based top up funding model represents a viability support mechanism to enable service to be supported to re-establish a viable service delivery model post transition back to the CCSS. It will work in conjunction with the other proposed amendments to the Family Assistance Law framework to support to make quality early childhood education and care affordable and accessible for families. See Table 3 below for the proposed modelling.

The rationale for this modelling is that demand is uncertain upon transition out of the ECEC Relief Package and the path of the COVID-pandemic is highly uncertain. Underpinning service viability up to a maximum of 86% of pre-COVID 19 revenue provides a service with a safety net while also providing the funding mechanism for services and educators to grow their business.

The top up funding allocation would be based on a percentage of total fees from an appropriate pre COVID-19 reference period, reassessed at regular intervals utilising the data that is available from the CCSS, currently not possible under the ECEC Relief Package.

The rationale for capping the top up fund at 86% is that in the context of unprecedented uncertainty, it represents an appropriate baseline of viability support in an uncertain, but commercial free market.

Attendance as a percentage of the reference period	Top up funding allocation - percentage of reference fortnight total revenue
86% >	0%
81-85%	5%
76-80%	10%
71-75%	15%
66-70%	20%
< 65%	25%

Table 3: Scaled, attendance-based top up fund model

APPENDIX A - Attendance data

Data presented in the ECEC Relief Package Four Week Review Summary Report (18 May 2020) supports feedback from the family day care sector that attendance in family day care remains at significantly higher levels than the centre-based care sector, as presented in Table 4 below:

Attendance	Family day care	Centre-based care
Decrease over 50%	21%	31%
Decrease of 20%+	53%	80%
About the same	24%	No data provided
Experiencing growth	9%	No data provided

Table 4: Attendance data by service type

APPENDIX B - Exceptional Circumstances Supplementary Payment program

On 18 May 2020, [FDCA made a submission to the Senate Select Committee on COVID-19](#), presenting FDCA survey data and specific case studies which detailed the apparent failings of the Exceptional Circumstances Supplementary Payment program for family day care.

Additionally, FDCA's submission requested specific data regarding Exceptional Circumstances Supplementary Payment program approval rates by service type and size, response time, adequacy of feedback and the decision making framework in the interest of transparency and accountability from the Australian Government in relation to the administration of the Exceptional Circumstances Supplementary Payment program.

The DESE response to FDCA's request for this data, provided through the document² tabled by Dr Michelle Bruniges AM on 19 May 2020, is evidence of the extent to which family day care is underrepresented among the cohort of successful applicants. The data is as follows:

- Of the 909 applications submitted by centre-based day care 36% have been approved.
- Of the 439 applications submitted by outside school hours care 75% have been approved.
- Of the 168 applications submitted by family day care only 5% have been approved.

² Document detailing data on education and training, childcare, and JobKeeper, tabled by Dr Michele Bruniges AM, Secretary of the Department of Education, Skills and Employment, at a public hearing in Canberra on 19 May 2020.

APPENDIX C - ECEC Relief Package Adjustment Model

It is apparent the Supplementary Payment mechanism under the ECEC Relief Package is not adequately supporting the sector in providing current and/or future levels of care.

It is undeniable that the position of the vast majority of FDCA members are seeking a return to CCSS on 29 June 2020. If, in the interest of other ECEC care types, a decision is made not to transition back on this date, a wholesale redesign of the ECEC Relief Package for family day care is essential.

Table 5 below proposes an "auto-approved" loading scale to the ECEC Relief Package base relief payment relative to levels of attendance, thereby circumventing a fundamentally inadequate approvals process.

Attendance at 29 June 2020 as a percentage of the reference period	Total funding received (base relief payment & JobKeeper combined)	Actual base relief payment percentage of the reference fortnight
60 - 69%	80%	50% (+JobKeeper)
70 - 79%	90%	60% (+JobKeeper)
80 - 89%	100%	70% (+JobKeeper)
90 - 99%	110%	80% (+JobKeeper)
100%>	120%	90% (+JobKeeper)

Table 5: Scaled, attendance-based ECEC Relief Package (base relief payment) adjustment model

The modelling is based on the current combination of base relief payments and JobKeeper (or equivalent) and on the premise that the combination of these two components was designed to provide approximately 80% of pre-COVID 19 funding at approximately 60% attendance. It thereby stands to reason that levels of funding should be proportionate to levels of attendance and make allowance for the scaling-up of service provision to support more families in an evolving landscape.

APPENDIX D

About Family Day Care Australia

FDCA is the national peak body for family day care. Our role is to promote, support and advocate for family day care services and educators. Our aim is to ensure the strength and continued growth of the sector in Australia and to support high quality learning and developmental outcomes for children. FDCA represents a national membership of around 13,156 educators and over 454 approved family day care services.

For more information, go to www.familydaycare.com.au

About family day care

The family day care sector is an essential part of the early childhood education and care (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](#) ("the National Law") and the [Education and Care Services National Regulations](#) ("the National Regulations"), the sector 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 June 2019 version of the *Child Care in Australia* quarterly report published by the Commonwealth Department of Education, of the 1,292,420 children who attended approved child care services, 8.9% (115,190) attend family day care. The family day care sector supports more than 79,550 families across Australia.

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

- 84.7% of family day care services offer shorter sessions (up to 6 hours) compared to only 17.2% of long day care services.⁴
- 94% of family day care services also offer longer sessions (7-12 hours)⁵.
- 65.3% 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.⁶

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.⁷

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

- 88.2% 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.⁸

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.

⁶ Ibid.

⁷ www.wgea.gov.au/data/fact-sheets/gender-workplace-statistics-at-a-glance

⁸ 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

- Significantly, 85.5% of family day care services offer care on weekends, compared with a mere 0.5% of long day care services.
- Additionally, 47.5% of family day care services offer overnight care, as compared with 0% of long day care services.⁹

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 men and women, FIFO workers, cleaning contractors and factory workers.

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.¹⁰ Furthermore, 24.3% of family day educators operate in regional and remote areas of Australia.¹¹ In some of these areas, family day care is the only available child care option.

⁹ Ibid.

¹⁰ FDCA Family Day Care Sector Profile, September 2019

¹¹ Ibid.