

# Financing the future: An equitable and sustainable approach to early childhood education and care <sup>[1]</sup>

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## AVAILABILITY

Full report in PDF <sup>[2]</sup>

Attachment	Size
 <a href="#">Financing the future- An equitable and sustainable approach to early childhood education and care-Aus.pdf</a> <sup>[3]</sup>	1.49 MB

Excerpts from executive summary:

### Strengths of the current system

Australia's ECEC system has several strengths. The National Quality Framework (NQF) is replacing the disparate licensing systems previously run by State and Territory government. Over time, it will introduce more stringent requirements regarding educator qualifications, child-staff ratios and other markers of structural quality. As well as bringing the regulatory base of Australia's ECEC system into closer alignment with research evidence, the NQF helps to boost the professional standing of ECEC teachers and educators. Adequate funding is essential if appropriate professional wages and working conditions are to be paid. Government has a key role to play here since most parents do not have the capacity to meet such costs, any more than they could fund school education from their own resources.

Another strength of the Australian system is that Child Care Benefit (CCB) supports children whose parents are outside the workforce as well as those who are employed or actively preparing for employment through education or training. Almost 98% of families using approved care receive either CCB or Child Care Rebate (CCR) or both. In some comparable countries the number of fee subsidies a service can offer is capped and/or subsidies are provided only for work-related ECEC. Recognising the child development and early education goals of ECEC in addition to promoting workforce participation is a major strength of the Australian approach.

### Weaknesses and the need for reform

Despite these positive features, there is a clear need to reform aspects of Australian ECEC provision and financing. Commonwealth ECEC subsidies could be structured to achieve more equitable outcomes and value for money and to be focused on the essential costs of delivering ECEC rather than discretionary elements. The current combination of a capped, means-tested subsidy (Child Care Benefit) with a non-means-tested rebate (Child Care Rebate) covering 50 per cent of out-of-pocket expenses up to \$15,000 of expenses per child is not only confusing for parents, its distributional impacts push and pull in different directions. CCB delivers maximum assistance to lower income families while CCR, being tied to actual fees paid, delivers the greatest benefits to families who pay the most for child care - families at the higher end of the income scale.

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### Directions for reform

In the short term, our preferred financing option is a single income-tested Early Learning Subsidy (ELS) to replace both Child Care Benefit (CCB) and Child Care Rebate (CCR). Since the ELS would replace both existing subsidy mechanisms, its value would need to be higher than current hourly rate of maximum CCB. Rather than being an arbitrary figure, as CCB appears to be, the maximum hourly rate for ELS should be designed to reflect reasonable costs of delivering a high quality service.

Using an hourly subsidy rate would not require providers to charge by the hour or families to book in by the hour. An hourly rate is currently used to calculate CCB but typical booking patterns are by the half-day or full day. We envisage that this would continue.

The base rate of ELS (i.e. the minimum to be received by families that meet the work/ study/ training test) should be between 35% and 50% of reasonable costs. Detailed work is needed to assess reasonable costs and to determine the appropriate base rate of ELS. We have used the maximum rate of \$10 per hour as a proxy for 'reasonable' costs. However, this is an estimate only and the actual figure would need to be determined by research and consultation. With Australian government investment in ECEC projected to exceed \$22 billion in the period 2013-14 to 2016-17, some notion of reasonable costs is imperative.

The ELS would improve the simplicity and transparency of funding for parents and providers alike. It would end the anomaly where parents

who rely predominantly on CCB are constrained by an hourly cap (the current maximum rate of CCB is \$3.99 per hour) while higher income families dependent on CCR face an annual cap and the majority of parents who rely on both CCB and CCR face a confusing mix of both annual and hourly caps. The ELS would focus public subsidies on essential costs such as salaries to meet the NQF staffing requirements and legitimate variable costs including rent, administrative costs, and fair surplus or profit. In contrast to the current system, it would not have the potential to subsidise luxury or premium service components or excessive profits.

Government should engage in consultation with the sector to determine the reasonable costs of care taking account of the staffing costs involved in meeting the NQF standard and other essential costs of delivering a quality service. Any assessment of reasonable costs would need to ensure that services are not penalised for employing staff with higher than required qualifications and/or paying above the award. As well, there would need to be provision for recognising that some essential costs, such as rent, vary legitimately depending on service size and location, amongst other factors. The proposed system would be fairer and more transparent than the current system in which a single rate of CCB applies to every service regardless of actual costs while CCR is driven by fees with no accountability as to what is being covered by those fees.

In the medium term, we propose a universal, high-quality, low-fee ECEC system that would enable working parents to move seamlessly from paid parental leave to a subsidised ECEC place, and later an OSHC place, if they so choose. In the interests of optimising early childhood development and education, a universal system would provide access for children whose parents are not workforce participants, though for a limited number of hours.

**Region:** Australia and New Zealand <sup>[4]</sup>

**Tags:** funding <sup>[5]</sup>

subsidies <sup>[6]</sup>

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