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## Family day care at the crossroads

### Quality and sustainability in uncertain times

Never Stand Still

Faculty of Arts & Social Sciences

Social Policy Research Centre

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## ABBREVIATIONS

ANAO	Australian National Audit Office
ARIA	Accessibility/Remoteness Index of Australia
CALD	Culturally and Linguistically Diverse
CCB	Child Care Benefit
CCR	Child Care Rebate
CSP	Community Support Programme
FDC	Family Day Care
ECEC	Early Childhood Education and Care
FDCA	Family Day Care Australia
FDCAQ	Family Day Care Association Queensland
LDC	Long Day Care
NQF	National Quality Framework
NSWFDCA	New South Wales Family Day Care Association
OSHC	Out of School Hours Care
SA2	Statistical Area Level 2
SA3	Statistical Area Level 3
SEIFA	Socio-Economic Indexes for Areas
SPRC	Social Policy Research Centre

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# 1 EXECUTIVE SUMMARY

Family Day Care is regulated, formal childcare, delivered through networks of educators who provide flexible, small group education and care in their own homes. Co-ordination units, which can be operated by community-based, government or private organisations, are an important part of Australia's family day care model. They perform legal, regulatory and administrative responsibilities and provide face-to-face support to educators, to enhance their focus on children's learning and development. Co-ordination units ensure compliance with family assistance law, and support family day care to meet requirements under the National Quality Framework (NQF).

This report explores models of funding and operating family day care co-ordination activities, in the context of the transition to new Commonwealth funding arrangements being introduced in July 2015. The research was intended to identify models of funding and operating co-ordination activities, elements of practices which were successful, and possible strategies to respond to the withdrawal of operational funding after July 2015. The project was commissioned by the NSW Family Day Care Association (NSWFDCA) and the Family Day Care Association of Queensland (FDCAQ), as part of the Family Day Care Services Education and Support Project, funded by the Australian Government.

The findings are based on interviews with 18 key informants from Australia's family day care sector, along with analysis of background material relating to the operation and resourcing of family day care co-ordination, and the upcoming changes to operational subsidies provided under the Community Support Programme (CSP).

Interviewees explained the important role co-ordination units play in monitoring and regulating service delivery, and in supporting educators and their businesses, and ensuring the safety and wellbeing of children and families. However, the research was conducted at a time of much uncertainty about the continuity of these activities. Many services are anxious about the impact of funding changes and the likely loss of Community Support Program funding, and felt the changes may compromise the capacity of the family day care sector to continue to provide high quality, affordable services to families and home-based employment for educators. Many services said they needed more certainty about their eligibility, and would like the opportunity to apply for funding before April 2015. Some also felt their organisation was disadvantaged by apparent anomalies in the funding guidelines. Most interview participants have determined that they are unlikely to receive operational funding in 2015, and are in the process of developing strategies for sustaining their service. Interviewees shared ideas about how their service was considering adapting, but few had well developed strategies for ensuring viability and sustainability post July 2015. Family day care services are highly diverse: there is a variety of organisational models; services operate in many different kinds of communities and markets; some have cash and in-kind support from auspicing bodies such as local councils, while others are independent, 'stand-alone' services. As such, there is no universal model of family day care funding and operation that can be scaled up for nation-wide sustainability. Rather, services will need to work through the process of determining responses which are appropriate for the context of their organisation and community.

Interviewees generally felt that adjusting to new CSP arrangements will not be an easy process, although a few are relatively confident that their service is sufficiently resilient to adapt to the loss of operational funding. Many pointed out that family day care services had

maximised service efficiencies in recent years, whilst improving quality and fulfilling the demands of the NQF. They felt there was little scope to increase their efficiency and reduce costs, without compromising quality. In some areas, services were responding to high levels of competition, which made it difficult to come together with other services to innovate and share practice, and collectively pursue the interests of the sector. One service described, for example, that family day care was “a cut throat business”.

Most providers believe that it will be difficult to maintain service quality under the new arrangements. Some services are exploring how to adapt operations to maximise the chances of eligibility for CSP funding, while others were less optimistic, and were negotiating support from a sponsor organisation, or were planning to cease or reduce provision, albeit reluctantly. Merging or amalgamating with other services was discussed by some, but it was recognised that many services would not be attractive for mergers or acquisition.

Many interviewees were concerned that their service would have to reduce staff numbers, resulting in lower levels of support for educators and families. They noted that face-to-face time with educators, children and families would be lost, which could undermine safety and quality. This was particularly frustrating for services, and a number of interviewees felt it would be difficult to maintain the improvements to quality achieved in recent years.

Most interviewees saw little alternative to increasing educator and family levies. In several cases, increasing charges were described as ‘inevitable’. Many services recognised that families in their area would find it difficult to pay. However, services were able to suggest several other strategies for adapting to the new funding environment, including diversifying services to add an income stream. Several commented that regulating nannies providing care in families’ homes was a natural extension of family day care schemes, while others sought to generate income from providing training or administrative services.

## **1.1 MODELS FOR SUSTAINABILITY**

The table below provides a summary of possible strategies that services could use to develop responses to the loss of operational subsidies. Family day care services of course operate in a range of economic and community contexts, and there is no single model for viability and sustainability which can be rolled out nationally. To inform planning among services, the research offers some case studies in Section 7. These include case studies of sponsorship, shared administration, entrepreneurship, and amalgamation. The intention is that the case studies, and the models of provision on which they are based, will provide the basis for critical reflection by services about the range of options appropriate for their specific circumstances.



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*Example*

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<b>Obtain support from a sponsor organisation</b> <i>(see section 7.1)</i>	<ul style="list-style-type: none"><li>• Sponsor organisation provides ongoing funding to maintain service</li><li>• Sponsor organisation temporarily allows service to run at a loss, for example while fee increases are phased in</li></ul>
<b>Contain costs and emphasise business efficiency</b> <i>(see section 7.2)</i>	<ul style="list-style-type: none"><li>• Reduce co-ordination unit staff hours</li><li>• Reduce services (eg face-to-face visits, outreach, playgroups)</li><li>• Select 'low maintenance' educators</li><li>• Reduce administrative costs (eg share back office support, co-locate)</li><li>• Reduce number of educators</li></ul>
<b>Increase income</b> <i>(see section 7.3)</i>	<ul style="list-style-type: none"><li>• Increase income from levies on educators</li><li>• Increase income from levies on families</li><li>• Add or increase an alternative income stream (eg nannies, training)</li><li>• Fundraising</li></ul>
<b>Adapt to meet eligibility criteria</b> <i>(see section 7.4)</i>	<ul style="list-style-type: none"><li>• Recruit educators in eligible areas</li><li>• Relocate operations</li></ul>
<b>Merge or amalgamate</b> <i>(see section 7.5)</i>	<ul style="list-style-type: none"><li>• Takeover of one service by another, which becomes the new owner (amalgamation, or acquisition).</li><li>• Two or more services agree to join up to form a single new service, rather than operating separately (merger)</li></ul>
<b>Cease Provision</b> <i>(see section 7.6)</i>	<ul style="list-style-type: none"><li>• Organisation ceases to deliver family day care</li><li>• Business closes altogether</li></ul>

Although services are developing strategies to sustain their activities, the changes to the Community Support Program shift the focus of family day care provision from quality to financial sustainability. The findings suggest educators who are more costly for co-ordination units to serve, such as those in rural and remote communities, those who are new to family day care, and those from non-English speaking backgrounds, may find it difficult to obtain the levels of face-to-face support they require.

The research was conducted in the months immediately following the announcement of changes to the Community Support Programme. Other models, and the strengths and weaknesses of each, may become apparent in coming months, as details of the new funding and operational environment emerge, and as organisations finalise decisions and take action to adapt. In the process, developing further knowledge of promising approaches to change would be supported by further discussion and collaboration in the sector, as well as a dedicated program of research into new ways to support quality in family day care, and formal evaluation of the impact of changes on the sector as a whole, service providers, educators, and families.

## 2 ABOUT THE RESEARCH

### 2.1 BACKGROUND

The NSW Family Day Care Association (NSWFDCA) and the Family Day Care Association of Queensland (FDCAQ) were commissioned by the Australian Government to deliver the Family Day Care Services Education and Support Project, which is intended to support family day care services as they transition to new funding arrangements being introduced in July 2015. In July 2014 NSWFDCA approached the Social Policy Research Centre (SPRC) to assist with this project.

SPRC was commissioned to conduct research to explore possible models and strategies which would assist Family Day Care services to sustain and build quality co-ordination capacity in the context of tighter eligibility criteria and significant reductions in financial support available through the Australian Government's Community Support Programme (CSP) from July 2015.

The research sought to identify successful models of funding and operating family day care co-ordination unit activities in various parts of Australia, and to explore the factors contributing to their success. It also sought to identify possible models of service provision and funding which could provide options for the sector after the withdrawal of CSP funds.

### 2.2 STRUCTURE OF THIS REPORT

Section 3 provides a short description of Australia's family day care sector, and outlines the important role of co-ordination in ensuring educators are well supported, and that children and families receive quality services. Section 4 provides background to the Community Support Programme (CSP), and a summary of changes to operational support funding.

Section 5 outlines the research methodology, and information about the sector representatives who participated in interviews for the project, and their services. Section 6 explores participants' expectations about the impact of changes to the Community Support Programme, and identifies widespread uncertainty about eligibility, and concerns about the sector-wide effects of changes. In particular, interviewees were concerned about the effects of reductions in financial support on the capacity of the family day care sector to provide high quality, affordable education and care for families, and a source of home-based employment for educators.

Section 7 outlines models that services can draw on in order to respond to the new funding environment. This section includes some case studies. As mentioned previously, family day care services operate in diverse organisational, economic and community contexts. There is no single model for viability and sustainability which can be rolled out nationally; instead, services are pursuing a range of strategies and developing diverse models specific to their circumstances. Components of possible models include obtaining support from a sponsor organisation (Section 7.1), and/or containing costs and improving business efficiency (Section 7.2). Cost reductions could be achieved, for example, by reducing staffing hours and costs, reducing the level and quality of services provided, recruiting educators

requiring lower levels of support, reducing administrative costs, including through co-locating with other services, or sharing administrative costs with other services.

Section 7.3 outlines options for increasing income to services, primarily through increasing levies on educators and families, or adding or increasing an alternative income stream. Services could, for example, generate income from supporting 'nannies' (should they become eligible for government subsidies), or from providing training, administrative or other services. Other components of models include adapting operations to the new criteria (Section 7.4), merging or amalgamating with another service (Section 7.5), or ceasing provision (Section 7.6).

A summary of elements of success is provided in Section 8. Conclusions, and directions for further research and evaluation, are outlined in Section 9.

## 3 FAMILY DAY CARE CO-ORDINATION UNITS

### 3.1 FAMILY DAY CARE IN AUSTRALIA

Family Day Care is a regulated, formal childcare option, delivered through networks of educators who provide flexible, small group education and care in their own homes. Family day care's flexibility makes it unique in the Australian early childhood sector, as it is readily able to provide care and education in the evening and on weekends and can provide ECEC in small rural and remote communities which have too few children to maintain long day care or preschool. Australia's first family day care scheme, involving the supervision and organisation of home-based carers, was established in 1969 by the Brotherhood of St Laurence in Melbourne. The scheme connected women who needed childcare to work outside the home with those who wished to stay at home but who needed extra income (Brennan, 1998). In addition to home-based 'carers' (as they were known), the first scheme employed a social worker, a pre-school teacher and an administrative assistant. A number of pilot schemes were funded by the Commonwealth in the early 1970s, and in 1974 the model received formal government endorsement as one of the main service types under its childcare program (Jones, 1987: 90). Although family day care evolved from the oldest and most widespread form of childcare—childminding—support and supervision by trained professional co-ordination staff was part of the model from the outset, and remains at its heart.

In June 2013, there were 191, 260 children enrolled in family day care and in-home care combined<sup>1</sup> (Productivity Commission, 2014: 103). Median hours of attendance were 14 hours per week, compared with 16 hours in LDC (Productivity Commission, 2014: 103). In 2010, there were around 12 060 family day care educators in Australia, and 1515 co-ordination staff (Productivity Commission, 2011: 116).<sup>2</sup> There is considerable cultural diversity among educators. Almost two in five educators (38%) speak a language other than English, most commonly Arabic followed by Dinka (commonly spoken in South Sudan), Sinhalese, Vietnamese, Hindi, Bengali, and Somali (ACECQA, 2013:24).

Family day care schemes have grown rapidly in recent years. Indeed, there was a 40% increase in service numbers between 2013 and 2014 (Productivity Commission, 2014: 83). In 2014, there were 736 family day care co-ordination units across Australia (Productivity Commission, 2014: 85). While family day care was, historically, auspiced by community-based not-for-profit agencies (including local councils) many of the new services operate as private, for-profit businesses. Most family day care schemes are in the most populous States, and compared with other service types, family day care has a larger share of its services located in outer regional, remote and very remote areas (Productivity Commission, 2014: 82, 84).

The model of family day care that has developed in Australia has moved a long way from the 'childminding' service from which it evolved. Family day care is provided in the homes

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<sup>1</sup> Department of Education administrative data do not distinguish between the two service types. However, as in-home care is a very small program, the vast majority of these children are in family day care.

<sup>2</sup> More recent figures are not available.

of educators who are supported, resourced and monitored by co-ordination units. The co-ordination units, whose function is discussed in more detail in Section 3.2, assist educators to meet the National Quality Framework (NQF) and other requirements. They also provide advice and information to families considering enrolling, and assist educators in booking clients.

Family day care is covered by the National Quality Framework. Educators must work within the Early Years Learning Framework and the School Age Care Framework and must comply with the National Regulations which stipulate the qualifications of educators and co-ordinators and the number of children who can be cared for (no more than 7 children at any one time and no more than four under school age). Interestingly, despite the central role played by co-ordination units, the National Regulations do not prescribe how many co-ordinators or co-ordinator hours are required to monitor and support their educators, and as a result, there is much variation across the sector.

New qualification requirements for family day care came into effect on 1 January 2014. Family day care educators must have or be actively working towards at least a Certificate III level education and care qualification. For co-ordinators, qualification requirements are higher. Co-ordinators must have at least an approved diploma level qualification in education and care. Family day care is subject to the same assessment and rating process as long day care. As of March 2014, over half of the family day care services which had been assessed had been rated as either a 'Meeting' or 'Exceeding' the required standard.

## 3.2 CO-ORDINATION UNITS

Operators of approved family day care services ('service providers' or 'services') are responsible for managing all aspects of their operations, and those of the educators they employ or contract to provide education and care to children (Department of Education, 2013a). Approved providers have a series of responsibilities under relevant legislation and regulation, including fulfilling requirements under Family Assistance Law (to enable families to receive the Australian Government subsidies, Child Care Benefit or Child Care Rebate); ensuring family day care is delivered by suitable personnel in a safe care environment; and ensuring provision meets the National Quality Standard (Department of Education, 2013a). A key element of the family day care model is that co-ordination units work to ensure regulatory compliance and quality improvement, and that educators, children and families are well supported. In particular, co-ordination units perform legal, regulatory and administrative responsibilities and provide face-to-face supports to educators, to enable them to focus on children's learning and developmental outcomes. Under the Education and Care Services National Law, service approval for family day care is granted only if the approved provider ensures that "(a) sufficient persons are appointed as family day care co-ordinators to monitor and support the family day care educators engaged by or registered with the service; and (b) each family day care educator is adequately monitored and supported by a family day care co-ordinator" (s. 51). Financial penalties apply if these requirements are not met.

The role of co-ordination units in performing legal, regulatory, and quality monitoring responsibilities is an integral and distinguishing feature of Australia's family day care model. These functions are particularly challenging, as educators are highly dispersed, providing care in private homes. Co-ordination units are distinct from both government regulatory agencies and family day care educators. They act as supportive intermediaries that enable

family day care to comply with regulatory requirements and improve professional standards, to ensure family day care offers families quality alternatives to centre-based care. As most educators are self-employed, co-ordination also supports and helps to sustain a sector of small, female-dominated, home-based small businesses.

According to the Productivity Commission, in June 2014, there were 736 family day care co-ordination units in Australia (Productivity Commission 2014, p85-86). Co-ordination units are generally situated in local regions, enabling co-ordinators to provide regular visits to educators, although educators in regional and remote areas may be serviced by units located large distances away. While models vary, their day to day functions for families generally include providing advice about family day care and local services, referring families to appropriate educators with vacancies, and enrolling families. Importantly, they also administer government subsidies to families, such as Child Care Benefit (CCB) and Child Care Rebate (CCR).

In addition, co-ordination units recruit educators who are either directly employed, or more commonly, independent contractors or small businesses. Services assist educators to establish and operate their businesses. They often process timesheets and pay. They assess educators' homes and ensure they are suitable, help educators' families understand the nature of the work, and ensure they have access to professional development, sometimes delivering their own training programs. On top of this, co-ordination units mentor educators and provide assistance with planning and documenting educational programs. This is an important role. In a 2013 ACECQA survey, for example, around three quarters of family day care educators reported that they found recording children's learning to be challenging (ACECQA, 2013: 88). Co-ordination units also help educators to monitor child wellbeing and development, and to link children and families to health and other services and supports, when concerns arise. Finally, some family day care services provide equipment, or resources such as book and toy libraries, or provide play sessions for educators and children.

## 4 THE COMMUNITY SUPPORT PROGRAMME

### 4.1 BACKGROUND TO THE COMMUNITY SUPPORT PROGRAMME

While the majority of funding for family day care comes from fees from families, family day care services also obtain some direct support from the Australian Government, in the form of operational subsidies. Operational funds have their origins in the Commonwealth's commitment to ongoing subsidies in the mid-1970s (Jones, 1987). A standard funding formula was used which was directed to support units rather than educators, and aimed to meet the administrative and support services provided by schemes, and this rate increased through the 1980s, in recognition of growing regulatory demands (Jones, 1987).

In recent years, the Australian Government has provided family day care services with support from the Community Support Programme (CSP) to help with the establishment and operating costs of childcare and thereby to improve access to child care (ANAO, 2012: p15). CSP funding is also available to services providing long day care and out of school hours care, although with tighter eligibility arrangements and less generous payment rates than for family day care.

The 'operational funding' component of CSP supports family day care co-ordination units. This funding provides a contribution to the expenses that services incur in supporting and monitoring compliance among their network of educators. The availability of the CSP from 2004, and the removal of caps on approved places in 2007, have been recognised as key factors which facilitated the expansion of family day care, with services increasing from 387 in 2011-12 to more than 700 in 2014 (Productivity Commission, 2014: 456). Rapid growth has also changed the composition of the sector, as new entrants to the market in the last two years have primarily been private providers. The rapid pace of growth has also meant the sector has become dominated by relatively new services. Indeed, over 80% of family day care services have been operating for less than 3 years (Productivity Commission, 2014: 456).

The report by the Australian National Audit Office in 2012 represented a turning point in the administration of the Community Support Programme. ANAO expressed significant concerns about the Programme, and its administration. In particular, it identified that the Department of Education, Employment and Workplace Relations, which assumed administrative responsibility for the program in 2007, had maintained CSP eligibility criteria and payment rates, despite rapid sector expansion (ANAO, 2012: 15). Moreover, ANAO reported that the Department had not clearly aligned the programme to its objective of supporting service provision in 'areas where the market would otherwise fail to provide childcare services', as it had not defined where these areas were, or their circumstances (ANAO, 2012: 16, 31). ANAO also raised concerns that long day care and out of school hours care services were subject to stricter CSP eligibility requirements than family day care, including socio-economic status and remoteness measures. In addition, ANAO pointed out that unlike family day care, long day care services were eligible for CSP only if deemed to be the 'sole provider of care in an area of need'. A final concern raised by ANAO (2012) was that the programme provided much higher levels of support to family day care than OSHC or LDC, as it supported family day care at specific rates per child per hour

of care. As a result, programme outlays had increased significantly as the sector had grown. Indeed, inconsistency in eligibility requirements and payment arrangements for different forms of care meant that 71% of CSP funding was directed to family day care, although these services accounted for only 10% of children in formal care (ANAO, 2012).

The rapid growth of the family day care sector, and the wide availability of Community Support Programme funding had the effect of increasing Federal budgetary outlays. Spending growth was considered to be poorly targeted. According to the Productivity Commission, in 2012-13 the CSP provided almost \$130 million to 2122 providers (including Long Day Care and Out of School Hours Care) (Productivity Commission, 2014: 137). In Family Day Care, 429 providers received operational support, the main type of CSP funding, and 92 received 'establishment assistance' (Productivity Commission, 2014: 137). Reiterating a key finding of the ANAO report (2012), the Productivity Commission noted that despite the program's aims of supporting services in disadvantaged, regional and remote areas, most CSP funding has been directed to family day care services in major cities (Productivity Commission, 2014: 138).

## 4.2 SUMMARY OF CHANGES TO OPERATIONAL SUPPORT FUNDING

On Friday 21 March 2014 Assistant Minister for Education Sussan Ley announced that the eligibility criteria for *new* family day care providers to receive operational funding would be brought into line with the criteria applying to LDC and OSHC. This meant that family day care services applying for CSP funding would need to be the only provider of family day care in the surrounding areas and demonstrate a local need for ECEC. This new measure applied to new services from 1 April 2014 (Department of Education, 2014a). In announcing the changes, the Minister recognised that the exemption of family day care services from stricter criteria applying to other service types had helped the family day care sector become a viable child care model. However, she stated that changes were needed to refocus the program on the objective of supporting regional, remote and disadvantaged areas (Ley, 2014).

As part of the 2014–2015 budget, these arrangements were extended to apply to *all* services. Due to come into effect in July 2015, the arrangements announced involve significant tightening of eligibility for CSP funding for all services, to both rein in funding and stem sector growth. Budget papers indicate the tighter criteria would provide savings of \$157.1 million over three years (Commonwealth of Australia, 2014: 81).

Following the changes scheduled for July 2015, operational support will only be available to family day care services located in areas where there is demonstrated need for ECEC, where applicants are the only provider in their local area, and where services operate either in the most disadvantaged urban areas, or in regional, rural and remote areas.

The eligibility criteria are highly complex. There are two main aspects (Department of Education, 2014b):



1. **Demonstrated need for ECEC**- all services must show, to the satisfaction of the Department of Education, that there is a *need* for ECEC services in the area/s in which they operate.

and

2. **Location criteria:** These draw on a number of geographic divisions (GISCA, 2014).
  - a. **Outside major cities** - If 51% or more of a service's educators are outside a major city<sup>3</sup> (inner or outer regional, rural or remote), then it must be the only service operating in the local area (SA2<sup>4</sup>) in which they are located.
  - b. **Major cities** - If 51% or more of a service's educators are inside a major city<sup>5</sup>, then:
    - i. It must be the only service operating in the local area (SA3<sup>6</sup>) in which it is located, and
    - ii. The location must be disadvantaged – that is, considering all the SA2s within that SA3, at least 50% of the SA2 must be in the lowest SEIFA decile.<sup>7</sup>

From 1 July 2015, these eligibility criteria will apply to all services, not only new services. Only those services that meet the new criteria will be eligible for operational funding. In addition, under the new rules, there will be an upper limit on funding of \$250,000 per annum for each eligible service.

These changes to operational support are being accompanied by changes to Set Up Assistance and Regional Travel Assistance Grants. These grants have been provided to help co-ordination units with the costs of travelling to provide support to educators in regional, rural and remote areas. Services that are eligible for Operational Support must fulfil additional criteria to be eligible for Set Up Assistance and Regional Travel Assistance Grants (Department of Education, 2014b). It is not as yet clear what the additional requirements will be. However, it does seem that services based in major cities that become ineligible for CSP funding will no longer be eligible for Regional Travel Assistance, even if they support educators in regional, rural or remote areas. In addition, sustainability funding, which has subsidised small regional and remote services that have been unable to survive solely with operational funding, is due to cease.

In July 2014, the Senate Education and Employment References Committee noted the difficulties these changes were likely to present to the sector. The Committee accepted evidence from the family day care sector that the CSP supports critical services, including for those in regional and rural Australia, those from low income families who are vulnerable to price increases, and for families with parents performing shift work who require flexible hours (Senate Standing Committee on Education and Employment, 2014: 17–18). The

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<sup>3</sup> According to the Accessibility/Remoteness Index of Australia (ARIA+) definition.

<sup>4</sup> Statistical Area Level 2 is a population cluster of between 3,000 and 25,000 people, for example in a rural town, a commercial and transport hub in a major city, or the major city itself (ABS, 2011a). Larger cities might consist of several SA2s.

<sup>5</sup> According to the ARIA+ definition of a major city

<sup>6</sup> An SA3 is between around 30,000 and 130,000 people which function as clusters of related suburbs, for example around urban commercial or transport hubs. SA3s are a larger geographic area than SA2s, so that there are several SA2s within an SA3 (ABS, 2011a).

<sup>7</sup> Measures of socio-economic advantage of locations using the Socio-Economic Index for Areas (SEIFA) of the ABS (2011b) which allow the comparison of levels of disadvantage in areas (ABS, 2011b).

Committee described the changes as an “ill-conceived budgetary measure designed to maximise savings at the expense of quality family day care services” (p17).

## 5 METHODOLOGY

Research findings are based primarily on interviews conducted with key informants from the family day care sector. We invited 54 people to participate in telephone interviews, which were conducted over a two week period in August and September 2014. Those invited to participate were leaders in the family day care service sector, and held senior positions in service provider organisations and peak bodies, and represented a mix of large and small organisations; rural/regional and city based services; and community-based, private and government services. Interviews were completed with 18 people in the time frame available.

The interviews, which were conducted over the phone, explored interviewees' experiences with co-ordination; the role co-ordination units play in the family day care system; the pressures facing co-ordination units, support received for co-ordination from the Community Support Program, and expectations as to the impact of changes to CSP. Participants were also asked about how their organisation resourced and operated their co-ordination support activities, alternative models their organisations were exploring or had considered, and how they would like to see family day care co-ordinated in the future.

In addition to the interviews, we also examined background material about the operation and resourcing of family day care co-ordination; along with the CSP guidelines and communications from the Commonwealth and from sector leaders relating to the changes to be introduced in July 2015.

### 5.1 INTERVIEW PARTICIPANTS AND THEIR SERVICES

Interview participants held senior roles in co-ordination units of a range of private, community and government-run family day care services. Some were located in local councils or in community-based services which provided other forms of ECEC such as long day care, in-home care or out of school hours care, and some were part of organisations which provided a range of community services and supports, in addition to children's services. Interviewees represented services from each Australian state and territory, with the exception of the Northern Territory. Although 13 privately-operated services were invited to participate, only one agreed to be interviewed.

The services nearly all worked with educators who were running small businesses, rather than being directly employed. The number of educators supported by a single co-ordination unit ranged from eleven to two-hundred and fifty, and educators were most often spread over many suburbs or areas. One, for example, had educators divided between a low socio-economic suburb on the outskirts of the city and a high socio-economic suburb closer to the city centre. Most co-ordination units supported educators in many regions, sometimes spread across large parts of the state. Regional services typically worked across very large geographic areas.

## 5.2 CURRENT MODELS OF FUNDING AND OPERATING CO-ORDINATION UNIT ACTIVITIES

Interviewees explained how at a minimum, co-ordination units processed Child Care Benefit and Child Care Rebate, and maintained safety and quality ECEC through visits to educators' homes. Most recruited educators, and sought to support them through face-to-face contact ranging from several times a month, to once every six weeks. In many cases, the frequency of contact depended on the needs of educators. For example, new educators, or educators with children with particular needs, could require more intensive support. It was common for services to visit educators every 2 to 3 weeks, or once a month. While it was not possible for the research to capture detailed information about the nature of visits to educators, it appears there is much variation in the range of services and supports offered. Some described visits of high intensity, involving very close monitoring of safety, hygiene, and compliance with the NQF and EYF, as well as time spent in activities with children, and role modelling to educators. Some organisations provided additional services including community and educator play groups, toy libraries, training and telephone support. Some had face-to-face meetings with parents, to ensure they were matched to educators who met their needs.

In the vast majority of cases, services charged families and educators small levies to support co-ordination activities. Respondents placed much emphasis on keeping these charges low, to maintain affordability. Administration levies on families tended to be charged on the basis of a cost per hours of care per child. In some cases, levies were charged for the first child in a family only, to help ensure affordability for large families. A levy on families of 35 cents per hour was considered low, while charges of \$1.10 were at the upper end. Levies placed on educators tended to be low, although services structured them in many different ways. One charged educators a low flat annual fee of \$180, for example, while another charged \$3 per week. Some charged educators the same amount they charged parents, while others charged fortnightly fees of around \$20 to \$40. In other cases, services charged educators a portion of their income, such as 5%. Some were considering a tiered system, for example with three levels. A few interviewees commented that the structure of levies to educators and families didn't matter, as all charges tended to be passed onto families.

## 6 EXPECTED IMPACTS OF THE CHANGES

### 6.1 ELIGIBILITY FOR CSP

Research participants were anxious about the impact of the changes, and recognised that their service must make decisions soon. Some commented that the funding guidelines for the Community Support Programme, and information about the changes, had been difficult to understand. They commented that they found the eligibility criteria rigid, complicated, and poorly linked to the CSP's objectives. Many expressed shock, confusion and disappointment about the changes. One interviewee explained how the changes had been communicated to her, and how she felt quality in the family day care model had been undermined:

*It was convoluted, there was very little explanation. When I first read it I thought we are going to lose some funding because it said there would be a maximum of 250 (thousand dollars). But I thought surely with the requirements for quality that everyone has worked together with the government to support, they're not going to remove the funding. How does that equate? To me it says we don't really care about quality. (regional service, NSW)*

There was some confusion about whether the location of their service would be determined by the location of their co-ordination unit or their educators. Some interviewees felt their service may be disadvantaged by apparent anomalies in the funding guidelines. For example, it was seen as problematic that the location of the service was defined according to the address of its co-ordination unit, in cases where there were less than 51% of educators in a single area.<sup>8</sup> Most respondents, however, understand that their service will not be eligible for operational funding in 2015.

Even those who expect to be eligible are concerned that the application process will not open until April 2015, which gives minimal time to adjust their model should their application for support be unsuccessful. The uncertainty was seen to be particularly problematic for government run services, as these services needed to complete budgets for their organisations much earlier in the budget cycle, in many cases in late 2014. One participant explained how her service was hoping to receive more information:

*We are basing [our understanding that the service will be eligible for Operational Support] on the self-check. I just hope that that is correct because there is no more information available. I checked with our worker in the Department, but they don't have any more information. I would prefer we had more certainty. (regional service, WA)*

Eligibility also rested on services being the only service in the area, so there was much uncertainty as another entrant to the field could cause the loss of eligibility. One interviewee described how they had determined that their service was eligible, but considered this extremely precarious:

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<sup>8</sup> As per the self-assessment checklist for family day care services, in some circumstances the location of a regional or remote service could be based on the location of its co-ordination unit (Department of Education, 2014c).

*It's a bit of an unknown for us. At the moment, it would appear by the criteria that we are eligible to put in an application for CSP. We are the only service that has a registered co-ordination unit in our area. The issue we have is that can change on any day because new services can start up or people can change the registered addresses of their service. So today we are eligible but if one of the other services relocated their head office to here then we wouldn't be eligible. (regional service, NSW)*

Another service observed that it would be ineligible because a private service had set up in the area. The interviewee explained:

*We wouldn't qualify under the eligibility criteria because one private service has set up in our LGA, and that private service is running family day care all over the state. From a business strategy view, it's very easy to block others from being eligible for anything, I don't agree with that. (regional service, NSW)*

For regional, rural and remote services, there was also uncertainty about whether they would continue to be eligible for the Regional Travel Assistance Grant. Participants explained that journeys in some parts of Australia to visit educators are lengthy and time consuming, and so without financial assistance, it would be extremely costly to provide face-to-face support to educators in distant locations. In one service in WA for example, coordinators fly around the state to visit educators. If this service were no longer eligible for the Regional Travel Assistance Grants they would cease support for their remote educators, which would have major consequences for those communities.

*We go to some towns where we are the only service that goes to that town. If we pulled out then those childcare services would have to close (regional service, WA).*

Given the serious implications for services if funding was lost, it was important to services to obtain certainty. Several said they would find it helpful if they could apply for funding before April.

While a few respondents were confident that their service, or part of it, would be eligible for CSP, many were concerned that the amount of funding received would be lower than they had received in previous years because of the introduction of the \$250,000 threshold. Many also remained unsure of what the application process would involve, or what would be considered adequate evidence of service demand in their area. Many felt the changes would lead to ongoing uncertainty and instability, as they would need to reapply every 12 months. One interviewee commented that this would not resolve uncertainty about their longer term status and viability. This interviewee expressed concern that the government may soon withdraw the programme altogether.

## 6.2 SECTOR-WIDE IMPACT

Overwhelmingly, respondents were concerned that the withdrawal of CSP funding would have adverse effects on the family day care sector as a whole, including its capacity to provide a high quality, affordable alternative for families, and to provide a source of home-based employment for educators. Some were grateful that their organisation was linked to peak bodies that were assisting services to respond, but nonetheless felt the changes to CSP presented a turning point for family day care which risked reinforcing its image as the 'poor cousin' of long day care. One explained, for example:

*I'm mindful that we're not going to realise what we've got until it's gone (metropolitan service, ACT)*

Respondents talked about how the loss of operational support would inevitably lead to increases in levies charged to families and educators, and loss of staff numbers or hours. Many interviewees from community-based services were concerned that their focus would be diverted to their bottom line, and away from children and families:

*We are very nervous as service providers and we have had many sleepless nights. This is people's livelihoods and it will impact on my organisation and families. (metropolitan service, VIC)*

Some were also concerned that increased costs and reduced quality may cause parents to pull children out of family day care, especially in disadvantaged areas, where parents were least able to contribute to increasing costs. Many also felt that many family day care services would go out of business, or at least that the changes would deter new entrants. However, there were exceptions to this view. A few interviewees commented that tighter funding rules were a necessary response to the rapid growth in the number of services which had occurred in recent years. A couple felt that their co-ordination unit was sufficiently resilient and would be able to manage without CSP if they employed more efficient business practices.

## 6.3 IMPACT ON EDUCATORS

Almost all respondents expected the loss of operational funding to adversely affect educators, as it would constrain the levels of support they could provide. One respondent explained how the loss of quality co-ordination functions could deter educators from the system:

*Co-ordination units are an essential element of the family day care system. With our own service I know the educators themselves, we have quite a few who say they wouldn't work in the field if they didn't have us here to support them, to manage all the financial side, and the family payments CCB/CCR all of that. (regional service, VIC)*

Several interviewees saw their service as important for supporting educators as small business owners, and supporting family day care as a source of employment for women, who were often from culturally and linguistically diverse backgrounds. One respondent for example was concerned that educators would lose the only income they had known since migrating to Australia. Many of the educators at this service were new migrants who had found it difficult to secure employment. Through family day care they had received training

and started operating as sole traders, but they relied on their co-ordination unit for critical support in training and in establishing their businesses. This respondent felt that these educators would cease to operate and need to rely again on Centrelink income support.

*The educators are very proud to contribute to development of their new country. Now this is another barrier...Does the Government want people to stay on Centrelink?...People will go back to Centrelink, they'll not be working, feel that they have no future, maybe some family issues, more divorce. (metropolitan service, SA)*

This respondent was concerned that the positive contribution to the community that the service had made by providing educators with employment could be undone.

## 6.4 IMPACT ON SERVICE QUALITY

Overwhelmingly, respondents were concerned about the prospect of lower service quality, and were struggling to determine how to maintain and increase quality as financial sustainability was becoming the priority issue. One participant aptly described co-ordination as the 'lynchpin' in the family day care model, enabling services to meet a quality baseline:

*Co-ordination is actually like a lynchpin, it sort of holds it all together. It connects the children and the families and the educators but it also ensures the fact that we do have a quality baseline. We often say in our service that the regulations and the law are minimum standards. We want to have a service that does not operate at that. It has to be higher. We have to aim for higher. And I think that every child in Australia that accesses family day care should have that. (metropolitan service, NSW)*

Many other respondents also expressed discomfort with the prospect of reducing supports to educators, as the sector had worked to improve quality and professionalise service delivery in recent years, and did not want to see that work undone. Many had also achieved efficiencies to enable reduced child to staff ratios in recent years, and to fulfil the increased administrative demands of the NQF (ACEQCA 2013). A number of respondents described the pressures they had faced to promote understanding of, and compliance with the NQF, including for educators from culturally and linguistically diverse (CALD) backgrounds, and those who had been working for many years without formal qualifications.

Respondents were concerned that co-ordination units would need to reduce staff hours and the frequency of service visits to make operational efficiencies, and that fewer staff hours would translate into less face-to-face support for educators. Several were concerned about the loss of diversity of family day care service delivery, such as facilitated playgroup sessions, and professional development opportunities for educators.

Some respondents also pointed out that the loss of co-ordination functions was particularly alarming because of the high levels of oversight that family day care educators require, especially as educators work on their own, running businesses from home, where other family members may be present:

*It's not just about the educator but the whole household – other family members can change the dynamics which means visits cannot just be in*



*business hours, but must be whenever educator is working. (regional service, TAS)*

*I'm worried about quality; we have to find a balance. There are suggestions that family day care shouldn't be in the NQF – no way. They need it more than anything because they are sole practitioners. Quality needs to be maintained. (metropolitan service, VIC)*

Respondents expressed commitment to retaining and improving quality standards, and made a case for a subsidy to support co-ordination activities, based on structural features of family day care, and the need for external support for educators to ensure quality.

*We've always achieved the highest level across the seven quality areas and we're very proud of that. It takes resources to do that. It means constant support and monitoring of services, not just visiting once or twice a year. (regional service, NSW)*

## 7 MODELS FOR SUSTAINABILITY

Given the diversity of circumstances in which family day care services operate, there is no single or universal model for viability and sustainability which can be rolled out nationally. Consequently, this section discusses a range of models and strategies which services have adopted (or contemplated) and which could potentially be employed to achieve sustainability in the new funding environment. Case studies are included, to demonstrate models in practice. However, it should be noted that many of the models were planned, and none had been subject to rigorous evaluation.

Many interviewees we spoke to were proud of improvements in quality they had achieved in recent years, and were looking for solutions for their service that would allow them to maintain their focus on quality. As such, many services were in the process of scoping ways to increase income and reduce costs so that service levels and models could be maintained. Few were considering closing altogether, merging or relocating, although several services noted that closure and relocation were options they would consider in coming months.

When asked about how their service would respond, interviewees often reiterated the crucial role that operational funding played. A small number suggested that CSP was overly generous or an 'easy win' for their service. For the majority, however, CSP was considered essential for ensuring regulations and quality standards were met:

*I do have concerns about where we're going. I think co-ordination units can reshape slightly. But we really definitely need some financial assistance to make sure the quality care is there. (metropolitan, NSW)*

While some interviewees had moved very quickly to develop options following the announcement of changes to the CSP, others remained unsure how they would respond. Notwithstanding, interviewees were generally open to ideas about how quality co-ordination could be maintained:

*I'm open to innovative and exciting ideas, but I find it very hard to get away from the fact that I can't see how this won't have an effect on educators and families. (metropolitan and regional service, South Australia)*

Overall, a series of possible strategies, or models, were identified, based on respondents' input. Table 1 summarises the models which services could potentially explore as means of achieving sustainability following loss of CSP funding. These components are discussed in more depth in Sections 7.1 to 7.6, with case studies provided as illustrations of services have adapted, or are seeking to adapt.

This framework is intended to assist the sector to reflect on business planning options.

**Table 1: Models for sustainability**

	<i>Example</i>
<b>Obtain support from a sponsor organisation</b> <i>(see section 7.1)</i>	<ul style="list-style-type: none"> <li>• Organisation provides ongoing funding to maintain service</li> <li>• Organisation temporarily allows service to run at a loss, for example while fee increases are phased in</li> </ul>
<b>Contain costs and emphasise business efficiency</b> <i>(see section 7.2)</i>	<ul style="list-style-type: none"> <li>• Reduce co-ordination unit staff hours</li> <li>• Reduce services (eg face-to-face visits, outreach, playgroups)</li> <li>• Select 'low maintenance' educators</li> <li>• Reduce administrative costs (eg share back office support, co-locate)</li> <li>• Reduce number of educators</li> </ul>
<b>Increase income</b> <i>(see section 7.3)</i>	<ul style="list-style-type: none"> <li>• Increase income from levies on educators</li> <li>• Increase income from levies on families</li> <li>• Add or increase an alternative income stream (eg nannies, training)</li> <li>• Fundraising</li> </ul>
<b>Adapt to meet eligibility criteria</b> <i>(see section 7.4)</i>	<ul style="list-style-type: none"> <li>• Recruit educators in eligible areas</li> <li>• Relocate operations</li> </ul>
<b>Merge or amalgamate</b> <i>(see section 7.5)</i>	<ul style="list-style-type: none"> <li>• Takeover of one service by another, which becomes the new owner (amalgamation, or acquisition).</li> <li>• Two or more services agree to join up to form a single new service, rather than operating separately (merger)</li> </ul>
<b>Cease provision</b> <i>(see section 7.6)</i>	<ul style="list-style-type: none"> <li>• Organisation ceases to deliver family day care</li> <li>• Business closes altogether</li> </ul>

## 7.1 OBTAIN SUPPORT FROM A SPONSOR ORGANISATION

Being part of, or linked to, a sponsoring organisation such as a local council or larger community organisation potentially offers protection to some services. While some sponsors may offer ongoing support, for others, this will be a temporary measure while the family day care seeks to adapt.

### Figure 1 A model of organisational sponsorship

This small service employs two part time staff and is sponsored by a local Council in a rural area. Although the Council's budget had been under pressure in recent years, it remains committed to family day care provision, and provides the small co-ordination unit with some financial support. In addition, the unit receives around \$40,000 in CSP. Like most other services, this service also charges families an administration levy. This is currently set at \$3.30 per day for the first child in a family only, to maintain affordability for large families. Also, like many other services, a levy on educators was charged, set at \$20 per fortnight.

With this level of support, a fieldworker has been able to visit educators every 2 or 3 weeks. The fieldworker monitors the program, including safety and hygiene and coverage of the NQF and EYF. The worker also spends time doing activities with the children, builds relationships, and role models to educators. After each visit, the field worker completes a field visit report. The service also runs a small equipment and book library.

Travel costs are required for field visits, as many of the educators are located in surrounding villages and towns. The service recently lost Regional Travel Assistance Grants. However, the service appears resilient, largely because it receives financial support from Local Government. It is also resilient as its funding base is diverse, being spread across council, government, educators and families.

The service is fortunate in that it is likely to remain eligible for CSP funding, as it is in a rural area which is not serviced by other family day care operators. It was considered unlikely that another operator would set up in the area, as it would not be financially viable, largely because of the costs of travel to visit educators working in surrounding villages and towns. Because of the small number of educators serviced, it was expected that funding would not be affected by the introduction of a \$250,000 cap.

Having a sponsor provides opportunities to cross-subsidise services. Thus, running family day care at a deficit, which could be covered by the sponsor, is technically a possibility for some. At the time of the research, several research participants who were likely to lose CSP funding were in the process of requesting ongoing or temporary funding, and establishing the likelihood and level of support from their organisations. In some cases, sponsor organisations have been very supportive. One respondent explained that their organisation intends to support the service because family day care is well aligned with the organisation's broader mission:

*We don't want to close our family day care scheme. It's part of the organisation and viewed quite strongly in terms of what we do to support women to take part economically and take part in the community.  
(metropolitan service, ACT)*

In other cases however, the organisation had accepted that following the loss of operational support, family day care will run a deficit temporarily, while fee increases are phased in.

*We've already reshaped our services to minimise the cost of providing it. So how it will affect us is that the organisation will possibly run at a loss for a couple of years, if we don't put fees up, which unfortunately goes to parents' childcare fees. The organisation is considering taking a hit or a loss for the first year (metropolitan service, NSW)*

However, some services have been informed that even temporary deficits are not an option. Many participants explained how both council and community service services were under budgetary pressures. Many family day care schemes were required to break even and be sustainable in their own right, even when they were sponsored. In more than one case, family day care schemes were charged administrative costs by council, for example for HR and other support. Some respondents suggested that instead of directly providing family day care, councils wishing to maintain family day care capacity may approach community based services to deliver services.

## 7.2 CONTAIN COSTS AND EMPHASISE BUSINESS EFFICIENCY

Containing costs and emphasising business efficiency are likely to become key to sustainability in the post July 2015 funding environment. Interview participants outlined a number of cost-saving measures their organisation had introduced or considered. These include employing coordinators in close proximity to educators, in order to minimise travel costs; reducing staffing hours and costs; reducing the level of service provided; being more selective about their educators; reducing administrative costs; co-locating with other services; and sharing administration across services. Figure 2 provides a case study of a model based on economies of scale and business efficiency.

**Figure 2 A model of scale and business efficiency**

This large non-profit service operates over a number of areas and has grown rapidly in recent years. A combination of low levies and professional support are seen as key to attracting educators. The service is linked to a large community service organisation, but operates as a stand-alone business unit. The coordinator has considerable experience in efficiently managing non-profit services with constrained budgets. Fourteen co-ordinators support approximately 250 educators who, in turn, care for 2800 children. Co-ordinators are widely dispersed to ensure proximity to educators and to reduce travelling costs. Two senior co-ordinators (one city-based and one in a regional location) provide an additional layer of support and the nominated supervisor is on call at all times.

The business model for this service assumes 4 hours of support per educator per month. Thus, a co-ordinator working a 38 hour week would support and monitor 38 educators. Many co-ordinators are employed part-time and support a smaller number of educators.

Currently, educators are charged a weekly fee of \$3, plus 35 cents per hour per child enrolled. The service has not raised its levies in advance of the Commonwealth government changes, but accepts that it will need to do so once it loses operational funding (which is currently in the vicinity of \$1 million per year).

The combination of efficient management and economies of scale are expected to keep this large, dispersed service sustainable.

## REDUCE STAFFING COSTS

Many respondents expect to reduce staff costs by reducing the number of positions in the co-ordination unit or, alternatively, retaining the number of positions, but with fewer hours. Some for example, talked about reducing the number of program co-ordinators from three to two, or by changing a position from four to three days per week, but were generally reluctant to do this because of the impact on educators, children and families, as well as individual staff.

Several interviewees described how, as managers, they were in difficult positions, as they were confronting the need to retrench staff or reduce staff hours. In some cases, interviewees' own positions were at stake. Some hoped staff numbers would fall through natural attrition. Some also mentioned that their organisation had recently reduced staffing costs, in response to lower educator incomes resulting from changes to staffing ratios under the NQF. These managers felt staffing was already lean, and were unsure they could reduce staff numbers or hours further, without severely compromising levels of quality.

## REDUCE SERVICES

Another option being considered by interview participants is reducing co-ordinator unit staff numbers and costs. Although this option is under active consideration, many noted that face-to-face time with educators, children and families would be lost, and that this would potentially undermine safety and quality. Many felt the impressive improvements to quality achieved in recent years could not be maintained:

*We've been assessed and rated as meeting standards, maintaining that quality rating will be challenging with less support. (metropolitan service, ACT)*

Visits to the homes of family day care educators lie at the heart of the model of co-ordination unit support. These visits were considered by respondents to be an essential component of the regulation of family day care services, and the key means for monitoring and maintaining quality. For this reason, some services were doing their utmost to avoid reducing the frequency or duration of face-to-face educator support. As one respondent said:

*We physically go and visit. I don't believe that contact can be a phone call to say how are you and they say fine and we say see you later and tick a box. It just doesn't work for us. You go to their home and because it is their home, sometimes they're doing things that they think are right. But because it's their home they've overlooked something or a family member has introduced something. And we can pick it up then and there and its rectified. Which cuts down on the issue of accidents or injuries to children. We want to physically be out in their homes. Most of the time my staff have is spent in educators' homes (metropolitan service, NSW)*

Another explained why their service was reluctant to change the frequency of visits to educators:

*We currently visit each educator three times per month. We do one long visit and a couple of short visits. Each visit has a different focus, like developing and delivering educational programs, legislative*

*requirements, checking paper work. Reducing the number of visits is not an option for us. It would reduce quality. (metropolitan service, VIC)*

Others felt that reducing the frequency of visits to educators' homes was inevitable. Most services we spoke to were visiting educators every two or three weeks, and indicated this could be pushed back, to, say, once every six or eight weeks, or less frequently. Some services were also considering reducing the more intensive visiting they provided to new educators and limiting or cutting visits to educators during their evening or weekend hours of operation. One respondent reported reducing out-of-hours support needs by only allowing families who were eligible for the full 50 hours of Child Care Benefit to access non-standard hours family day care. Families who were eligible for just 24 hours of Child Care Benefit could only use family day care during regular work hours, Monday to Friday.

Many family day services expect to cease providing additional services and resources such as toy libraries, or playgroups for educators to attend with the children in their care and playgroups for local communities. Many are considering reducing or removing these, albeit reluctantly. Some interviewees suggested pushing some administration back to educators, such as enrolment interviews, or fee estimates.

One interviewee from a community based service noted that the loss of CSP funding would mean they would no longer be able to conduct face-to-face interviews with families. This interviewee described how these face-to-face interviews had allowed them to build rich relationships with families. As such, they were an important way the organisation enacted its community-based ethos. Face to face interviews provided opportunities for co-ordinators to become aware of the complexity of a family's situation, enabling them to refer families to other services in the community to meet developmental or family support needs. This interviewee was concerned they would not be able to build the high quality relationships necessary to identify child or family wellbeing concerns if funding reductions caused them to shift to telephone communication with families only.

## **SELECT 'LOW MAINTENANCE' EDUCATORS**

A number of respondents noted that the cost of supporting educators could be reduced if they were more selective about which educators they recruited and supported. A couple of respondents said that only working with educators that were located close to their headquarters would reduce the money and time spent on travel to provide face-to-face support. Some were considering, for example, focusing on servicing educators with more experience or with higher qualification levels, on the basis that these educators would need less frequent and less intensive support to provide family day care. In particular, some services had found it especially time consuming to support educators to develop and consistently deliver an educational program, and felt that those with qualifications higher than Certificate 3 level, and those who were native English speakers, would be able to do so with less support. However, it was noted that even highly experienced educators still require regular and quality contact with their co-ordination unit.

## REDUCE ADMINISTRATIVE COSTS

Another cost reduction strategy suggested by respondents relates to the administration of the co-ordination unit. Survey participants suggested improving the efficiency of payment systems, for example by maximising the use of electronic payments, and reducing spending on marketing, printing, and maintaining websites. Some services were considering reducing travel costs by using Skype to communicate with educators, replacing some face-to-face visits. However, this would be done only reluctantly, and some sector representatives were highly critical:

*I know technology is fantastic, but there are things it cannot replace...  
It's very much a people business- parents coming in, they want to talk,  
you have to be available. Doing everything online is not quality.  
Especially when you have a child with particular needs. (regional  
service, NSW)*

Regardless of the scale of cuts to administration, this strategy is unlikely to fully compensate for the loss of CSP funds.

## CO-LOCATE WITH OTHER SERVICES

A small number of respondents are employed by services that are co-located with other organisations. This was commonly the case with government family day care services that shared offices with other parts of the agency. Sometimes, council run services were located on council premises, or council run long day care services, for example. Where they were part of larger organisations, some services were considering moving their administration and co-ordination team into the same building. However, this was unlikely, on its own, to make up for income lost from CSP funding.

## SHARE ADMINISTRATIVE COSTS WITH OTHER SERVICES

A few respondents are investigating the possibility of bringing the 'back office' functions of a number of ECEC services together so that they can be shared, resulting in savings and efficiencies. Managing Child Care Benefit and Child Care Rebate, for example, could be shared across several ECEC providers. Some suggested that community organisations could seek to centralise administration and management of family day care, other services for children and families, and services more broadly. Organisations could then share the costs of the unit, and potentially, negotiate low rent with local councils.

Some sharing of administrative costs was also flagged within organisations. One large community organisation was, for example, looking at amalgamating its family day care scheme with other early childhood services provided by the organisation. In this case, the family day care quality unit would be combined with the unit for out of school hours care. While family day care staff positions were still likely to be lost in the transition to this model, it provided a way that service could be maintained. This model is outlined in Figure 3.



**Figure 3 A model of shared administration**

This is a medium-sized service consisting of a manager, four co-ordinators and an administrative support worker. The service supports 50 educators through fortnightly face to face visits, of 2 hours in duration. The service is part of a large community based organisation that also provides long day care and out-of-school-hours care. It receives a small amount of income from parent fees and from its sponsor organisation. Following the changes scheduled for July 2015, the service expects to lose all CSP funding. The impact is expected to be substantial, as CSP provides around 80% of the co-ordination unit's income.

The service will attempt to remain sustainable, in part, through achieving efficiencies shared administration. The model seeks to reduce costs and 'work smarter' by combining the FDC coordination unit with the co-ordination unit for school aged care. The two functions currently being run separately, and some overlap had been identified prior to the announcement of changes to CSP. Sharing administration with other ECEC services provided by the organisation is hoped to reduce the costs of family day care.

There is organisational commitment to developing this model. Senior managers are keen to retain the family day care scheme as they see it as important to how the organisation achieved its mission.

Notwithstanding, combining administration of the FDC and out of school hours care services requires the organisation to take on some risk, and there is likely to be a loss of dedicated family day care staff. The loss of CSP funding is expected to push face to face visits to educators back from fortnightly to monthly. There is also expected to be more reliance on IT for communicating with educators. However, the service was hoping that in developing this model it would avoid raising fees to families.

## 7.3 INCREASE INCOME

As well as reducing costs, services are developing ways of increasing income to compensate for the loss of operational funding. Most interviewees expect to increase educator and family levies, with many describing such increases as 'inevitable'. Some suggested other strategies, including diversifying services to add an income stream. Several noted that depending on policy decisions following the Productivity Commission's (2014) report into ECEC, it could be a natural extension of family day care schemes to regulate nannies providing care in families' homes.

### INCREASING INCOME FROM EDUCATOR LEVIES

Almost all respondents said that it was likely that their service would have to increase or introduce levies on educators. Interviewees described how levies were charged in a range of ways. Typically educators pay a weekly fee for the services provided by the co-ordination unit. These are, in some cases, a very low flat rate or hourly rate per child; others pay an annual fee or percentage of their fees income. None were charging on a 'user pays' or 'fee for service' basis.

A number of services are investigating the possibility of changing arrangements to charge educators fees that were a percentage of their income, for example 5%. Some services operating across areas are considering charging different fees for educators in different locations. For example, educators in high socio-economic areas, where there were higher

incomes and higher capacity to pay, could pay higher fees than those in a lower socio-economic area. Other services already charged higher fees to more remote educators who were more expensive to support (for example, because the cost of travel for face-to-face visits was high). In South Australia, most educators are not currently charged an administration levy, and the introduction of one was seen as a notable change to the model.

Interviewees discussed their concerns about raising educator fees, aware that educators tend to earn very low incomes. Some said they would try to minimise fees and instead try to grow their educator base, so their income was more broadly spread. Most pointed out that as small businesses, educators are highly likely to pass increased costs onto families. Thus, increases in levies on educators would effectively increase costs for families. Some noted that it might be difficult for educators to pay higher fees at some times, such as when establishing their business or when are not operating at full capacity. One interviewee regarded charging educators on a 'user pays' basis as unfair and inequitable. It was considered especially inappropriate for new educators, who would not have the income as they were building up their business to pay for the help they needed.

One respondent said it was likely that the fees they charged to educators would double. A number thought that some educators would decide not to continue to operate after fee increases, or would opt to be serviced by lower cost private providers, who were perceived to do little to promote quality. Indeed, interview participants explained high levels of competition meant providers were competing to attract educators, primarily by lowering the administrative levy charged to educators. One interviewee explained how there were very high levels of competition in their regional area to recruit educators, which placed downward pressure on the educator levy:

*New educators do shop around these days and there doesn't seem to be a lot of consideration around whether someone's community based or private or whatever they are these days. It's really about who can provide the best service that they want, and who can provide a service at the cheapest cost. (regional service, NSW)*

Another participant explained the risk that announcing higher charges to educators would create opportunities to be undercut:

*We have to be careful because with us, we advertise our charges and the private sector don't advertise theirs, they'll wait and see what we're going to do. And then they have the opportunity to say [to educators] they're charging less. Well of course they are, they're not providing quality support (regional service, NSW)*

Indeed, services could be aggressively competitive in some areas, lowering the prospect that levies for co-ordination unit activities to pay for quality could be increased.

## **INCREASE LEVIES ON FAMILIES**

Interview participants also regarded increases in the administration levy for families to be inevitable. One explained that the administration charge on families was likely to double, which would be difficult for parents, and risked increasing the cost of family day care to levels close to long day care. Many in rural and regional areas were mindful that it would be difficult for families in their area to pay increased costs. One small service, which was

receiving sustainability funding as well as CSP, reflected on the socioeconomic status of families in her area, and observed that in her area:

*You can't just whack fees up to cover what's going to be lost (regional service, QLD)*

At best, services were attempting to gradually phase in fee increases. However, this required a sponsor organisation, such as a council or large community based organisation, to agree to carry a small deficit for the initial period. One explained, for example, how they were proposing that the service's sponsor organisation would take a loss for the first year, as they introduced half of the fee increase in the first year, and half in the second. They felt that while their sponsor organisation was committed to keep the family day care service operating, they were unable to subsidise it for a long period of time, and were expecting fee increases to be passed on within 2 years.

## **ADD OR INCREASE AN ALTERNATIVE INCOME STREAM**

Many interview participants are seeking to diversify their service offerings or to add an income stream. Many mentioned that they are awaiting the Productivity Commission's final recommendations about extending government subsidies to cover care provided in families' own homes by nannies, and the Federal Government's response. Generally, interviewees perceived family day care to be well positioned to play a key regulatory role should subsidies be extended to nannies. As one explained:

*We're hoping to have something in place, to be in on the ground floor should the government decide they're going to pay child care benefit for nannies and open that area up a little bit (metropolitan service, WA)*

*If the government does bring in nanny arrangements, family day care is extremely well placed to take that up in terms of registering people and monitoring them in the homes. We've got those systems already happening. It would be the place to register. (regional service, NSW)*

Interviewees suggested that family day care services could extend to nannies working in children's own homes, the support they provide to educators working in their own homes. That is, they could match families and educators, monitor and manage safety for children and educators in families' homes, and support educators in their practice, through training and professional development, and through home visits.

However, while family day care could adapt to play a role in a new system of care in families' homes, most interviewees saw nanny care as less than ideal from the point of view of standards and quality. Further, many felt the Federal Government's discussion of nannies overlooked the strength of family day care as a high quality model of in-home care:

*We just feel that by totally out of the blue the way they've decided to defund virtually our quality support unit, that this is as a result of them looking to bring nannies on board for subsidies.... Family day care is a very flexible model of care. We could have extended its flexibility. (metropolitan service, ACT)*

*You get the feeling they're searching for other models when I don't think there's anything wrong with the model we have (regional service, VIC)*

In addition to nannies, some respondents are exploring raising income through 'selling' products or services. One service indicated it was intending to start a retail business selling baby products such as nappies to the public as well as educators and families. This is detailed in Figure 4.

**Figure 4 An entrepreneurship model**

This private service operates in a metropolitan area, and serves 60-70 educators. Around 80% of educators are from migrant backgrounds; they include many new arrivals from African, Asian and Middle Eastern backgrounds.

Because of the location criteria, this service is likely to lose its operational funding. Currently the service charges educators \$0.69 per hour, matching the CSP funding. It does not charge family levies. Consequently, without CSP, the service budget will halve, which may result in closure of the service.

Being committed to its educators and families, the service is considering several strategies, guided by a new business model which it is in the process of developing. One option is to raise fees to educators. Family fees were deemed not to be an option. A second option was expanding into Out of School Hours services.

Thirdly, to avoid raising fees by the full \$0.69 per hour which would be lost from CSP, the service was considering diversifying its income by opening a retail outlet selling nappies and other early childhood items to parents and educators. This business would also be open to the public. This provides a model of entrepreneurship, involving a diversification of the services income base which could be adopted by other services, whether or not they are private providers, or community or government based. Other services may also wish to consider using their networks of educators and families as a basis for retail sales, including early childhood or other items or seek other business opportunities such as offering training services for educators and other early childhood professionals and providing nanny services.

More commonly, interviewees suggested expanding the administrative services of co-ordination units. Several suggested developing revenue streams from their administrative services, such as processing timesheets and CCB/CCR for other organisations, or providing these services to other parts of their organisation. This would involve using the co-ordination unit infrastructure to sell a service to others. Others suggested developing income streams by developing links with local employers to provide care to employee families. Alternatively, income could be generated through partnership with state government programs, such as Brighter Futures in New South Wales, where the state government pays some childcare costs on behalf of disadvantaged families, and can routinely fill vacancies. Another said her service was open to the possibility of diversifying into family support, and had a vision of family day care services being part of 'hubs' or 'one stop shops' for families in rural areas seeking health, welfare or workforce participation supports such as employment services.

One service suggested co-operating with other services and peak bodies to share in the development of an innovative model of service delivery, which would generate income as a demonstration project of flexible provision, and would be used for training purposes and as a best practice hub. However, it was considered difficult to find the time and energy in the sector to drive this innovation. Time constraints had caused relatively small issues to

become large stumbling blocks, and many services were unwilling to share information with competitors.

## **FUNDRAISING**

One respondent has investigated the possibility of covering lost revenue through fundraising. This has been discussed within her organisation, but a determination has been made that this is not an appropriate solution. The loss of CSP will be too large to make up through fundraising. Moreover, fundraising requires some level of staffing and co-ordination. It was also considered inappropriate for educators to be diverted from educating to fundraise.

## **7.4 ADAPT OPERATIONS TO NEW ELIGIBILITY CRITERIA**

A few respondents are exploring changing their operations in order to maximise their chances of meeting the new eligibility criteria. However, there was much uncertainty about eligibility and these suggestions were largely speculative. For example, one respondent explained how their rural-based service was spread over many areas, so did not have a clear majority of educators in a single area. As such, the service was making enquiries to determine whether the Department would instead use the location of their head office for the purposes of assessing eligibility, as per the self-assessment tool (Department of Education, 2014b). This service was hoping to determine whether it would be able to gain eligibility by shifting the address of its head office to ensure it was in the remote areas it serviced, where it would be the sole provider. However, this interviewee noted there was a lot of grey area in the eligibility criteria, and hoped to have more certainty soon to enable the development of firm plans.

Services could also co-operate to rationalise their operations, or build new service models, in response to the eligibility criteria. For example, they could rationalise their operations to focus only on educators in a particular area. Services could also co-operate to negotiate transferring educators between services in non-metropolitan areas, to ensure the required concentrations of educators were met for each service. Services could also co-operate to maintain boundaries to ensure providers could maintain the local monopolies required for eligibility. However, this level of co-operation is likely to be difficult where there are many providers in competitive markets.

## **7.5 MERGE OR AMALGAMATE WITH ANOTHER SERVICE**

Organisations may also respond to the change in the funding environment through takeovers, where one service acquires another, or through mergers, whereby two or more services agree to join up to form a single new service. This could be a way to ensure eligibility for CSP funding, that is, by acquiring or combining with other local services to reduce the number of providers, and ensure that one service could fulfil the requirement that services be the sole provider in the area.

However, mergers or amalgamations could also occur to consolidate services outside areas where funding would be available. One organisation, for example, described how having a mix of metropolitan and non-metropolitan schemes operated by the same organisation allowed opportunities for cross subsidisation, and improvements to practice as well as cost efficiencies, from transferring policies and procedures from metropolitan areas to regional and remote areas.

Another interview participant described how their service had, in recent years, taken over other services. This is detailed in Figure 5.

### **Figure 5 An amalgamated model**

This service is part of a larger community based service providing a range of services for children and families ranging across several metropolitan areas. Family Day Care is one of a number of ECEC services provided, and is highly regarded within the organisation. A high proportion of educators are from CALD backgrounds and are self-employed.

This service has grown in recent years through acquisitions of struggling services, including following a request from a government-run service to take on its family day care service. Being acquired was attractive for smaller services which were struggling with the high expectations on co-ordination units, and for councils who were rethinking their role as providers of FDC. The amalgamations have provided cost savings through economies of scale. Locally based services have been maintained with an overarching management structure and shared administration. In addition, resources such as a toy and book library are shared across local areas. Reasonable rents have been negotiated with councils. Managers work flexibly across areas, resulting in some efficiencies.

This model could be expanded to maintain localised service provision, and local service identities, following the loss or reduction of CSP funding.

Notwithstanding, the amount of income lost following CSP meant that despite their efficiencies, they would need to raise levies on educators or families. The organisation was considering subsidising fee increases for the first year, so they could be gradually phased in.

One of the implications of this model is that mergers and amalgamations reduce competition, and so give educators less choice about who they receive services from. Indeed, to be eligible under the new rules, services would need to operate as local monopolies.

However, while mergers and amalgamations may lead to increased efficiencies through economies of scale, and potentially improve the chances of fulfilling eligibility criteria, they are unrealistic for many areas. In particular, services are very expensive to provide in regional and remote areas, and as such, services where the large amounts of travel required are likely to be unattractive for takeover. Indeed, some interviewees from regional areas commented that it would be unlikely that any other service would be willing to take their service on. Others suggested mergers were possibilities but felt it was still early days, and further research and negotiation would be required to determine feasibility, and the impact on quality.

## 7.6 CEASE PROVISION

Following the loss of CSP, some services perceive that will be unable to continue operate, despite their best efforts to increase income and reduce costs. Research participants explained how some family day care services were just 'scraping by' for the good of their communities, and would be unable to continue. In particular, some local governments had maintained family day care, but had been under funding pressures in recent years. A few research participants felt the loss of CSP funding could be a turning point for local council provision, as many had signalled intentions to move out of direct service provision, and were likely to withdraw. Some were in the process of considering how family day care staff could be moved to other local council ECEC services, to avoid retrenchments. Participants also felt larger community service agencies would reconsider the viability of providing family day care, as the loss of CSP would make it financially precarious. Indeed, there was some anecdotal evidence of both large services and councils looking to close down their family day care operations. In addition, many interview participants also commented that private services would find it difficult to operate at a surplus, without significantly reducing the service they provided.

## 8 SUMMARY OF STRATEGIES AND MODELS

Family day care services are actively seeking to adapt to the loss, or potential loss, of CSP funding in numerous ways. For many, adapting to the new environment is likely to be an iterative process, with a series of changes required in the course of developing an appropriate model. Most services will not arrive at the model that will be successful for the new environment before July 2015, and will need to make further modifications over coming years. Cost reduction and cost efficiencies, income diversification, sponsor organisation support, and raising fees will probably all be required, in varied combinations.

Given the paucity of data about family day care models in Australia, it is particularly important to evaluate this process to ensure knowledge of successful models can be shared, once their results are clear. Indeed, as models of funding and providing family day care co-ordination activities have not yet been subject to rigorous evaluation, no single model offers a template for achieving sustainability or maintaining quality. Notwithstanding, the research has identified some potential models, and the factors likely to contribute to success.

Services that are connected to a larger organisation, such as a local or State government or community-based organisation tended to identify a wider range of options, and were more likely to expect they would continue to operate and provide a quality service. However, sponsorship does not guarantee either sustainability or survival. Having senior managers who are committed to family day care is crucial to gaining support from the sponsor organisation. As such, internal lobbying to ensure senior management and the wider organisation appreciate the value of family day care, and the contribution it makes to the local community, appears an important ingredient for survival. In some cases however, even sponsored services will not necessarily continue to operate. Some sponsors already require family day care services to cover their own costs, and in some cases, service must purchase administrative and other services from the sponsor. Even with sponsor support, many services felt that quality was likely to be compromised following the loss of operational support.

Services that were part of larger organisations had opportunities to restructure to achieve cost efficiencies through shared administration, including with other ECEC services such as in-home care, LDC and OOSH care most commonly, or other community services. The importance of sponsorship, and the efficiencies that being part of larger organisations offer, may make amalgamation attractive.

In addition, a diverse funding base is likely to increase resilience, as this broadens the range of options available for obtaining increased income or cost efficiencies. Further, an innovative outlook is important to sustainability. Some services were open to diversifying their income base, including through retail sales, provision of training services, and extension into other parts of the ECEC market, including nannies.

In addition, some services were clearly working together and sharing ideas. While this was difficult in some contexts because of competition between services, it is important for developing a co-ordinated strategy for quality and sustainability.

However, many of the factors that services anticipate will help them maintain quality and sustainability are not yet proven. Many for example hoped to make use of cost-cutting opportunities of IT, and suggested replacing face to face visits with skype calls. This was dismissed by others as poor quality. These practices, and their strengths and limits, have not been systematically evaluated.



## 9 CONCLUSIONS

This report has presented findings from research with representatives of the family day care sector, which demonstrate possible models of funding and operating co-ordination unit activities, following changes to the Community Support Programme, and tighter eligibility requirements, from July 2015. Interviewees saw the changes to CSP funding as representing a turning point for family day care in Australia. Most were extremely concerned about the future of their service, and their capacity to provide a model of high quality, flexible and affordable early childhood education and care. Many interviewees expressed pride in the improvements to quality achieved in family day care in recent years and did not want to see this progress lost. There was much concern that the changes to CSP did not recognise quality, and that the loss of funding for quality services would undermine the ability of the system to monitor and maintain safety and standards.

Interviewees explained the important role co-ordination units play in monitoring and regulating service delivery, and in supporting educators and their businesses, and ensuring the safety and wellbeing of children and families. Co-ordination units are clearly an important and distinguishing feature of Australia's family day care model, connecting and supporting otherwise isolated educators working in their own homes. Many commented that their co-ordination activities had been streamlined in recent years, and that they had few options to reduce costs. In some areas, it appeared that services were responding to high levels of competition, but also that excessive levels of competition were undermining the ability and willingness of services to come together to innovate and share practice, and collectively pursue the interests of the sector.

While there was much uncertainty about eligibility, services generally felt that higher fees were inevitable and that in many instances, attempts to reduce costs would result in reduced quality. At the time of the research, some services were exploring how they could adapt operations to maximise the chances of eligibility for CSP funding, while others were less optimistic, and were negotiating support from a sponsor organisation, or were planning to cease or reduce provision, albeit reluctantly. Merging or amalgamating with other services was discussed by some, but it was recognised that many services would not be attractive for mergers or acquisition.

Apart from increasing levies on educators and families, there were few options suggested to increase income. Several commented however, that they were awaiting with interest the Productivity Commission final report and Federal Government decisions about financing of early childhood education and care. In particular, services were interested in the possible extension of Federal subsidies to nannies, and felt family day care was well positioned to extend its operations to play a regulatory role in this area.

Overall, the changes shift the focus of services from quality toward financial sustainability, and are likely to reshape the landscape of family day care provision in Australia. The findings suggest educators who are more costly for co-ordination units to serve may find it difficult to obtain the levels of support they require. Family day care options may be lost in some rural and remote communities where families already have little choice between models of early education and care. Additional supports are likely to be required to ensure that educators can be retained in poorly serviced areas. Similarly, educators who are more costly for services to support, such as new educators, or educators from non-English

speaking backgrounds, may be unable to access the levels of face-to-face support they require.

While the report has outlined several models of funding and provision which can be more widely considered by family day care services, it should be recognised that the research was conducted only three months after the announcement of the changes. Further models may be developed in coming months, as details of the new funding and operational environment emerge, and as organisations finalise decisions and take action to adapt.

In the process, knowledge of best practice would be supported by a dedicated program of research into new ways to support quality in family day care, along with formal evaluation of the impact of changes on the sector as a whole, service providers, educators, and families. It should be noted however that there is very little research about how family day care operates and the design features of individual schemes across the country. Such research could potentially provide valuable information about the characteristics that make services more robust and adaptable as well as flexible and able to operate in small rural and remote communities. Useful information would include the proportion of schemes that are 'standalone' versus those that are integrated with larger organisations; variations in the nature and frequency of contact that co-ordinators have with educators; variations in the ratios of co-ordinators to educators, and whether these correlate with NQF ratings. Systematic information relating to these and other issues would provide a useful baseline against which to monitor and assess the impact of the changes due to come into effect in 2015.

No models have been tested yet. This is new policy and this document provides information on the *ideas* that services have about how to plan for, and manage the change. They are not yet proven strategies. Better evidence can be collected by involving the sector in an evaluation that tracks the implementation of the new strategies, the difficulties that are encountered, the modifications that are required, and the models that are ultimately successful. These models can then be shared with the sector in coming years, as services are likely to continue to look for new ideas for achieving priorities of quality and sustainability.

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