LABOUR COST IN FAMILY DAY CARE IN AUSTRALIA

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Abstract

In Australia, there are currently around 10,500 workers providing formal funded child care in either their homes or the homes of the children. They provide care for approximately 95,000 children country wide and span across the many geographical regions of the country. They provide care in both standard and non-standard hours.

The purpose of this study is to determine the economic, social and institutional factors that determine the costs of providing family day care services (FDC) across geographical areas in Australia. The study was based on three sets of data: a web-based financial survey designed to elicit basic financial and activity data for the agencies. The survey was sent in mid 2008 to all national providers obtaining useable response rate of 45%. The second data set was qualitative data obtained from in-depth interviews with 10% of all FDC agencies.

The last data source was administrative data from the Australia's Department of Employment, Education and Workplace Relations. Econometric analysis of expenditure by FDC agencies identified that expenses is largely determined by the number of full time equivalent places with organisational structure explaining 84% of the variation. Staff costs inclusive of on-cost account for just over 70 per cent of all costs.

Qualitative data identified recruitment of new carers, quality assurance and accreditation, training and supporting carers with high needs children as the main cost drivers. The paper concludes by providing evidence of the important role that this sector plays in Australian child care industry and examples of innovative steps being undertaken by providers to ensure continued financial viability.

Introduction

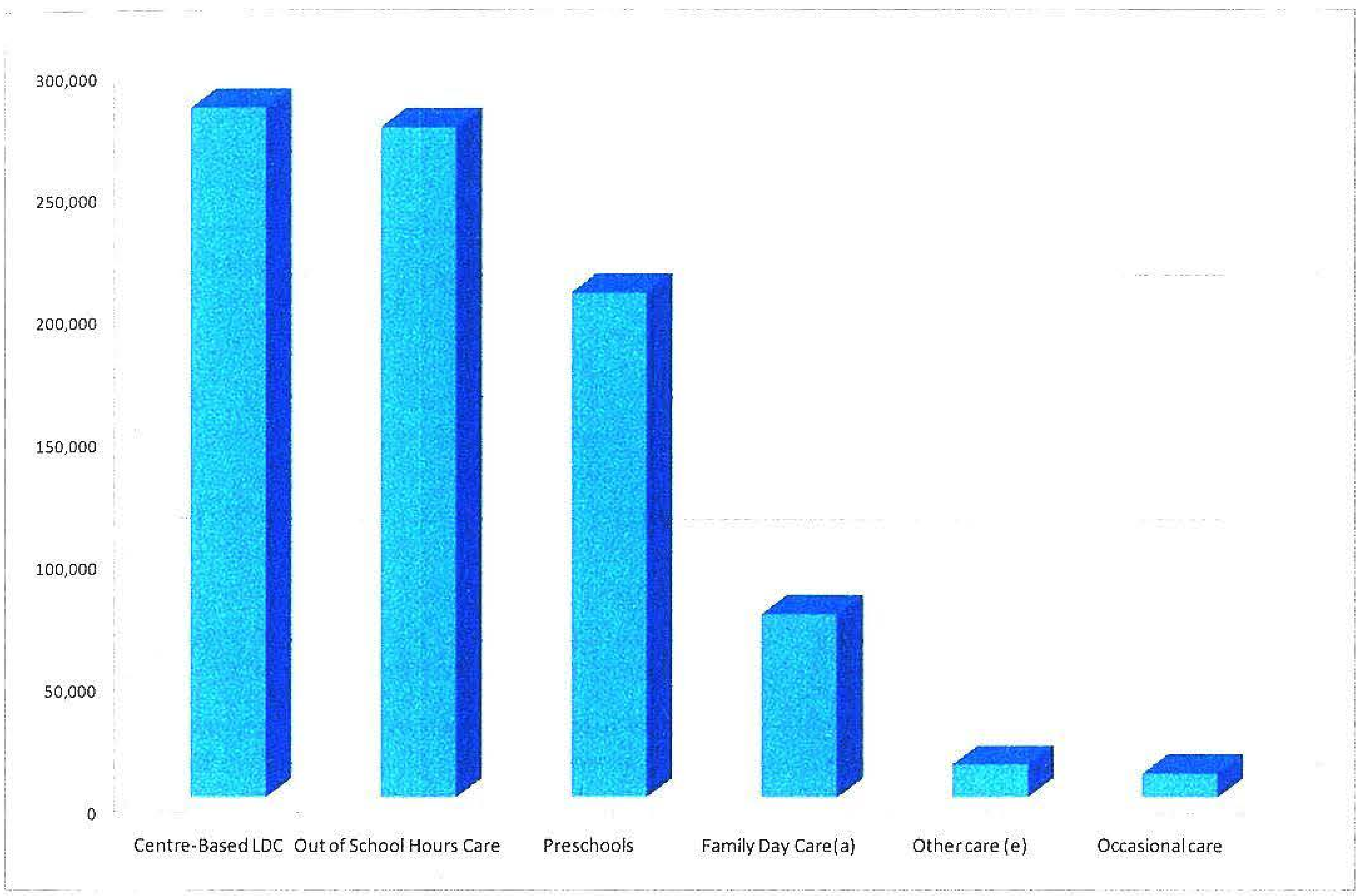
Australia's early childhood education and care (ECEC) is split between services such as preschools and kindergartens, deemed to be 'educational' and child oriented, and long day care and family day care, regarded as providing 'child care' for the children of working parents (Brennan, Blaxland and Tannous, 2009). Family day care (FDC) comprises services provided in the approved carer's home. The care is aimed at 0-5 years old but primary school children may also receive care before and after school and during school vacations. Central coordination units or FDC agencies in all states and territories organize and support a network of carers, often with the help of local governments ((SCRGSP, 2008: 3.14).

From an economic perspective, the critical elements of the market for early childhood services (Willer, et al., 1991, Kalb and Lee, 2007), are demand and supply and the interrelationships between them. Demand for early childhood services have a complex relation with parental labor force participation rates. Parents use many combinations of care and education arrangements for their children depending on their family needs (Willer, et al., 1991, SCRGSP, 2008). Parents using Commonwealth supported children's services overwhelmingly cite 'work-related' reasons as their major reason. Work-related reasons were cited as the primary reason for using care by 78 per cent of those with children in long day care, 80 per cent of family day care users and 93 per cent of parents of children in outside school hours care (DEEWR, 2008a). Parents combine formal services with informal care being provided by parents, relatives (especially grandparents), friends or neighbors. Use of informal care has been declining in recent years, perhaps reflecting the growing participation of older women (some of whom are grandparents) in the labor force.

Supply is reflected in the quantity and characteristics of services that providers offer at a given price. The total number of all funded places, both Commonwealth and State or Territory, in 2006 was 861,434 Australia wide (SCRGSP, 2006).

Approximately 92 per cent of children using long day care are under 5 years of age (DEEWR, 2008a) while 84 per cent of children attending out of school hours services are aged 6 and over (SCRGSP, 2008).

Figure 1: Supply of Children's Services by Type (2006)



Source: SCRGSP, 2008

Demand is a measure of the quantity and characteristics of the services that parents buy at a given price. The other determinants of demand are the number and ages of children and the number of mothers who are employed outside the home. Other demand factors are marital status, family income, number of children in the family, parents' career goals and opportunities, whether relatives live nearby, and educational goals for children, and types of care available in the community and how accessible or affordable a potential option might be.

Demand for children's services can be measured in several ways. This can be by determining the number of available places, where the full time equivalent place is treated as a unit of service. Alternatively, demand can be determined by the number of children that are accessing the different services by age and level of usage. Both methods will be presented below.

The first measure of demand for child care that will be used is by taking the utilization rate and multiplying it by the number of available places. The utilization rate is available for long day care centres and family day care. It is calculated as the total child hours paid for as a percentage of total available hours (SCRGSP, 2008, DEEWR, 2008a).

The national utilization rate for centre-based long day care in 2006 was 73.9 per cent (Table 1). This measure was used by Australia's Treasury in 2007. Although accurate as a measure of aggregate demand, utilizations rates are a blunt measure which can give a misleading impression of 'slack' in the system. It could be, for example, that the unused hours in a child care service are hours in the early morning and late afternoon. Such hours cannot readily be sold to parents, especially given Australian parents' preference for relatively short hours of care. Long day care centres are obliged to offer these hours, however, as a condition of approval for Child Care Benefit.

Another method of presenting demand for children's services is to examine the proportion of children who are using these services.

According to the 2006 Australian Government Census of Child Care Services (DEEWR, 2008a), the estimated number of children attending long day care was 420,110, with 80 per cent of the children attending for less than 30 hours a week. As at May 2006 (time of the Census), 5 per cent and 23 per cent of children in long day care centres and family day care respectively attended school (Table 2).

Table 1: Commonwealth and State/Territory Government Funded Children's Services (2006)

	NSW	*Vic*	*Qld*	*WA*	*SA*	*Tas*	*ACT*	*NT*	*Aust*
Centre-Based LDC places available	103,229	54,768	75,782	21,977	14,063	4,271	5,272	2,863	282,225
Utilisation rate (%)	78.2	70.1	71.2	69.8	72.0	72.4	77.1	75.9	73.9
Family Day Care(a)	24,830	16,194	16,204	5,484	6,364	2,732	2,160	1,170	75,138
Utilisation rate (%)	63.2	61.2	64.8	60.3	74.9	64.6	52.0	56.3	63.3
Demand Determined by Total Available * Utilisation Rate									
Centre-Based LDC	80,735	38,370	53,949	15,349	10,124	3,092	4,063	2,172	208,536
Family Day Care(a)	15,688	9,917	10,495	3,309	4,767	1,765	1,124	658	47,577
Total Demand of LDC and FDC	**96,423**	**48,288**	**64,445**	**18,658**	**14,891**	**4,857**	**5,186**	**2,830**	**256,113**
Current Vacant or available places									
Centre-Based LDC	22,494	16,398	21,833	6,628	3,939	1,179	1,209	691	73,689
Family Day Care	9,142	6,277	5,709	2,175	1,597	967	1,036	512	27,561

Source: SCRGSP (2008)

Table 2: Children by service type for the 2002, 2004, and 2006 Australian Government Census of Child Care Services (DEEWR, 2008a)

	2002		2004		2006	
	Est. No.	%	Est. No.	%	Est. No.	%
Long day care	367,140	50	383,020	51	420,110	52
Family day care	95,630	13	89,300	12	84,350	11
In home care	1,500	<0	3,240	0	3,200	0
Outside school hours care	148,040	20	160,790	21	173,770	22
Vacation care	103,560	14	101,710	14	107,280	13
Other service types	16,280	2	14,700	2	12,350	2
Total:	732,150	100	752,760	100	801,060	100

In June 2005 496,500 children aged less than 6 years used formal care services; thirty-three per cent of the 1.5 million children who were of preschool age (ABS, 2006: 14).

An important determinant of demand for ECEC is affordability of the different options. Two funding mechanisms from the Australian Government have been implemented to improve the affordability of child care through fee subsidies to parents. The Australian Government provides financial assistance to eligible parents using approved child care centres, mainly where parents have non-school aged children and are working, undertaking vocational study, training or looking for work. This assistance to parents is provided primarily through the Child Care Benefit (CCB) and the Child Care Tax Rebate (CCTR). CCB is calculated based on family income, number of children receiving care for how many hours and the form of child care used (DEEWR, 2008: 11). Ninety per cent of CCB payments are made direct to centres which then charge parents the gap between the fee and the CCB assistance. CCTR covers a percentage of your out-of-pocket expenses for approved child care, up to a maximum amount per child per financial year. Out-of-pocket expenses are total child care fees less Child Care Benefit[2]. CCTR payments are made to parents directly.

Section 2 of the paper will present review of literature into Australia's family day care. Section 3 will present details of the methodology for this study followed by presentation of the major findings in Section 4. Finally, Section 5 will present main conclusions from this study together with future research ideas.

Literature Review

FDC agencies support and administer networks of carers who provide flexible care and developmental activities in their own homes for other people's children. A FDC agency is responsible for the effective operations of all components of family day care including recruiting, training and supporting carers; monitoring care provision; and providing advice, support and information to parents. FDC agencies also assist parents to select an appropriate carer for their child. In 2008, in Australia, there were 305 FDC agencies supporting around 10,000 carers and providing care to over 90,000 children per year. All family day carers have to be affiliated to a FDC agency to operate.

Most FDC agencies are not-for-profit, organizations run by local government or community organizations with a few agencies are private-for-profit. FDC agencies may provide as many child care places as they wish. Within each agency, a coordination unit recruits and trains carers and links families with potential carers.

FDC carers operate a home business providing child care and contract their services to one or more FDC agencies, though most often just to one agency. A few agencies employ and pay carers for the child care service as well. Carers charge parents a fee for providing child care which they determine. FDC agencies, in many instances, have pricing guidelines that the carers may follow or simply set their own. To register with a FDC agency, carers and families both (or one of them) have to pay an administration fee or levy to their agency.

Families using family day care can claim the Child Care Benefit (CCB) and the Child Care Tax Rebate. In many cases, carers charge parents the gap between the child care fee and the CCB that families, if eligible are able to claim CCTR.

The Australian Government is responsible for child care accreditation standards and quality assurance. To be eligible to receive CCB, a FDC agency must be registered with the National Childcare Accreditation Council and meet the requirements of the appropriate Child Care Quality Assurance system. FDC agencies are subject to the licensing and regulatory requirements of the state or territory in which they operate. These requirements relate to such matters as: building size and standards, the number of children per carer, and the qualifications of FDC staff. In the absence of state and territory regulations, the FDC agencies and carers must adhere to the National FDC Standards.

The Australian Government provides five kinds of funds to FDC agencies. These are FDC Set Up Assistance Grant, FDC Start Up Assistance, FDC Network Support, FDC Sustainability Assistance and Regional Travel Assistance Grant (RTAG). Of these funds, by far the largest is the FDC Network Support for which $62.4 million was budgeted for financial year 2007-08. Network support payments are based on actual child care usage: specifically on the number of full-time equivalent utilized services actually provided. The payment rates are shown in Table 3.

Table 3: Australian Government network support payments per place by location in 2007-08

Location	$ per week per full-time equivalent place utilized[a]
Major cities	21.95
Inner regional	22.40
Outer regional	28.55
Remote	38.70
Very remote	44.85

[a] These amounts are indexed annually.

The Australian Government provides set-up assistance of $12,685 for a new stand alone FDC agency and $6342 for a new agency in a multiple care service. It also provides Start Up Assistance of $1500 and $5000 (in remote and very remote areas) to assist prospective FDC carers to establish a day care business (These are 2007-08 dollar numbers).

In addition the Australian Government pays a travel allowance (RTAG) of $0.65 per km for travel by personnel in FDC agencies in excess of a threshold travel level, where the threshold depends on the number of full time equivalent places utilized. The adequacy of these funding arrangements for the various types of FDC agencies is a matter of ongoing debate within the FDC sector.

The Long Day Care (LDC) sector, a centre-based form of child care, competes with FDC agencies for children and carers. The proximity of a LDC centre and whether it has vacancies may influence the fees which each form of child care can charge parents.

Methodology

An invitation was sent to all Australian family day care agencies (305 FDC agencies[3]) to complete a cost survey. The invitation included a paper copy of the survey and details of a URL for on-line completion. This was supplemented with in-depth interviews with 29 FDC agencies and 2 peak bodies on factors affecting family day care agencies costs. The survey asked questions on demographics of the child care, service usage detail data on children in the centre during the year (licensed number of child care places, average number of all children per day, and so on), service usage details of centre operations during the year, service staff details on number and hours that they work; and approximate costs for the centre by costs items (staff wages and salaries; staff on-costs, rent, other expenses and so on). The FDC agencies were randomly selected[4] for the in-depth interviews, trying to ensure equal representation by states, ownership, geographical locations (major city, inner regional, outer regional, remote and very remote), and size. Additional information sought was the on the nature of the centre; details of centre services; details on the different expenses (more information sought beyond cost survey); revenue details; general current policy issues; and future and other issues.

A total 150 surveys were received, however about a fourteen of these were incomplete or contained data that appeared unreliable. Some respondents stated that financial data were confidential or kept at head office and could not be supplied. In some other responses, the data on staffing were not complete. In all, 136 responses were deemed to be usable resulting in an effective response rate of 44.6 per cent. FDC agencies responded from all states and territories and each geographical area, with around 50% response rate in major cities and inner and outer regional areas. On the other hand, responses were received from only six of the 23 agencies designated remote and very remote. To increase the response rate in these areas, additional e-mails were sent and telephone calls were made to all non-responding remote and very remote FDC agencies after the closure the main survey. However, this did not elicit any extra responses.

Findings

The size of FDC agencies can be described in terms of numbers of full time equivalent child care place utilized (FTE place), children or carers. The basic measure used in this study is FTE places, which are generally counted per week and 35 hours of care in a week counts as 1.0 FTE.

Table 4 shows the number of FTE places per FDC agency. The average (mean) number of FTE places in the reporting FDC agencies was 133. The median was 110. However there was considerable variation in size. Forty per cent of agencies had less than 100 places. Seventeen per cent had over 200 places and seven percent over 300.

Table 4: FTE places per FDC agency

FTEs (no)	0-50	51-100	101-150	151-200	201-250	251-300	301+	Total
FDCs (no)	22	33	35	22	7	7	10	136
FDCs (%)	16.2	23.3	26.7	16.2	5.1	5.1	7.4	100

The average cost is $2,557 per FTE place. And the median is $2314. Half the agencies had costs between $2000 and $5000 per FTE place. Just over 30 per cent have costs of less than $2000 per FTE. And nearly 20 per cent have costs in excess of $3000 per FTE place. The reported average cost of all surveyed child care centres was $548,000. The average ranged from $643,000 in the major cities down to $326,000 in very remote areas. This reflected to a large extent the numbers of children in the centres. Note that the average number of children in care is generally about 85-90% of the licensed places.

The activities of FDC agencies can also be viewed in various ways. Here information is provided on the number of support visits by field staff to carers, FTE places per carer, and children under two in each FDC agency.

For the costs data collected from each FDC, a distinction was made between fixed and variable costs. That is a distinction was made between the costs that are required to maintain a basic FDC service and the costs of servicing additional clients (carers and parents). Table 5 shows a crude classification breakdown of the list of costs into fixed and variable costs. Some staff salaries and power consumption may be a variable cost. Some vehicle use or telephone expense may be viewed as a fixed cost.

Table 5: Costs divided into fixed and variable costs

Fixed costs	Variable costs
Staff salaries, wages and on-costs	Contracted professional services
Office rent	Other contracted services
Office furnishings and equipment	Carer recruitment costs
Power: electricity and gas	Office supplies
Software expenses	Payments for privately-owned vehicles
Insurance	Expense of agency-owned vehicles
Affiliation fees	Telephone expenses
Internet	All other expenses
Interest payments	
Depreciation allowances	

The average cost per FTE place is $2557. The average cost is actually slightly lower in inner regional areas than in major cities (Table 6). The average cost rises in outer regional and remote areas. However as discussed below, the rise in costs appears to be due to differences in the size of the FDC agencies rather than to location *per se*. As shown in Table 6, staff cost inclusive of on-costs account for just over 70 per cent of all costs. Fixed costs sum to about 80 per cent of costs.

Table 6: Key cost data for family day care agencies by geographical location

	Major cities	Inner Regional	Outer regional	Remote	Very remote	All[(a)]	SA
Av. total cost per FDC ($'000)	343	293	208	96	114	303	6326
Av. staff cost % of total cost	72	70	66	66	75	71	87
Av. fixed cost % of total cost	82	80	79	76	81	81	90
Av. cost per of FTE place per FDC ($)	*2507*	*2384*	*2730*	*2857*	*5717*	*2557*	*1756*
Cost per FTE place standard deviation ($)	894	674	2454	619	3660	1248	

(a) South Australia is excluded from means.
Figure 3.7 Cost per FTE place by Remoteness Indicator

Variation in the unit cost per FTE places in FDC was assessed by location of the agency; size of service in terms of utilized FTE places (larger agencies would be expected to have lower average cost per FTE); type of organization; state or territory where an agency is located; the age of children (infants below the age of one usually require more care); level of inputs; and staff turnover. Econometric analysis of expenditure by FDC agencies indicates that expenditure is largely determined by the number of FTE places and organizational structures. These factors explain 84 per cent of the variation in expenditure. Average and marginal costs fall significantly with the increase in FTE places. The estimated elasticity is 0.8 meaning that for each one percent increase in FTE places, expenditure increase by 0.8 percent. The cost of a FTE places is about 12 percent lower in community-run centres than in government-run centres and for-profit agencies are much lower costs again. Analysis of the financial data finds that, after allowing for size and organizational structure of FDC agencies, increasing inputs such as field staff has a small effect, or minor influences, on costs. No evidence was observed from the econometric analysis that states or location factors have any influence on expenditure. This may be explained by more remote areas having higher travel and training costs but offset these higher costs by making fewer visits to carers and by providing less training.

The average cost of a government-run medium size agency with 125 FTEs is about $316,000. The average cost of a FTE place falls from about $3600 for a small 20 FTE government agency down to $2000 for a 400 FTE agency. The marginal cost of a FTE place falls from about $2900 in a very small agency to $1600 in a large agency. The costs in community-run agencies are about 12 per cent lower per place (Table 7).

Table 7: Estimated agency cost as a function of size and ownership ($s)

FTEs	Costs of government-run agencies			Costs of community-run agencies		
	Total	Average	Marginal	Total	Average	Marginal
20	72516	3626	2915	64060	3203	2575
40	126609	3165	2545	111844	2796	2248
60	175405	2923	2350	154949	2582	2076
80	221051	2763	2222	195272	2441	1962
100	264489	2645	2126	233645	2336	1879
125	316464	2532	2035	279558	2236	1798
150	366426	2443	1964	323693	2158	1735
200	461782	2309	1856	407928	2040	1640
250	552525	2210	1777	488090	1952	1570
300	639755	2133	1715	565147	1884	1515
350	724168	2069	1664	639715	1828	1470
400	806241	2016	1621	712217	1781	1432

The in-depth interviews conducted with directors of FDC agencies and peak bodies identified a number of major issues that impact would impact on the cost of providing FDC agencies services. Many FDC agencies reported that requirements of accreditation and quality assurance are considerable and impose significant costs. FDC agencies report that the costs of ongoing and continuing education requirements are considerable for both FDC staff and carers. Some services charge carers a fee (e.g. $10 in a metropolitan location; $50 in a regional location) for attendance. There are progressively higher costs for inner regional, outer regional, remote and very remote agencies as they have to bring in trainers and pay for their travel and accommodation costs. Remote and very remote services advise that quotes for a 3-hour training session (including travel and overnight accommodation costs) can be in the order of $2,200, while a major city agency advised that it pays around $200 - $300 for a training session. There are also considerable costs of coordinator time in gathering evidence for the 6 quality areas specified in the National Childcare Accreditation Council (NCAC) standards.

Recruiting, inducting and training of new carers were identified to be labor intensive and a considerable expense for most services. Estimates of these costs range from 1 staff day in major city agencies to $650 in another and are consistently 2-3 staff days in inner and outer regional areas due mainly to travel costs to interview a carer. In areas with a high turnover of carers, the costs of recruitment are considerable. This arises especially where there are alternative employment opportunities and is a function of the local economy rather than the remoteness of the location per se. In some remote areas, alternative employment opportunities are in the mining sector; in inner and outer rural areas, the employment opportunities are often seasonal and are in agriculture, the food processing industry and tourism; in major cities alternative employment opportunities tend to be in retail and office services.
Costs of placing new children and higher costs of placing siblings with one carer were detailed. To place two or three children from one family, as the parents prefer them to have the one carer, a FDC agency may spend a lot of time spent calling possible carers and sometimes existing children placements must be re-allocated to different carers to free up places for siblings. One large main city FDC agency estimated it spends half a staff day per week finding places. Some remote agencies report that it takes one half day per new family, to explain the scheme to them, provide information and match them up with a carer.

Conclusions and Future Research

FDC agencies consistently identified recruitment of new carers, QA/accreditation (particularly training), and supporting carers with high needs children as the main cost drivers affecting their services. The national peak body observed that in many agencies one in four carers leave in any 12 month period, which is a significant ongoing cost for the service. Large numbers of children in part-time care and large numbers of babies add to the costs. Field officers may make several visits to a carer to ensure that all the children have been observed.

In addition, FDC agencies in remote locations identified travel time, the need for overnight accommodation, and considerable vehicle wear and tear as major cost items. RTAG funding does not cover the full costs of operating and maintaining large four wheel drive vehicles or overnight expenses. FDC agencies on the fringes of main cities and in regional areas which also have some carers in more distant locations are not eligible for RTAG so that supporting these carers is an additional unfunded expense.

Many FDC agencies consider that the viability of the FDC model may be at risk if mandatory qualifications (for example Child Care Certificate III) are brought in either by the new Victorian regulations or by NCAC. Services in non-metropolitan areas report that carers are likely to leave, and/or to be increasingly hard to recruit, particularly where alternative job opportunities do not require them to obtain qualifications. Outside major cities, FDC agencies also noted that as child care education providers are scarce or at some considerable distance away, existing and potential carers will find it difficult to access them, and carers will also have to bear the cost of being trained for Certificate III.

In a number of areas FDC agencies are losing market share to long day care (LDC) agencies, particularly for parents who want full time care. The implications of the 'one stop shop' children's services model for FDC are unclear. On the other hand, FDC agencies report that many parents prefer FDC to LDC for their young children.

A number of agencies suggested that there should be a reconsideration of the policy whereby carers cannot receive CCB for their own children. Such a policy change could increase the number of women offering themselves as carers and the availability of care. Greater research is needed to test the impact of such a policy change to allow approved family carers to claim CCB (and CCTR) for their own children in their own care. "If I take my child another family day carer, then I get all the government benefits paid – however if I look after my own child, I'm not eligible to claim CCB and also I would not be able to accept as many children in my care" (FDC carer).

Notes

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2. Australian Centrelink (2009) [downloaded 30/06/2006) http://www.centrelink.gov.au/internet/internet.nsf/payments/childcare_taxreb.htm

3. These numbers count South Australia as one FDC because one agency manages 15 sub-agencies in the state. Actually the survey was sent to 343 FDC agencies but several were found to be no longer existing.

4. South Australia was the exception as there was only one FDC agency.

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