Evaluation of the 2018 changes to the Australian child care system

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The two evaluation reports are:

Bray, J. Rob, Jennifer Baxter, Kelly Hand, Matthew Gray, Megan Carroll, Richard Webster, Ben Phillips, Mikayla Budinski, Diana Warren, Ilan Katz and Anna Jones. 2021. *Child Care Package Evaluation: Final report, August 2021*. Melbourne: Australian Institute of Family Studies.

Bray, J. Rob, Megan Carroll, Jennifer Baxter, Mikayla Budinski, Matthew Gray. 2021. *Evaluation of the Inclusion Support Program, November 2021*. Melbourne: Australian Institute of Family Studies.

Abstract

In 2018 the Australian Government introduced a new funding model for the support of child care provision in Australia. These changes were promoted as being ‘once in a generation’ reforms. Key objectives were to improve affordability and increase workforce participation. A consortium of researchers was commissioned by the government to undertake an evaluation of these changes.

The evaluation found that the measures introduced had improved affordability for just over 60 per cent of families. In line with the policy intent, low and middle income earners were more likely to be beneficiaries, while higher income families tended to incur higher costs. The evaluation found however that these impacts were generally modest and there was no evidence that the policy had addressed the historical trends of an increasing real cost of care. While reducing the potential costs of additional employment for families needing care, these remain high. The policy had diverse labour market impacts, with evidence of some increase in participation, but the magnitude of this was not inconsistent with longer-term trends. There was little if any impact on access or on the flexibility of care options, although there was evidence of services varying session lengths to maximise the subsidy parents could receive.

The evaluation concluded that in addition to these modest impacts with regard to these policy objectives, the package did not address the wider set of key policy questions about the role of early childhood education and care.

1 Background to the evaluation and Package

The Australian Government provides substantial subsidies that reduce the cost of child care for families and in association with the States and Territories regulates the quality of child care and other aspects of the operation of child care services. In 2018 the Australian Government made significant changes to the funding of the child care system. A large-scale comprehensive evaluation of these changes was commissioned by the then Department of Education, Skills and Employment and was undertaken by a consortium of researchers from the Australian Institute of Family Studies, the ANU Centre for Social Research and Methods and the Social Policy Research Centre at UNSW.

The Child Care Package Evaluation Report[1] and the complementary evaluation report[2] on the Inclusion Support Program (ISP) element of the Package were respectively released by the government in March and October 2022. This paper provides a summary of the key findings of both reports. Due to the impact of COVID-19 the evaluation considered the operation of the Package up until the end of 2019 only, although the ISP specific evaluation extended to the end of 2020.

The 'Child Care Package', introduced as the 'Jobs for Families Child Care Package', was initially proposed in 2015[3,4] and followed the 2014 Productivity Commission Inquiry into Childcare and Early Childhood Learning. The original proposal was for the new measures to commence in July 2017, with offsetting savings from changes in Family Tax Benefits (FTB) and enhanced compliance measures. The government was however unable to pass all the changes to FTB and implementation of the major elements of the Package was delayed until July 2018[5].

The proposal was described by the then Prime Minister as "the most significant reform to the early education and care system in 40 years" (Turnbull 2017[6]), and by Minister Porter as being "once in a generation reform to child care" (Porter 2017[7]). A key goal was to "support more families, including jobless families, to increase their participation in work, training, study or volunteering" (Porter 2016)[8].

The key elements of the Package were a new Child Care Subsidy (CCS) to replace the former support to parents provided through the income tested Child Care Benefit (CCB) and the Child Care Rebate (CCR), and a set of 'safety-net' measures to support the provision of child care to disadvantaged and vulnerable children and communities.

The Child Care Subsidy is paid directly to services as an offset to the fees paid by parents.[9] The rate of the subsidy is determined by: the 'hourly fee'[10] charged by the service up to a limit (the 'hourly rate cap'); and a 'rate of subsidy' which varies between 85 per cent for low income families[11] to 20 per cent for those on higher incomes up to a cut-off point[12] beyond which no subsidy is paid. The number of hours of care for which a subsidy can be claimed, 'approved hours', is determined by a parental activity test based on hours of employment and other approved activities.

The safety net comprises three programs. The first is the Additional Child Care Subsidy (ACCS) which provides for longer 'approved hours', and an additional hourly subsidy for families in particular circumstances. The second is the Inclusion Support Program (ISP) which supports the provision of inclusive child care in mainstream services for children with additional needs; and the third is the Community Child Care Fund which provides capital and sustainability support to services, in particular those in disadvantaged locations and where there is unmet demand.

Since the introduction of the Package and the completion of the evaluation a number of major changes have been made in the provision of child care support, most significantly in December 2022 with the passing of the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022. [13],[14]. The government has also recently announced a number of reviews of the child care sector and more broadly of early childhood education and care.[15]

2 Child Care Provision in Australia

In the fourth quarter of 2019 1,327,238 children from 933,648 families attended 13,118 child care services in Australia. Across the whole of the 2019 calendar year 1,579,459 individual children were recorded as using a child care service at some point.

- Centre Based Day Care is the largest sector, which in the fourth quarter of 2019 accounted for 61.8 per cent of child care services, 67.2 per cent of children attending care, and 79.5 per cent of the hours of care. The majority (71.4 per cent) of the care in this sector is provided by for-profit providers.
- Outside School Hours Care is the second largest sector. It accounted for 34.4 per cent of services, 25.7 per cent of children attending care, and 11.2 per cent of the hours of care. 47.4 per cent of the care in this sector is provided by for-profit providers.
- The Family Day Care sector, as discussed later, has declined significantly. In the fourth quarter of 2019 it accounted for 3.5 per cent of services, 6.9 per cent of children attending care[16], and 9.1 per cent of the hours of care. 62.8 per cent of the care in this sector is provided by for-profit providers.
- In Home Care Services, which provides support for children for whom other care is not suitable or accessible, accounted for 0.3 per cent of services, 0.1 per cent of children attending care, and 0.2 per cent of the hours of care. 35.7 per cent of the care in this sector is now provided by for-profit providers.

Children usually attend child care for 2 or 3 days a week (28.4 per cent and 25.6 per cent respectively of children attending child care)[17]. Children aged 5 years and under, on average, attend care for 7.1 hours on those days they attend, with the average charged session length being 10.2 hours[18]. For those aged over 5 years the average time attended is 2.7 hours with a session length of 4.3 hours. Across all services (excluding In Home Care where charges are family based) the average cost of care was $9.78 per session hour.

It is estimated that in 2019 8.0 per cent of children aged under 1 year attended child care, with this proportion increasing to 40.4 per cent for those aged 1 year, 55.7 per cent for 2 year olds, 62.2 per cent for three year olds, 59.6 for 4 year olds and 44.6 per cent for 5 year olds, before falling for older ages to reach 5.1 per cent by age 12. The decline between the ages of 3 and 5 years reflects the role of the complementary pre-school sector where, in addition to the provision of some pre-school education through Centre Based Day Care, there are also free-standing pre-school services.

3 Impact on affordability

The Package was intended to significantly reduce costs to families and increase affordability: "our reforms will give around one million Australian families relief from out-of-pocket child care cost pressures" (Turnbull 2017[19]). More specifically the central focus of the Package was on improving affordability for low and middle income families, while reducing assistance to those on higher incomes.

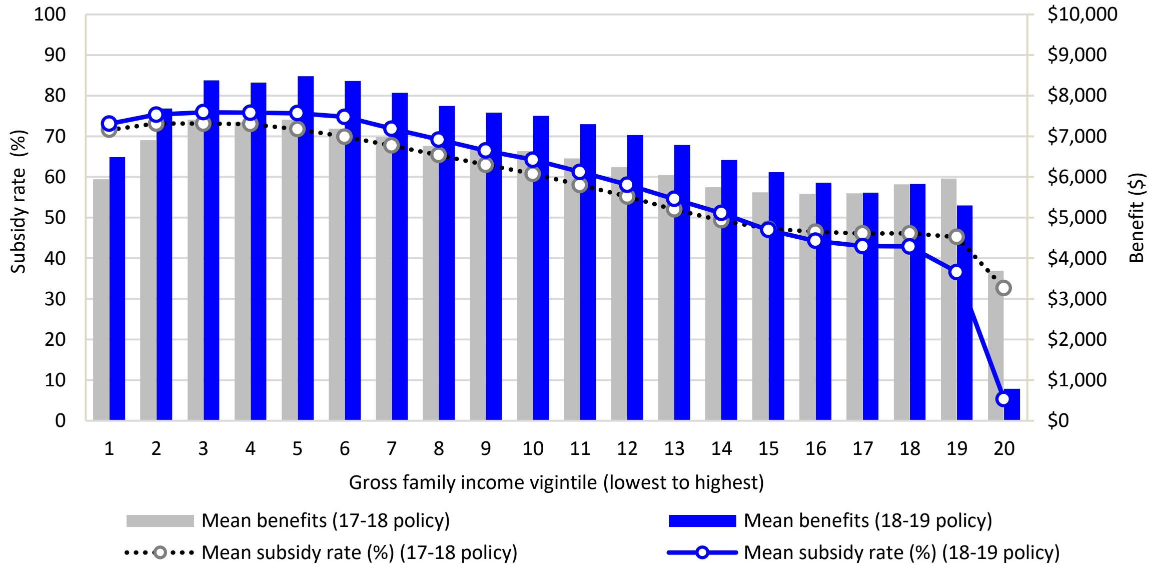
To study the direct impact of this the evaluation undertook detailed micro-simulation modelling to compare the net cost of child care (child care fees charged less government child care subsidies) for families under the new CCS relative to the assistance they would have received under the old CCB/CCR arrangements. As this element of the evaluation was only concerned with the direct effect of the subsidy, it held child care fees and usage constant. The modelling estimated on this basis that the cost of child care subsidies under the Package was $7.7 billion, $453 million higher than the $7.2 billion which would have been paid under the previous policy settings.

The evaluation found that the policy changes included in the package had a range of impacts on the cost of child care for different families, decreasing it for some and increasing it for others. Specifically the modelling[20] showed that:

- 62.2 per cent of families, or about 686,000 families, were estimated to have received more child care subsidy under the CCS than they would have received under CCB/CCR. For this majority of families the estimated net average annual cost of child care fell by $1,386, from $5,412 to $4,026, and for the median[21] family by $1,036 from $3,472 to $2,436.
- 29.2 per cent of families, or about 323,000 families, received a lower subsidy under the CCS than they would have received under CCB/CCR. These families saw their annual net cost of child care increase on average by $1,261 from $4,043 to $5,304, and for the median family in this group by $786 from $1,941 to $2,727.
- The remaining 8.6 per cent of families, some 95,000 families, were estimated to have had the same net cost of child care under both policies.[22]

Those families which gained under the Package had, on average, much lower incomes (an average adjusted annual taxable income of $95,848) than those which were unaffected ($170,406) and those who received a lower subsidy ($177,240). This pattern can be seen in Figure 1 which shows the average value of the subsidy, and the effective subsidy rate[23] by family income vigintile[24] for the old CCB/CCR (2017-18) arrangements and under the CCS (2018-19). As the chart shows, on average the level of benefits received under the Package is higher than that under the preceding arrangements for each vigintile up to the 16th. The difference then flattens for the following two groups, and reverses for the two highest income groups.

Figure 1. Child Care subsidy rate pre and post Package, by family income vigintile



Source: Child Care Package Evaluation: Final Report, Figure 61.

For any individual family however the actual outcome depends not just on their income but the amount of child care used, including whether this was within the approved hours of care, and the fees charged by services. Analysis of the child care system administrative data found that the largest financial gains, modelled as net child care costs as a proportion of income, were recorded for single parent families, families that used more care, those with more children using care, those with higher levels of activity, and those using Family Day Care, especially when this is provided by private sector operators. Conversely the cost rose for families using Outside School Hours Care.

Parental views on the affordability of child care were monitored before and after the introduction of the Package. This survey data showed that, while parental perspectives on the affordability of the child care they used varied considerably, families with annual incomes up to $170,000 were more likely to report more positively (or less negatively) on the affordability of child care after the introduction of the Package. In contrast those on higher incomes tended to report that affordability was lower after the introduction of the Package, this was not statistically significant. When parents were directly questioned on the impact of the introduction of the Package on their child care affordability the most common response was that of no change, 46.1 per cent, with 30.5 per cent reporting a positive effect, that is, that child care was more affordable, and 23.5 per cent negatively. Higher income families were much more likely to report that the impact on affordability had been negative.

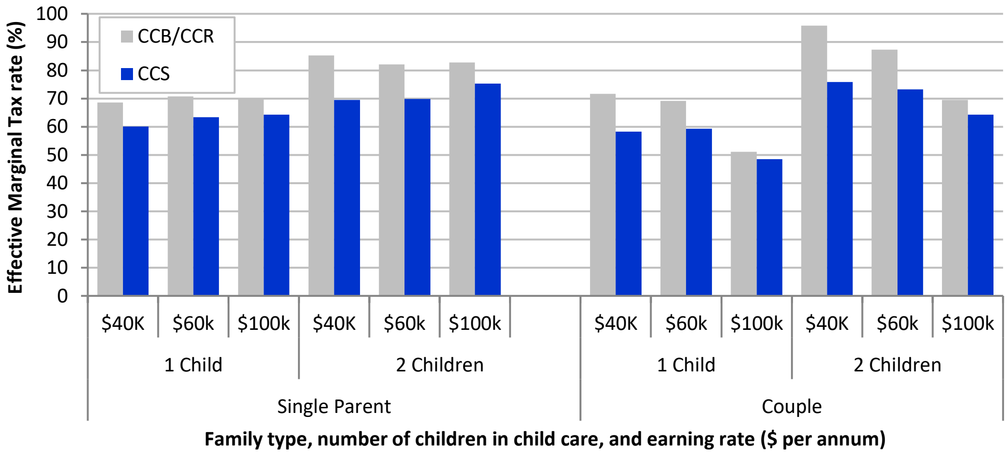
The introduction of the single subsidy payment was also proposed by the Australian Government as a means of introducing greater simplicity into child care provision. The evaluation found a weak tendency among services and parents to see the new single subsidy as simpler. The largest group of parents (43.5 per cent[25]) reported no change, with 34.2 per cent saying that it was easier to understand, and 22.3 per cent that it was harder. Services had a similar, although somewhat more polarised, distribution of responses. They also reported, on balance, a pattern of more frequent and higher debts owed to them by families under the new arrangements.

3.1 Effective Marginal Tax Rates and the financial return to working more

Given the strong policy focus of the Package on increasing levels of employment outcomes amongst parents with child care aged children, the evaluation examined changes in the Effective Marginal Tax Rates (EMTRs) for families considering undertaking additional employment. These were modelled as the proportion of the additional earned income from working another day that a family would have to pay as taxes or as net child costs, or which they would lose because of income testing of transfer payments including Family Tax Benefit.

This analysis found, as illustrated in Figure 2, that although the Package markedly reduced the EMTRs faced by many families, these still remain high, with many families losing some 50 to 75 per cent of any additional income they would earn through working more. In large part the major contributors to these EMTRs are the effects of income tax and the withdrawal of transfer payments. Those associated with the cost of obtaining child care, however, continue to contribute some 6.5 to 31.5 percentage points to the EMTR which families face.

Figure 2. Effective Marginal Tax Rate on working an additional day by family type, number of children in care and earning rate[26]



Source: Child Care Package Evaluation: Final Report, Table 102.

The analysis also found that EMTRs impact differentially depending on the pattern of additional work undertaken. In most cases the EMTR faced by a family where either the sole parent, or the lesser working parent, moves from three to four days, or from four to five days, of work per week, is higher than that where such a parent moves from no work to one day's employment, or from one day to two days.

3.2 Approved hours and non-subsidised care

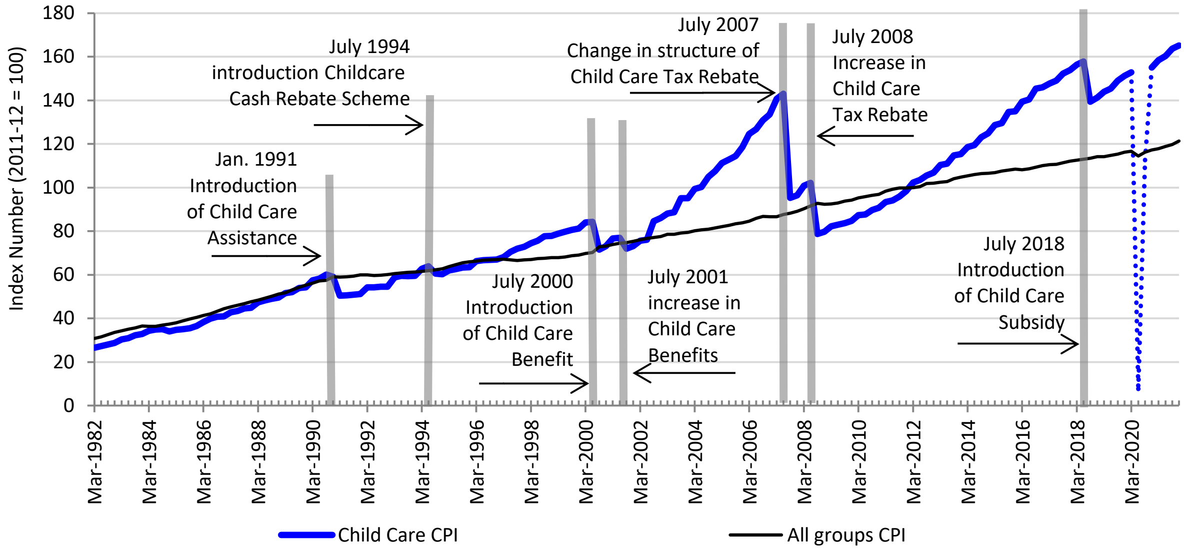
Although the previous CCB was also activity tested, the activity test for the new CCS is more stringent. In particular, whereas low income parents who did not meet the activity test under the CCB were entitled to a minimum of 24 hours of subsidised care per week, this was halved to 24 hours of care per fortnight under CCS. Additional steps in approved hours under the CCS were 36, 72 and 100 hours per fortnight, depending upon the level of activity of parents, along with a number of exemptions and other provisions. As noted below, while no significant impact of this change was seen in terms of access to child care, the evaluation did find that in some circumstances it was reflected in families incurring significant costs for unsubsidised care outside of the approved hours. Excluding those with no approved hours of care the evaluation found that 50.2 per cent of families had some unsubsidised hours, although for over half of this group these unsubsidised hours accounted for less than 5 per cent of the child's hours of care. While much of this unsubsidised care was recorded by higher income families, it persisted across income groups, and was particularly marked in remote and very remote locations.

4 Longer term impact on child care costs

One of the objectives of the Package, in particular through the introduction of the hourly fees cap, was to place downward pressure on increases in child care costs: "The Package is also designed to place downward pressure on childcare costs for families and to ensure the government's significant investment in child care is more sustainable into the future" (Porter 2016[27]).

As illustrated in Figure 3 , despite a history of policy interventions and the substantial level of subsidies that have been introduced, the net cost of child care for families has, over time, increased more rapidly than prices overall as measured by the Consumer Price Index (CPI). That is, the net real cost (the cost taking into account overall inflation) of child care to families has increased markedly, with the gains from interventions, while at times substantial, generally being short term.

Figure 3. Total and child care component of the Consumer Price Index



Notes: The dotted section of the line reflects the short term impact of temporary COVID-19 related measures.

Source: Child Care Package Evaluation: Final Report, Figure 45, updated.

The evaluation found that this was not surprising, as the cost of provision was largely associated with labour costs which have also increased faster than prices overall, as well as the impact of statutory requirements related to staffing and service quality. Taking this into account the evaluation noted that, while the net real cost of child care had increased, it had remained overall stable with regard to earnings, and indeed relative to earnings the net cost of child care in 2020 was much the same as it was in 1982.

The evaluation found no evidence to suggest that the Package had acted to restrain price increases in child care provision although this was caveated as the actual time period following the introduction of the Package was relatively short. With regard to the cap the evaluation found, excluding In Home Care services where 62.7 per cent of services had an average fee above the cap, that 11.5 per cent of services had an average fee above the cap, with 55.8 per cent of services having at least one child attending the service being charged an average fee above the cap, again excluding In Home Care where 81.4 per cent of services did.

5 Access to child care

Overall the evaluation found that the introduction of the Package had little impact on access to child care. Specifically it found little change in participation in child care for children aged 5 years and under, and a possible small increase for older children. While there was concern expressed by some that the introduction of the more stringent activity test would see a number of children limited to attending one day a week, no such impact was found in the evaluation. Similarly, while it was possible that there were some children who dropped out of care with the introduction of the Package and the new subsidy structure, the evaluation found that the extent of this was "very small, in all probability a fraction of a percentage point"[28], although possibly more marked for some low income families.[29] The evaluation found that for most families the level of approved subsidy hours was adequate but for some it did pose a problem, with this appearing to be more significant in the Northern Territory than in other states and territories.

Although finding little change in access associated with the introduction of the Package, the evaluation reported that there were some significant differences in rates of access to child care for some population groups. This was particularly marked for some vulnerable groups including Aboriginal and Torres Strait Islander children, low income families, especially those on income support, some groups of children from non-English speaking backgrounds and those in more socio-economic disadvantaged areas, including some regional locations, and remote and very remote locations.

At the same time however, the evaluation found that children who had an identified health or related condition recorded on their FTB record, although varying by type of condition, participated at the same, or higher, rates as other children whose parents received FTB but who did not have a health condition. It noted though that one factor which may have a bearing on this was the extent to which childhood health and related conditions were, at times, first identified by child care providers.

Notwithstanding this result, the evaluation reported, from the Department's survey program, that parents of children with additional needs were much more likely to report that a child was excluded from or asked to leave a service, with 5.2 per cent of these parents reporting such an experience compared to 0.7 per cent of parents without a child with additional needs.

Most parents reported being satisfied or very satisfied with the quality of child care services that their children received, with parents placing particular importance on safety and on having trained educators. The introduction of the Package did not have any significant impact on levels of parental satisfaction as recorded in the Departmental survey program.

5.1 Flexibility

One of the goals of the Package was to promote greater flexibility in child care provision. The evaluation found, other than in the In Home Care sector, no evidence of change in operating hours of services. With regard to session length it found that there had been a response in the Centre Based Day Care sector, with an increase in the number of different session lengths, including shorter sessions, being offered by services. Investigation of these though suggested that these sessions were largely introduced as a device to allow parents to maximise subsidies[30], rather than to align the cost of care with the time spent in care. In more detailed analysis the evaluation studied a large number of services' charging practice with a focus on the average 'session cost' for sessions of different length, and the effective hourly rate charged for these sessions. This found a systematic, although not universal, practice for the hourly cost of shorter sessions to be substantially higher than those of longer sessions, and for the total cost of shorter and longer sessions to be very similar.

The evaluation noted that, to the extent there was a lack of 'flexibility', especially in Centre Based Day Care, this did not reflect a market failure, but rather reflected the economic cost of providing such flexible arrangements. This included the need for services to structure employment to meet the needs of staff and statutory requirements such as child to educator ratios. In contrast, the structure of the Family Day Care sector was more amenable to providing flexibility. This was also reflected in the pre-existing shift in this sector from session-based to hourly charging.

The evaluation recognised that flexibility was important to ensure the alignment of the demands of the workforce and the provision of care, but noted that achieving such alignment was not just a responsibility of the child care sector, but also of employers in their employment arrangements.

6 Labour market impacts

Amongst the objectives of the Child Care Package was to "enable and encourage greater workforce participation" (Porter 2016[31]). More specifically the government estimated "that the Package will encourage more than 230,000 families to increase their involvement in paid employment"[32].

Drawing upon the Departmental surveys the evaluation found most parents reported that they had not changed their level of participation in response to the Package, although some did. However when change was reported this was sometimes an increase, and in other cases a decrease in their hours of work. The evaluation noted that such a diverse response was consistent with both the variation in impact of the Package on affordability for different families, and with economic expectations. (Economic theory suggests that some families would respond to 'incentive effects' where, if they were eligible for a higher subsidy, the policy would increase their effective returns from additional work and they would tend to work more, while others would respond to an 'income effect' where a higher subsidy would enable them to achieve the same income with less work. Of course for those parents who were eligible for a lesser subsidy the reverse effects would apply.) On balance the evaluation found that, while neither wholly consistent across surveys, nor statistically significant, these survey results suggested a balance of responses of some 1.5 to 1.9 percentage points towards families reporting increased paid employment relative to those reporting a reduction.

A slight tendency towards increased levels of activity was also seen in administrative data which suggested an annual increase in hours of activity (defined more broadly than paid employment[33]) of 1.4 per cent for single parents and 0.3 per cent for couples.

Looking at aggregate data on workforce participation the evaluation found that while parents had increasing their rate of participation in employment, the rate of increase in the period following the introduction of the Package was not inconsistent with the pattern of growth in preceding years.

To the extent parents reported barriers to higher workforce participation, these were rarely just restricted to child care related issues, and where child care was identified this was usually raised in terms of the cost. More generally the evaluation found that potentially the key barrier to higher parental workforce engagement were the attitudes of some parents related to caring for their own children and their career aspirations.

7 The child care safety net

The safety net element of the Child Care Package comprised three programs, each of which had a number of streams or elements.

While the Additional Child Care Subsidy (ACCS) had a broad program structure which replicated earlier support for vulnerable children and families, there were a number of changes in provision and targeting introduced as part of the Package. (The ACCS is composed of 4 streams targeted at specific populations: for children at risk – ACCS (Child Wellbeing); cared for by grandparents on income support – ACCS (Grandparent); children in families facing financial stress – ACCS (Temporary Financial Hardship), and parents who are moving from being on income support into employment – ACCS (Transition to Work).) Program data indicated that there was strong growth in the number of children receiving support due to child wellbeing concerns, a modest increase in parents seeking support in the transition to work, and a decline in grandparents receiving support, and under the temporary financial hardship provisions. Some 2.9 per cent of children attending child care were identified as receiving ACCS support.

Higher levels of receipt of ACCS were identified for Aboriginal and Torres Strait Islander children, and those from single parent families. ACCS support flowed disproportionately to children in In Home Care, and to a much lesser extent to those in Centre Based Care. The data also showed that services in more socio-economically disadvantaged locations received support at 5 times the rate of those in the more advantaged locations.[34]

The evaluation considered that overall the Additional Child Care Subsidy was broadly effective, although only some 40 per cent of services considered that vulnerable families were better off under the new arrangements, with a further 35 per cent reporting no substantive difference between the old and new arrangements. The evaluation reported that for some services the new arrangements involved a significant administrative requirement, and that this was also potentially leading to discontinuities in support. It also noted issues with a number of aspects of the program, including the treatment of kinship care and the use of language of ‘children at risk’.

Analysis of the Community Child Care Fund (CCCF) found that while some 4.0 per cent of all services received support from the fund, this proportion increased significantly for services located outside the capital cities and other major urban areas. Reflecting this, 13.3 per cent of services in urban centres with a population below 50,000 persons gained assistance from the CCCF in 2018-19, a proportion which increased to 68.3 per cent for services in very remote locations. In part this latter reflected the very significant role of the program in providing ongoing budget support to the former Budget Based Funded services[35] where those services with CCCF grants received, on average, the same level of funding that they had under the former funding arrangements. The evaluation noted that while these services were conceptually due to move onto a fee and subsidy structure under the Package, this level of grant funding was likely to be needed to ensure ongoing viability.

The evaluation also found that, in addition to the focus on less urbanised locations, not-for-profit Family Day Care services disproportionately received support from the CCCF, as did services in Tasmania and Western Australia.

7.1 The Inclusion Support Program

The Inclusion Support Program (ISP) was subject to a specific evaluation within the broader evaluation of the Package. This program has two main elements. The first is the employment of Inclusion Professionals in the state based Inclusion Agencies which are funded under the program. These Inclusion Professionals work with child care services to build inclusive practice. The second are specific program streams of funding to services to support the inclusion of children with additional needs. Additional needs under the program are defined in an open ended fashion, although specifically include children with a disability, or developmental delay, with medical or health conditions, and those presenting with challenging behaviours. Overall the objective of the program is to ensure that children with additional needs can fully participate in child care alongside their age based peers.

In addition to directly considering the program, the evaluation also addressed the wider question of inclusive practice. In this it noted that there were two conceptual approaches to inclusion. The first was a rights based approach which considered that children with additional needs were entitled to full participation alongside their peers without such needs. The second saw inclusion in a more instrumental way with it being the best practice to achieve improved outcomes for those children with additional needs. While these two approaches had many elements of practice in common, they also have divergences. The evaluation also reported, from reviewing national approaches, that, in contrast to the Australian focus on the inclusion of those children with additional needs whose parents have sought to use child care, internationally the focus on inclusion is increasingly being driven by a wider and more proactive social inclusion agenda. This is concerned with the role of early childhood education and care in addressing disadvantage, and the role of this sector in preparing those most at risk to avoid educational and subsequent disadvantage.

The evaluation found that there was a very high level of contact between services and the Inclusion Agencies and Inclusion Professionals with, in the period January to June 2019, 98.2 per cent of services being contacted and 95.3 per cent visited. 69.4 per cent of services said that they were very satisfied with their contact with Inclusion Professionals and a further 16.9 per cent that they were mostly satisfied. In response to COVID-19 Inclusion Agencies shifted almost wholly to remote servicing. While most services rated this as being equally effective, a significant minority, some 32 per cent, considered it to be less so, a balance of perspectives also shared by Inclusion Professionals, who additionally emphasised the importance of having a pre-existing face-to-face relationship to the success of virtual contact. The evaluation found that while there was scope for ongoing greater use of virtual contact, this should be as part of a balanced mix of virtual and face-to-face and onsite contact.

The Inclusion Support Program has four streams of funding from the Inclusion Development Fund (IDF): Additional Educator; Immediate/Time Limited Support; Family Day Care Top Up; and Innovative Solutions Support. Additional Educator is the main stream, accounting for $65.3 million, 95.7 per cent of the IDF spending in 2019-20. This support, which provides a subsidy towards the cost of employing an additional educator in a service to enable the inclusion of a child with additional needs, is available to Centre Based Day Care and Outside School Hours Care services with, in 2019, 34.1 per cent and 20.8 per cent of these services respectively receiving this support. The second stream, Immediate/Time Limited Support, plays a similar role but is for a more limited period and has fewer requirements and processes for access and accounts for 1.6 per cent of IDF expenditure. The evaluation found that both of these programs were seen positively by Inclusion Professionals and services, although noting that there were some aspects of the program, such as the subsidy rate and program guidelines, which should be further considered. It also reported that, along with other program streams, there were apparent inconsistencies in rates of receipt. This included between the states, by geography within states, and for for-profit relative to not-for-profit services.

Only 25-35 subsidies per year were recorded under the third stream, Family Day Care Top Up. This stream of support compensates Family Day Care educators who do not operate at their maximum child to educator ratio in order to accommodate a child with additional needs. The evaluation noted a number of aspects of the program which appeared to limit its effectiveness. The fourth stream, Innovative Solutions Support, accounted for $1.7 million of expenditure in 2019-20, compared with a budget of $12.0 million, although data indicated a strong increase in both the number and value of projects in 2019 and 2020. The evaluation noted that this increase was associated both with revisions of the program guidelines in the 'Refresh' process, as well as growing knowledge of the program. The evaluation found that there had been a marked shift in the composition of projects, with a growing focus on managing disruptive behaviour, trauma and educator coaching, although there was a high level of variability between states with regard to both the number of projects and their focus.

One of the key mechanisms of the ISP is the development by services of a Strategic Inclusion Plan (SIP). These plans identify barriers to inclusion within the service and strategies to address these. A SIP is required to obtain a number of the streams of IDF funding. In December 2020 some 61.9 per cent of services had a SIP. This was a strong increase from June 2017 when the program was introduced (replacing the former program which also had the SIP), although the rate of increase was difficult to estimate due to changes in the way Outside School Hours Care services were recorded. As with other elements of the ISP there were strong state and regional variations in the proportion of services with a SIP.

Overall the SIP was seen positively by services and Inclusion Professionals as a tool for addressing inclusion, although it was also viewed primarily as a tool to access funding. In the course of the evaluation there were extensive responses from Inclusion Professionals and services concerning the design of the SIP and the IT platform it operates on.[36] Frequently these suggested that the SIP should be better related to, or integrated with, the Quality Improvement Plan (QIP) which services complete under the National Quality Framework. The subject of a lack of integration of the different elements of the child care environment, which included a viewpoint that the National Quality Standard ratings did not necessarily well capture inclusive practice, was also seen with respect to the very low levels of contact between the Inclusion Professionals and the State Authorised Officers who undertake the ratings. Just 0.9 per cent of the Inclusion Professionals reported close and frequent contact, along with 4.6 per cent who had regular contact, while 46.3 per cent reported no contact.

Viability of the sector

As noted above, the evaluation only considered the sector up to December 2019 and thus did not consider the impact of COVID-19 on services and the working arrangements of parents. At this point the evaluation found that overall the sector was robust and viable. Across all services the evaluation found that the value of subsidies (excluding the ISP and CCCF) as a proportion of fees had increased from 59.5 per cent in 2017-18 to 60.7 per cent in 2018-19. This reflects both changes in the composition of users and in fees charged by services, as well as the impact of the Child Care Package.

The evaluation however reported a number of challenges for the sector. These included ongoing cost pressures, the central role played for many services of the session-based structure for both staffing and charging, and some sector-specific challenges. The evaluation noted that there had been a massive decline in the for-profit Family Day Care sector, where the number of children recorded as receiving care had fallen from over 100,000 in early 2017 to 48,000 in the second half of 2019. A very significant factor in this was compliance action taken to “stop dodgy … services” (Tehan 2018[37]). There was also a small, but persistent, decline in provision of this type of care by not-for-profit providers. The evaluation also noted that services providing In Home Care were significantly less positive about their financial viability relative to other services. In this regard it considered that while the increased rates of subsidy which were introduced in January 2019 may have addressed some of the sector’s issues, continued attention was required to the policy settings.

While the evaluation did not find any evidence of a change in the concentration of ownership of child care services associated with the Package, it noted that provision of Outside School Hours Care was highly concentrated and that there had been a longer term trend to consolidation in the Centre Based Care sector. Both analysis of data on vacancies and field work undertaken in the case studies of the evaluation led to a finding that there was no systematic problem of over provision, but rather the balance of demand and supply was very location dependent.

8 Recommendations

Both of the evaluation reports contained recommendations. These, as well as being directed at some specific aspects of the policies contained in the Package, more generally addressed the role of child care in Australia.

8.1 Child Care Evaluation

The evaluation made a number of recommendations with regard to some aspects of the current program operations. These included: identifying scope for refining some processes especially with regard to the enrolment process, helpdesks and the operation and scope of the Additional Child Care Subsidy; identifying a number of limitations related to allowed hours under the activity test, especially the reduction of the safety net provision from 24 hours per week to 24 hours per fortnight, and recognising that the effectiveness of the allowed hours as a mechanism to achieve the goal of increased flexibility was limited and indeed resulted in reduced flexibility; as well as recommending the removal of the Annual Cap – which has now occurred.

More broadly the evaluation emphasised a need to have a "clear, coherent and comprehensive policy environment for child care, linking the important goals of the Package relating to workforce participation and other policies related to quality of care and the critical role of measures such as Universal Access to preschool in child development and in preparation for schooling, including strategies which account for Commonwealth/State divisions in responsibility"[38]. n contrast to such a focus, citing the words of an earlier report, the evaluation found that "Australia's ECEC [Early Childhood Education and Care] services remain fragmented. Australian services continue to be shaped by divisions between education and care systems; between child development and workforce participation objectives; and between Commonwealth, State and Territory Governments"[39]. It further noted that while governments had in 2009 committed to a goal that "By 2020 all children have the best start in life to create a better future for themselves and for the nation"[40], there had been very limited gains in reducing the extent to which a significant proportion of children are identified as being developmentally vulnerable when starting school. Reflecting this it concluded that, while some specific aspects of the Package needed to be addressed: "the real challenge is in developing a clearer vision of the role of early childhood education and care in Australia, and working towards this"[41].

8.2 Inclusion Support Program Evaluation

This evaluation made a series of recommendations. In addition to a number of issues to do with the IT infrastructure and the use of program data, these included:

- Changes to a number of the stream guidelines and arrangements to better tailor the funding elements of the program to service arrangements and needs, including an explicit focus on professional development and a review of the rationale for the rate of subsidy.
- Maintaining the Inclusion Agencies but with greater scrutiny of the variations in program activity and outcomes between states and improved contracting arrangements.
- Promoting further research and informed debate on the role of inclusion, including targeting of the ISP and the role of anti-discrimination measures, including the removal of the exemption of child care from the Disability Standards in Education, as well as better links with child care quality standards.
- A practitioner-led redevelopment of the SIP, including attention to its integration with the QIP.

9 Conclusion

The Child Care Package did result in a decrease in the net cost of child care for the majority of families using care while reducing the level of assistance provided to higher income families. This was consistent with the program objectives. This effect was however modest and the evidence suggests that the Package has not acted to reduce increasing costs over time.

More broadly the impact of the Package was small. It had little impact on workforce participation or in promoting access to care and, while on balance, being seen as simpler, this was not universal. There was no substantive evidence of increased flexibility. Rather while some services introduced a wider range of sessions, this was as a means of maximising the subsidy flow to parents, rather than reducing the fees paid.

Importantly the evaluation found that the Package did not respond to the wider challenges of the child care sector, including addressing its role in child development, especially for children who experience disadvantage.

Endnotes

[1] Bray, J. Rob, Jennifer Baxter, Kelly Hand, Matthew Gray, Megan Carroll, Richard Webster, Ben Phillips, Mikayla Budinski, Diana Warren, Ilan Katz and Anna Jones. 2021a. *Child Care Package Evaluation: Final report, August 2021*. Melbourne: Australian Institute of Family Studies.

[2] Bray, J. Rob, Megan Carroll, Jennifer Baxter, Mikayla Budinski, Matthew Gray. 2021b. *Evaluation of the Inclusion Support Program, November 2021*. Melbourne: Australian Institute of Family Studies.

[3] Commonwealth of Australia. 2015. *Budget 2015-16 Families Package*. Canberra: Commonwealth of Australia.

[4] In addition to changes in FTB and in Child Care funding the Package included proposals for 'universal access' to preschool, the funding of a pre-school program of up to 600 hours per year for all children in the year before school, and policies to improve vaccination rates.

[5] Some elements of the package, including the Inclusion Support Program commenced earlier, from July 2016.

[6] Turnbull, Malcolm, Simon Birmingham and Christian Porter. 2017. "Responsible budget savings to fund more affordable child care for Australian Families". Media Release 8 February 2017.

[7] Porter, Christian. 2017. "Omnibus Savings and Childcare Reform Bill". Transcript, 9 February 2017. Canberra: Department of Social Services.

[8] Porter, Christian. 2016. "Second Reading Speech: Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016", 1 September 2016, House of Representatives. Canberra: Parliament of Australia

[9] Under the Child Care Subsidy (CCS) 95 per cent of the subsidy is paid to the service, with the remaining amount being withheld by the government pending annual reconciliation. After annual reconciliation, this withheld amount is either then paid to the family or is used to offset any debt they may have to the Commonwealth; in particular, where an underestimation of annual income has resulted in the subsidy being paid at an incorrect and higher rate. Additionally in some circumstances it can be paid as a refund directly to parents where they have had to pay full fees, typically when commencing using care.

[10] While some services charge by the hour, the more usual fee arrangement is sessional. In these cases the session fee is divided by the notional session length to derive an 'hourly rate'.

[11] This was a deliberate policy stance to introduce an element of parental co-payment into the funding model, as opposed to previous arrangements where some services accepted the subsidy as full payment for some children.

[12] In 2022 the cut-off for payment of any Child Care Subsidy was an annual family income of $354,305.

[13] Clare, Jason and Anne Aly. 2002. Media Release "More than a million families to benefit from more affordable early learning and care" https://ministers.education.gov.au/clare/more-million-families-benefit-more-affordable-early-learning-and-care

[14] Initial changes included: a large increase in the fee cap for In Home Care in January 2019 which increased the amount of subsidy that could be paid; a 'refresh' of the program guidelines for the Inclusion Support Program in March 2020; removal of the annual cap on the amount of subsidy middle and higher income families can receive in December 2021, the introduction of a higher subsidy rate for families with more than one child in care as of March 2022; and a capacity for services to offer discounted fees for their child care workforce. Additionally in 2020 and 2021 there were significant temporary changes associated with responding to COVID-19.

[15] In October 2022 the Treasurer directed the Australian Competition and Consumer Commission (ACCC) to conduct an inquiry into the market for the supply of childcare services with a focus on costs and charges. (ACCC. 2022. "Childcare inquiry". https://www.accc.gov.au/focus-areas/inquiries-ongoing/childcare-inquiry). It

has also announced an intention that the Productivity Commission to look more more broadly at early childhood education and care (Clare, Jason. 2022. "Press Conference - Civic Early Childhood Centre, Canberra, 23 November 2022 – Transcript". https://ministers.education.gov.au/clare/press-conference-civic-early-childhood-centre-canberra), and is convening a Early Years Summit (Risworth, Amanada and Anne Aly. 2022. "Early Years Strategy and National Summit to ensure Australia's children have the best start at life", Media Release 18 November 2022. https://ministers.dss.gov.au/media-releases/9711)

[16] Family Day Care services operate as an umbrella for the delivery of child care services by a large number of individual Family Day Care educators who provide care for a small number of children, usually operating out of their own homes.

[17] In addition 16.9 per cent attend for one day a week, 13.7 per cent on 4 days, 14.5 for 5 days and 0.9 per cent for 6 or more days. This distribution varies considerably across types of child care.

[18] Most child care is provided on a sessional basis, with families charged by the session rather than the hours actually attended.

[19] Turnbull, Birmingham and Porter 2017.

[20] The evaluation modelling was based on the population who used child care in 2018-19, utilising reconciled income where available, and program parameters in 2017-18 for CCB/CCR and 2018-19 for CCS.

[21] The 'average' costs are an average based on the totals for all families within the group. The median represents the circumstance of the 'middle family', that is half the families which gained would have had a gain greater than this amount and half would have had a smaller, but still positive, benefit.

[22] Unaffected was defined as the estimated value of CCS being within plus or minus one per cent of the estimated value of CCB/CCR.

[23] The effective subsidy rate is the value of the subsidy as a proportion of the fee charged.

[24] A vigintile is one twentieth of the distribution – that is 5 per cent of the population is in each vigintile.

[25] June 2019 Survey responses.

[26] The chart shows the average EMTRs of five one day increments in employment level for each family type. For single parents the dollar value represents the annual wage rate at which the person earns and would gain any additional employment. For couple families it is assumed that the first member of the family is already working full-time at this rate and that the second earner obtains employment at the same wage rate.

[27] Porter 2016.

[28] Bray et al 2021a, p215.

[29] Precise measurement of this possible effect was not possible due to the high levels of entry and exit into child care which obscure any smaller and more subtle shifts.

[30] Under the CCS it was in some circumstances cheaper for parents to pay a higher fee for their approved hours, which were then all eligible for a subsidy, than to incur excess hours of care at a lower hourly rate but which were unsubsidised.

[31] Porter 2016.

[32] Porter 2016.

[33] The activity test which determines the number of hours of child care that the family receives a subsidy for defines activity to include paid work and unpaid work of a range of types, study, volunteering, and job search.

[34] Based upon quintiles of services by location. Some 5.6 per cent of children in the most disadvantaged 20 per cent of locations gained ACCS support, compared with 1.1 per cent in the most advantaged locations.

[35] Some child care services, in particular non-mainstream services in rural, remote and Aboriginal and Torres Strait Islander communities, had traditionally been directly funded under the Budget Based Funded Program rather than operating on a fee and subsidy basis.

[36] More generally the evaluation considered that greater attention needed to be given to the IT platforms for this program and on the analysis of data on the program's operation.

[37] Tehan, Dan. 2018. "Stamping out fraud in Family Day Care". Media Release The Hon Dan Tehan MP, Minister for Education, Monday 17 December 2018.

[38] Bray et al 2021a, p345.

[39] PwC. 2011. *A practical vision for early childhood education and care, March 2011*. Melbourne: PwC.

[40] Council of Australian Governments (COAG). 2009. *Investing in the Early Years—A National Early Childhood Development Strategy. An initiative of the Council of Australian Governments*. Canberra: Australian Government.

[41] Bray et al 2021a, p348.