Employer
Sponsored
Childcare

Policy and Guidelines

February 1997
PREMIER’S MESSAGE

The New South Wales Government is committed to the development of a responsive, flexible public sector providing excellent service to the people of the State.

The provision of quality service requires efficient and effective public agencies which recognise the key role of employees in agency improvement. Benefits to agencies of providing employer sponsored child care include the potential for increased productivity, reduced absenteeism and reduced employee turnover. Benefits to employees include increased flexibility in managing work and family responsibilities.

The revised Employer Sponsored Child Care Policy and Guidelines provides agencies with a way to identify the child care requirements of their employees, evaluate options and provide child care services, where the initiatives will be cost effective.

I commend this policy and guidelines to ensure that quality employer sponsored child care practices are implemented to meet the needs of employees and your agency.

Bob Carr
Premier
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PART 1: POLICY

POLICY STATEMENT
The NSW Government acknowledges that skilled employees are the key asset of an agency. The Government is committed to and recognises that the introduction of flexible and innovative work arrangements for employees with family responsibilities, combined with employer sponsored child care facilities, enables employees to fully participate in the workforce while fulfilling family obligations. Agencies wishing to provide child care services may do so where the initiative is cost effective.

POLICY PRINCIPLES
Chief Executives who wish to assist employees in meeting their child care needs should first investigate both the current and future needs and preferences for child care, and then consider the best options. The child care provided will then more effectively meet the needs of employees and maximise employer benefits.

All references throughout the document to employers incurring cost are on the basis that the financial result for the agency is cost effective. Funding arrangements for child care services must be met within the usual resources available to agencies, including any special child care funding.

LEGISLATIVE PROVISIONS
Fringe Benefits Tax Assessment Act 1986
Regulations under the Children (Child and Protection) Act 1987

RELATED POLICIES
Flexible Work Practices Policy and Guidelines
ILO Convention 156: Workers with Family Responsibilities
DIRETTE Circular No 3 of 1994 -Salary Packaging

POINTS FOR CONSIDERATION
The benefits to an agency of sponsoring child care are:
• reduced turnover of employees
• reduction in recruitment and training of new recruits reduction in other employees’ loss of productivity due to training of a new employee
• reduced absenteeism
• increased return to work after maternity leave and ca breaks by experienced employees, shorter periods of maternity leave
• improved employee morale
• reduced employee stress
• increased productivity
• enhanced image of the agency.
PROCEDURES TO BE FOLLOWED

A number of steps must be undertaken in implementing employer sponsored child care policy in order to ascertain employee need and ensure the appropriateness of the program. These are to:

- conduct a needs analysis to ascertain the type of child care for which there is a demand by employees;
- examine different child care options available;
- analyse the costs and benefit of the provision of childcare in terms of weighing up the savings due to retention of valuable employees against the cost of establishing the appropriate child care option/s;
- examine the feasibility of the different child care options;
- determine which option/s are most suited to needs available resources;
- resource preferred option/s, including the availability of child care fee relief, the feasibility of salary sacrifice and the impact (if any) of fringe benefit tax;
- implement preferred option/s;
- monitor preferred option for cost effectiveness.

CHILDCARE OPTIONS

There are a number of child care options available to employers. These include:

- long day care – build own centre
  - joint ventures
  - leasing places in an existing centre

Long day care centres provide care for children 0 to 5 years of age during parental working hours and operate for 48 to 50 weeks of the year.

An employer may decide to build a centre for the use of employees in the agency. It may also be possible to build as a joint venture with another agency if it is considered that there are insufficient funds or the demand is not expected to be high enough to warrant all the child care places in a centre. Alternatively, the employer may wish to reserve a number of places in an existing centre for the children of employees.

- vacation care
  Vacation care offers supervised activities for school aged children during school holidays.

- out of school hours care
  Out of school hours services provide care for children before and/or after school hours while parents are at work.

- family day care
  Family Day Care provides for children to be looked after by a registered care giver in the care giver’s own home. This scheme provides greater flexibility in hours than that provided by long day care centres.

- home based care
  Carers are employed by the agency to provide care for children of employees, either in their own home or that of the employee.

- shared nanny service
  Employers may assist employees to find a partner to share a nanny. The employer may not subsidise this option.
• information and referral service
  Employers may subscribe to a service which will provide employees with information on the availability of child care. The scope of the service may range from the provision of information through the matching up of parent needs with existing vacancies in service providers.

• care of sick children
  A range of options exist for the provision of care for sick children by employers. These include the provision of a family room at work, supporting a get well room in a child care centre and contracting a home nursing agency.

• child care at residential or out of work hour training courses
  Employers may consider helping employees to attend courses or conferences they may otherwise be unable to attend by either providing child care or subsidising child care costs to enable the employee to attend the course.

• lactation breaks
  Lactation breaks are necessary to enable a mother who is breast feeding her baby to return to work and continue to feed her baby by expressing breast milk. A mother friendly workplace will provide appropriate facilities and two paid lactation breaks during the day.

COMMUNICATING THE POLICY

Agencies should inform employees of the NSW Government’s commitment to employer sponsored child care and the availability of the Employer Sponsored Child Care Policy and Guidelines. This should be seen as a first step to the conduct of a needs analysis by the agency prior to action by that agency.
PART 2: GUIDELINES

INTRODUCTION

Employers are realising that if they are serious about workplace reform and increased productivity they must adopt and manage work practices which enable their employees to meet both work and family commitments. This issue can in part be addressed by the introduction of flexible working arrangements. Research has shown, however, that one of the most critical factors affecting people’s employment decisions is the availability of child care.

BACKGROUND

In 1991 the NSW Government issued its policy on employer sponsored child care in the public sector. The policy statement was accompanied by guidelines to assist in determining the feasibility of providing employer sponsored child care and the child care options available.

The employer sponsored child care guidelines were updated in 1993 and an addendum was released in September 1994. The purpose of the addendum (Premier’s Department Circular 94-21) was to replace the “cost neutrality” component of the guidelines with a “cost effectiveness” criterion. Public sector agencies may therefore fund child care initiatives on the basis of cost effectiveness where the agency considers that enhanced productivity and/or savings in turnover and recruitment costs can be realised.

The policy was developed as a result of growing understanding of the benefits to employers of acknowledging and supporting employees’ work and family commitments.

Changes to the structure of the workforce are forcing employers to look more closely at human resource issues, such as helping employees to manage the increasing tensions between work and family life. These changes have been in part brought about by the steady increase in the number of women in paid employment, the number of families where both parents work and the number of single parents in the workforce. The family’s roles and responsibilities are also changing, with men and women increasingly sharing the responsibilities for child care.

Since a number of NSW Government agencies have implemented or are in the process of investigating employer sponsored child care options for their employees, it is considered appropriate to update and expand the existing guidelines to provide more detailed information on implementation.

Agencies investigating the implementation of child care options are encouraged to consult the NSW Department of Community Services, the Commonwealth Department of Health and Family Services, local government and the Australian Taxation Office for advice.

BENEFITS OF EMPLOYER SPONSORED CHILD CARE

Studies have shown that there can be major benefits for employers who invest in child care. Productivity is increased through reduced employee turnover and absenteeism, the ability to recruit skilled employees and improved employee morale, motivation and efficiency. In addition employee availability can be increased and work related stress reduced. Problems with child care arrangements affect productivity and job effectiveness for both men and women.

Agencies grappling with budgetary restraints still must recognise that employee dissatisfaction over child care can affect morale and ultimately customer service and productivity.

The long run economic cost of such factors as working parents’ stress resulting from inadequate child care does not fall under generally accepted accounting practices. The stress translates into easily measurable behaviours such as missed days, lateness, leaving early and job interruptions.

The cost and the lack of availability of suitable child care are the main reasons why women with young children find it hard to return to work (see Ellen Galinski, Family and Work Institute, paper
presented in Sydney, November 1995). The most recently available Australian Bureau of Statistics survey (1990) revealed that 19% of women not in the paid work force stated that their main reason for not seeking work was the unavailability of suitable child care facilities. Of these, 48% stated that the cost of child care was prohibitive. In 1990 there was an estimated shortfall of more than half a million formal child care places, or just over 17% of children aged under 12 years.

With more women in the workforce than ever before, both parents are affected by the shortage of appropriate and affordable child care. The rapid increase in the numbers of women in the workforce has necessitated a consideration of child care issues. In 59% of families with dependent children both parents were in the labour force. Less than a third of Australian families fit the traditional family stereotype of father in the workforce and mother at home. 14% of families are one parent families with 44% of single mothers in the workforce, 56% of whom are employed full time (Australian Bureau of Statistics, 1992).

It is worth noting that good communication policies and work environment correlate to reduced work family stress. It is not just policies but the environment in which they are implemented that makes the biggest difference to employees. The establishment of employer sponsored child care should occur in the context of a culture which espouses family friendly policies and practices of increased flexibility in working hours and conditions. It must occur in a climate which acknowledges and supports the creation of a committed workforce by enabling employees to more satisfactorily harmonise the demands of their work and personal/ family responsibilities.

In summary, the benefits to an agency of sponsoring child care are:

- reduced turnover of employees
- reduction in recruitment and training cost
- reduction in time spent by other employees in training new employees
- reduced absenteeism
- increased return to work after maternity leave and career breaks by experienced employees, shorter periods of maternity leave
- improved employee morale
- enhanced image of the agency.

Examples of benefits are found in Appendix 4.

**STEPS IN IMPLEMENTATION**

These steps may overlap and need to be carried out concurrently

- conduct a needs analysis
- examine different child care options available and their cost analysis of the costs and benefit of the provision of child care examine the feasibility of the child care options available determine which option/s are most suited to needs and
- available resources
- resourcing of preferred option/s – fee relief
  – fringe benefit tax
  – salary sacrifice

These steps are outlined in greater detail below.
CONDUCTING A NEEDS ANALYSIS

Every workplace is unique and the needs of its employees vary. Prior to making decisions about the child care requirements of employees it is advisable to ascertain employee requirements for child care by estimating the numbers of potential users of a child care service.

A number of steps should be taken in the conduct of a needs analysis in order to ensure its appropriateness and a high response rate:

- first, consider why your agency might benefit from providing child care facilities
- assign someone to be in charge of the project survey employee requirements for child care
- ensure that the survey is designed to provide the information required (it may be possible to use or adapt existing surveys eg from the Department of Health and Family Services).

The survey should:

- address both present and future child care needs for the different child care options (eg vacation care, family day care)
- address the issue of level of satisfaction with present child care arrangements, and if problems exist, what they are (eg cost, hours of availability, location)
- enquire about willingness to change existing arrangements and the reason for this (eg cost, quality of care)
- enquire about the number of work days lost due to child care problems -this information is crucial for conducting a cost benefit analysis
- enquire about employee salary levels to examine the affordability of possible fee structures for different child care options
- identify employee needs for types and hours of care
- ascertain preference for child care nearer work or home

To increase the effectiveness of the needs analysis:

- publicise the survey and its importance repeatedly within the agency to elicit a high response rate (a low response rate ie under 60%, reduces the meaningfulness of the data) -it may be possible to hold short meetings with groups of employees to explain its purpose and to answer any questions
- encourage employees who do not have or do not intend in the near future to have children to return the survey, so that the survey is representative of the agency profile
- provide translation assistance or assistance with reading the survey if necessary
- include all employees in the survey, for example those on maternity leave, career breaks and special leave
- remind employees to fill in the survey once it has been distributed
- stress and ensure confidentiality of responses -it may be a more important issue than expected
- the survey may raise expectations for the implementation of child care but it should be made clear that value for money must be obtained
- ensure confidentiality of responses.

Survey analysis:

- use workforce demographics (eg age, sex of employees) with the survey results to assist in estimating employee child care needs (expert assistance may be considered at this point)
- in workforce analysis look for indicators of current and future child care needs eg a young workforce, a high ratio of female employees and a high demand for maternity or parental
leave, or part week employment (available from personnel records and statistics). Add this information and workforce planning projections to survey results for an accurate analysis of demand.

- destroy survey forms once data have been collated for analysis,

It may be appropriate at this stage to consider initially implementing the option/s in greatest demand, or alternatively to implement all at once as part of a package.

**COST/BENEFIT ANALYSIS**

Cost benefit analysis is a decision making tool which enables the benefits of a proposed and alternative approaches to be weighed against the costs. It is also valuable in explaining the rationale of a decision to managers and employees.

Cost benefit analysis has traditionally been used in assessing marketing and operational decisions while human resource projects and programs have been presented from a more qualitative perspective. The advantage of undertaking a cost benefit analysis is that it helps to identify and organise decision making information and present it in a systematic way that is compatible with other financial and managerial systems. The approach can be broken down into a number of steps:

- determine the problem that needs to be addressed, identify objectives of the proposal and define those affected by the proposed arrangements
- identify available alternative options, list potential outcomes
- estimate the incremental costs and benefits of introducing each of the alternative options compared to the existing situation
- determine the options and alternatives based on estimated costs and benefits
- describe any intangible costs or benefits
- evaluate what additional information would help with decision making
- make the decision.

The method used by an agency for calculating a cost or a benefit will vary depending on the data available to the agency and the particular character of that agency. A number of calculations have therefore been provided in Appendix 5 as a guide to possible types of analyses.

The cost benefit analysis should include:

- An employee profile including age, sex, length of experience, turnover, numbers who have left to have children, numbers who returned to work and after how long, amount of leave taken to care for children
- Comparison of medium term personnel plans with employment forecasts on the availability of labour (by age, sex and skills)
- Calculation of the cost of not providing child care (see Appendix 5 for examples). There are costs to the employer for each experienced employee who resigns after maternity leave, moves from full time to part time work, takes a career break for child care purposes and takes leave to look after a child. These costs include vacancy cover (eg temporary promotion, overtime, casual employees, etc), recruitment and training costs. Ripple effect on other employees also requires consideration. For those positions where experience is required an assessment of the costs of the limited functioning and training of a new recruit, which can be considerable, also needs to be made. If the office is experiencing employee shortages, the provision of child care may attract employees to fill the vacancies
- Taking into account the spin off benefits from the provision of child care eg improved employee relations, greater efficiency, reduced absenteeism or requests for leave, improved recruiting image and enhanced reputation.
Some of these benefits may be difficult to quantify in financial terms. However that should not make the value for money appraisal any less valid or useful.

Progressive managers realise that it is not possible to measure everything precisely. They measure what they can, using whatever indicators are available, rather than waiting until they can definitively assess the bottom line contribution of measures such as child care initiatives. In the final analysis these managers are prepared to take a leap of faith and press ahead without the security of definite measures. Strengthening their agency’s position demands that they tap the commitment and energy of their employees.

A number of approaches to taking these steps are outlined in Appendix 5.

FEASIBILITY STUDY

Once potential child care requirements have been identified and costed it is important to eliminate unlikely options and then to conduct a feasibility analysis of the most appropriate options to ascertain whether the required services can be accommodated by the agency. In this analysis it is necessary to:

- examine the availability of child care services in the community either directly or by tapping into available resources for research eg child care information services
- investigate the availability of vacancies in local child care facilities and the length of any waiting lists and match these against the ascertained level of demand within the agency
- enquire from the child care service providers whether they are interested in leasing places
- examine the possibility of a partnership arrangement with another agency – this may be valuable if there is insufficient demand in the agency to fully utilise a child care option eg a centre
- investigate any building or renovation work already under consideration which may accommodate a child care arrangement
- assess sites and leasing arrangements if establishing a long day care centre
- examine the cost of each option to the agency
- examine the cost to parents ie fees
- decide who will manage the service
- be aware that both research and negotiations may be complex and time consuming, whether they be tapping into an existing facility or establishing a new one.

CHILD CARE OPTIONS AVAILABLE

These are:

- long day care
  - build own centre
  - joint ventures
  - leasing places in an existing centre
- vacation care
- out of school hours care .family day care
- child care at residential or out of work hour training courses.

The options are outlined more fully below.
LONG DAY CARE CENTRE
Long day care centres provide care for children within age ranges of 0-5 years, 2-5 years or 3-5 years of age during their parents’ working hours. Centres usually operate 10 to 18 hours per day for 48 to 50 weeks per year.

ISSUES TO BE CONSIDERED IN BUILDING A CENTRE OR USING AN EXISTING CENTRE

• choosing a site for the centre location
  – location
  – environment (health and safety)
  – size and layout
  – parking
  – public transport
  – design and layout

• deciding on the type of service
  – hours of operation
  – staffing (ratios set by government regulation)
  – ages of children (impacts on staff numbers)
  – philosophy program
  – licensing/ accreditation considerations

• management
  – employ or contract out
  – expertise, experience and qualification size of operation
  – reputation
  – consumer viewpoint

• viewing existing services vacancies
  – environment
  – quality of equipment
  – staff / parent relationship
  – staff turnover, diversity of expertise, possible plans to expand

• choosing a joint venture partner
  – location of operations/ offices
  – nature of organisation
  – have funds been allocated by either partner philosophy
  – commitment
  – number of participants
  – allocation of space/ age groups

• set up costs
− new centre vs existing centre
− new centre – land, building, equipment
− existing centre – reservation fees, capital grant
− architect
− legal fees and stamp duty
− fit out and equipping
− insurance
− advertising

• legal issues
− vary for child care option chosen
− liability

SOME ISSUES WITH RESOURCE IMPLICATIONS TO CONSIDER IN PLANNING AND BUILDING A CENTRE

• Planning
− Establishment of a planning team
− Identifying requirements utilising a needs analysis eg number of children under 2 years, total number of children
− Identifying possible sites which meet requirements Investigating funding eg grants available, loans, capital on hand
− Determining running costs and appropriate fees to be set by comparison with other agencies
− Determining level of subsidy (if any)
− Determine building requirements eg size of play areas, equipment needs, safety needs

• Tendering and building
− Preparation of a design brief
− Consultation with council and Department of Community Services for licensing requirements
− Consultation with legal adviser and architect
− Obtaining and reviewing plans from architect
− Obtaining preliminary approval from authorities (council, Department of Community Services)
− Checking funding estimates with those planned
− Obtaining contracts for building etc and sign
− Calling for tenders for building and possibly management of centre
− Letting tenders
− Supervising building
− Upon completion obtain necessary certificates

• Running the centre
- Call for expressions of interest from potential users
- Handing over management of the centre to management contractor or internal line of management responsibility
- Opening centre
- Maintaining committee to oversee running of the centre
- Reviewing progress on a regular basis.

**Establishment cost**

The estimated cost of building a centre depends on the site, location, whether refurbishing or purpose building, the number of children, breakdown of the number of children under 2 years old, etc. As an estimate it will be in the vicinity of $500,000 to $1 million for 40 to 60 places. Building costs will include the meeting of health and safety requirements and licensing.

**Building regulations**

The child care centre must comply with the Building Code of Australia. NSW building regulations can cause some difficulties in selection of a suitable site, for example in a built up area where space is limited and outdoor space is often unavailable or exposed to airborne pollution. It may be possible for building regulations to accommodate the lack of outdoor space by permitting indoor space to be set up to mimic outdoor space. The draft guideline for the design of long day care centres by the Sydney City Council is an example of this.

**Space requirements**

Issues to be considered are the availability of short term parking spaces for parents to drop off and pick up children and accessibility to escape routes to fire isolated stairs or the provision of a safe haven area, security provisions and access outside normal business hours.

Decisions need to be made on the number of places in the nursery, the hours of operation and the allocation of places in terms of meeting building regulations.

**Utilisation rate**

In the first year of operation a centre is only likely to have a 60% to 80% utilisation rate, as many parents will wait to assess the quality of the operation prior to taking children out of current arrangements. This is significant in terms of allocation of funds for operating expenses.

**Management of the centre**

It is possible for an agency to manage a centre internally, but it is more common to contract out the management function to a specialist firm or set up a management committee. In order to decide which option to choose, the agency must weigh the cost of each option and the resources available (both employee time and funds) as well as the need to exercise control over operations.

**Fees**

In setting fees for places in the centre it is important to take into account the amount parents in the survey suggested they could afford or be prepared to pay, the rates at other centres in the area, and the level of subsidy to be paid by the agency. Usually parent fees cover operating costs and capital funding is subsidised by agencies. Salary sacrifice may be considered (please see Appendix 3).

**Tax**

Taxation concessions may apply to some statutory authorities and government trading enterprises. These include deductible expenses, depreciation allowances and exemptions from fringe benefit tax. Agencies should contact the Australian Taxation Office to obtain advice on specific taxation issues.
Accreditation

In 1994 the Commonwealth Government introduced the Quality Improvement and Accreditation System. This process for quality improvement in long day care centres is underpinned by 52 principles. To be accredited a centre must comply with each principle to a specific standard. Compliance with the principles is determined by a process of self study and external review. Childcare Assistance will continue to be available to long day care centres if they are registered with the National Accreditation Council and are making satisfactory progress towards the standards required for accreditation or are already accredited.

OPERATIONAL ISSUES FOR AN EMPLOYER SPONSORED CHILD CARE CENTRE

• control of the centre
  – outside or internal operator
  – centre director (role, function and level of expertise) staff structure
  – quality control
  – management structure and procedures

• budgets
  – capital budget
    – equipment
    – repairs and maintenance
  – operational budget
    – accountancy
    – advertising
    – bank charges
    – cleaning
    – computer
    – electricity and gas
    – food and groceries
    – insurance
    – nappy service
    – postage
    – printing and stationery
    – rates and taxes
    – rent
    – repairs and maintenance
    – salaries
    – staff training
    – superannuation
    – telephone
    – toys and small equipment
    – workers compensation.

• subsidies
  – FBT exemption
  – placement reservation fees
  – fee relief
  – government grant

• age breakdown of children and staff ratios
  – number under 2 years old (1 staff member per 5 children)
  – number 2 to 3 years old (1 staff member per 8 children)
  – number 3 to 5 years old (1 staff member per 10 children)

• space requirements (Department of Community Services)
– indoor
  – 4.18 square metres per child under 2 years
  – 3.25 square metres per child 2 to 5 years
– outdoor
  – 4.96 square metres per child under 2 years
  – 6.96 square metres per child 2 to 5 years.

In addition, consideration must be given to other spaces for utilities, for example a kitchen, staff room, office, administrative areas, etc.

• No more than 30 children under the age of 2 and no more than 60 children between the ages of 2 and 6 can be cared for in one centre.

The major costs incurred by a long day care centre are:

• accommodation (purpose built, renovated, owned or leased) ie capital costs of establishing the centre; and
• staffing (approximately 80% of operational costs).

**Estimated per annum cost of running a 40 place centre (15 children under 2 years old) in 1995/96**

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Total salary and wage cost</td>
<td>344,215</td>
</tr>
<tr>
<td>Goods and services (food)</td>
<td>16,300</td>
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<tr>
<td>Cleaning and domestic</td>
<td>13,000</td>
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<tr>
<td>Consumables</td>
<td>11,500</td>
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<tr>
<td>Insurance</td>
<td>2,500</td>
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<tr>
<td>Administrative expenses</td>
<td>5,500</td>
</tr>
<tr>
<td>Administration fee</td>
<td>20,000</td>
</tr>
<tr>
<td>Deprecation</td>
<td>5,000</td>
</tr>
<tr>
<td>Building maintenance</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>400,265</strong></td>
</tr>
<tr>
<td>Government subsidies</td>
<td>126,000</td>
</tr>
<tr>
<td>Fees from parents</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td><strong>426,000</strong></td>
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</table>

Estimated cost of running a 60 place centre (24 children under 2 years old) in 1995/96

<table>
<thead>
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<th>Expenses</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
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<td>Total salary and wage cost</td>
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<tr>
<td>Goods and services (food)</td>
<td>42,200</td>
</tr>
<tr>
<td>Gas and electricity</td>
<td>2,400</td>
</tr>
<tr>
<td>Cleaning and domestic</td>
<td>13,500</td>
</tr>
</tbody>
</table>
Government subsidies are in most instances available from the Federal Government subsequent to an approval process. However, if the child care centre does not meet the requirements, the employer sponsor may need to provide the equivalent amount of funding.

**Licensing regulations**

Licensing ensures that the child care service meets appropriate standards. It is advisable to hold preliminary meetings with both local government and the NSW Department of Community Services before preparing a plan and lodging a development application.

Child care services in NSW are licensed under the provisions of one of the following regulations framed under the Children (Child and Protection) Act 1987:

- Centre Based Child Care Services Regulation (1989) – this regulation covers services which cater for 6 to 60 children aged 2 to under 6 years and/ or from 6 to 30 children under age 2 years in permanent premises. Centre based child care services include long day care centres, pre school centres, occasional care centres, children’s neighbourhood centres, multi purpose child care centres and work based child care.

- Family Day Care Services Regulation (1989) – this regulation covers services which are managed by a sponsoring body which employs a coordinator to recruit, assess and train registered care givers. Each registered care giver can provide care for up to 5 children under the age of 6 years or 7 children under the age of 12 years including the care giver’s own children and children under 6, in the premises where the care giver resides. The coordinator arranges placement of children.

- Home Based Child Care Services Regulation (1989) – this regulation covers services which cater for either 1 to 5 children under age 6 years or 7 children under age 12 years in the premises where the care giver resides. Licensed home based child care services are not allied to a scheme or a sponsor, but operate on an individual basis.

- Mobile Child Care Services Regulation (1989) – this regulation covers itinerant services for children under age 6 years where a vehicle transports staff and equipment to a range of
locations. These locations include community halls, neighbourhood centres, public halls and parks.

All child care service licenses are valid for a maximum of 3 years. Baby sitting, playgroup, informal child minding services, vacation care and before and after school care are not covered by regulation.

Factors considered by the department in granting a license for a child care service include:

- qualifications, training and experience of employees
- educational programs to meet the social, emotional, cognitive, cultural and physical development needs of children
- appropriate disciplinary, health and safety practices
- employee/child ratios
- maximum group sizes
- maximum numbers of children at any one time
- appropriate and well maintained furniture, furnishing, equipment and buildings
- appropriate indoor and outdoor areas and equipment
- appropriate storage for indoor and outdoor equipment, supplies and cleaning, child and employee belongings
- appropriate fire protection equipment.

In addition the requirements and provisions of local government ordinances must be met.

The Department of Community Services has recommendations for designing a long day care centre and the presentation of plans for approval.

Rules and regulations involved in the establishment of a long day care centre can be grouped into the following four areas:

- state regulations for registration/licensing and operation the service
- local council for design, location and building of a centre
- awards for child care workers and employees
- National Child Care Accreditation Council requirements.

**Funding**

Centres provided by employers do not receive Commonwealth Children’s Services operational funding, although they may be at to obtain capital funding in some circumstances.

They may however be eligible for parent fee relief called Childcare Assistance. Fee relief is for the benefit of the centre users and not reduce the employer’s operational costs.

In order to qualify for government operational funding in addition to fee relief, centres must operate as non-profit, community based services with parents involved in the management of the facility.

Community based services give priority of access to families from the community, based on a set of guidelines determined by the Department of Health and Family Services. They must adhere to these guidelines in order to continue to receive their government funding.

It may be contrary to the needs of employers who are establishing a centre to provide priority of access to families from the community, as their employees’ children may miss out on places. Therefore employer sponsored centres may not receive operational assistance. It may, however, be possible to split the number of places in the centre into some employer sponsored and some community based places, therefore obtaining proportional operational funding.
NSW Government agencies which have established long day care centres:

- Department of Corrective Services
- Department of Health
- Department of School Education
- Pacific Power
- Sydney Market Authority
- Sydney Water
- Totalisator Agency Board

**JOINT VENTURES**

Joint ventures are a cooperative arrangement in which two or more employers combine resources for the provision of a child care service to employees. The employers may establish a child care centre, buy equity or lease places in an existing child care centre for an agreed length of time. This arrangement is exempt from fringe benefit tax.

Joint ventures are not restricted to traditional long day care centres. They work for a whole range of arrangements including vacation care, outside school hours care, care for sick children or a child care referral service.

In order to establish a joint venture arrangement agencies need to be in contact with other agencies which may wish to take part in an arrangement with them. The parties then are advised to discuss the parameters of their arrangement and to obtain legal advice, as well as contacting the Australian Taxation Office for taxation implications of the arrangement to ensure that it meets fringe benefits tax exemption requirements.

**RESERVING PLACES IN AN EXISTING CHILD CARE CENTRE**

In this arrangement the employer reserves a specified number of places in an existing child care centre or service. The employer achieves this by making a contribution for each place to obtain priority of access.

An employer may have insufficient demand to build a centre (for example if the agency is small), or employees may prefer to use a centre close to home rather than close to work. In this instance an employer may prefer to secure priority of access for a certain number of places for a given number of years in existing centres.

Priority of access payments vary widely, depending on the centre, the number of places reserved and the number of years for which they are reserved. The amount of payment is negotiated with the service operator.

Reserving places provides the employer with greater flexibility and requires a smaller financial investment than building a centre. As an example, payment is likely to be between $500 and $3,000 per place per year. These reservation fees are fringe benefit tax exempt under certain conditions (outlined below under section on FBT). Employers may make in kind contributions rather than cash payments for reserving places. They include land, buildings, free rent, transport services, office supplies, security services, food, marketing and publicity, etc.

One difficulty with this option may be a shortage of places in the locality where it is intended to reserve them. Agencies intending to utilise this option are advised to research the availability of places in child care arrangements within the community.

NSW Government agencies who have reserved places in a long day care centre:

- TAPE Commission
VACATION CARE

Vacation care offers supervised out of school activities for school aged children for the 12 weeks per year of public school holidays. This program usually offers care for 20 to 50 children between the ages of 5 and 12 years. It offers art, craft, sport and other activities in a safe and well organised environment to help children gain the maximum enjoyment from their leisure time. The scheme may be managed by the agency, contracted out, or a person recruited specifically for the purpose.

The vacation care scheme must comply with state and local government requirements. It must also be registered in order for parents to be entitled to receive the Commonwealth Government Childcare Cash Rebate.

Costs include the salary of the organiser and other employees, administrative costs, advertising for the scheme, advertising for and recruitment of employees, renting accommodation, provision of food, play and other equipment and insurance. The number of children catered for by the scheme and the hours of opening will influence the number of employees to be employed. In setting fees it is important to evaluate what fees are reasonable for parents and what level of subsidy (if any) will be met by the agency. A decision may need to be taken on whether unfilled places are offered to other agencies to provide a service to them and to help defray costs.

Employers may choose to subsidise attendance in an existing scheme or to establish their own scheme. A typical cost for reserving vacation care places (this is separate from fee payment) is $100 per child per week. Contracting out the service will involve a fee but will eliminate the need to devote one or more employee’s time and resources to establishing and managing the program.

Considerations for the establishment of a program include:

- finding a site and design of the space
  - possible existing vacation care program to reserve places in
  - is there access to wet areas and bathroom
  - is there access to outdoors
  - accessibility for employees

- funding options

- establishment considerations
  - staffing
  - legal requirements eg insurance
  - equipment
  - policies

- management of the program

- possible joint venture partners .expenses
  - salaries (including prior to and after the program)
  - postage and telephone
  - cleaning
  - insurance
  - security
  - food
  - transport and excursions
  - provisions
− equipment for play and craft
− rent
− printing and stationery
− advertising

• evaluation of the program
  − were hours/location/activities suitable
  − is employer subsidy necessary / adequate

Establishment and operating costs vary depending on the number of children, rents etc. As an indicator, establishment cost may be in the vicinity of $4,000 and operating costs $4,500 per week. Parent fees may need to be subsidised by an employer to ensure affordability to parents.

It may be possible to reserve places in existing programs, or subsidise the costs incurred by employees in accessing places in other programs of their own choice, for example, close to home.

For agencies liable to pay a dividend to Treasury, operating costs are fully tax deductible as non-nal business expenses.

Agencies which have established vacation care:
• Attorney General’s Department
• Department of Land and Water Conservation
• Director of Public Prosecutions (utilises the Attorney General’s Department scheme)
• Legal Aid Commission (utilises the Attorney General’s Department scheme)
• National Parks and Wildlife Service Pacific Power
• Parliamentary Counsel’s Office (utilises the Attorney General’s Department scheme)
• Roads and Traffic Authority
• TAPE Commission
• Treasury (Parramatta)
• Zoological Parks Board

OUT OF SCHOOL HOURS SCHEME
Out of school hours schemes provide care for children before and/or after school hours and parents’ return from work eg 7-9 am, 3-6 pm. These schemes are more difficult to establish because they need to be based within easy reach of school and home unless some form of transport is provided.

There are a number of community based services, usually accessed through local schools, which agencies may wish to support. Childcare Cash Rebate may be claimed for this service if the scheme is a registered one.

FAMILY DAY CARE
Family Day Care establishes contact between parents and a registered care giver who will look after their child in her /his own home. The care giver is licensed to provide care for up to 5 children (4 pre-school children including the carer’s own child and/ or up to 3 school aged children including the carer’s own child). This scheme is suitable for parents who do not have access to a long day care centre or who prefer for their child to be looked after in a home environment.

These care givers may provide greater flexibility in hours and therefore suit parents who work unusual or long hours. Arrangements may be made to accommodate the need for extended or unusual hours of care.
Children receive more individual attention than in a centre and can be placed close to their home communities. As well as looking after children in the 0-5 year old age range, arrangements in some case can also be made for carers to look after children before and after school and in school holidays.

The Commonwealth Government sponsors a service to employer which will, for a fee, find day care parents for children of their employees and manage the arrangement.

**Commonwealth funded Family Day Care Scheme**

Commonwealth funded Family Day Care Schemes are operated by non profit organisations such as local government and community: groups which employ a central coordination unit to organise and support the network of carers. Carers are carefully selected and visited regularly to ensure quality of care.

The employer payment to the Family Day Care Scheme is negotiated between the scheme and the employer based on the costs involved in creating and managing the places required by the employer. While payments by the employer will usually be financial, it may be possible to negotiate a non financial payment eg toys and play equipment, marketing and publicity, discounted supplies.

A typical cost is $2,500 to $4,000 per annum per place for the service depending on the number of places and their location. Parents pay usually approximately $3 per hour to the care provider. Users of employer sponsored places reserved in Commonwealth funded Family Day Care Schemes are eligible for Childcare Assistance, and employer payments to reserve places are exempt from fringe benefits tax. Childcare Assistance is available only where employer contributions are made to the Family Day Care Scheme and not direct to the carer and fringe benefit tax exemption is, in June 1996, under review by the Australian Taxation Office.

The Childcare Cash Rebate is also available to parents using places in most family day care schemes. It is advisable to check with individual schemes.

NSW Government agencies who provide access to a Family Day Care Scheme:

- Environment Protection Authority
- NSW Police Service
- Public Works and Services
- Sydney Electricity

**HOME BASED CARE**

In this option an agency employs individual carers as employees. The carers work from either their own home or the employee’s home and are paid a wage. Carers are entitled to all employee benefits. They must be licensed to operate as carers by the NSW Department of Community Services. This type of care is not eligible for Childcare Assistance.

NSW Government agencies providing home based care:

- National Parks and Wildlife Service

**SHARED NANNY SERVICE**

An employer may provide assistance to employees in finding a partner to share a nanny. The employer may not subsidise this option. This type of care is not eligible for Childcare Assistance. A group of employees may share a nanny, who is employed by the parents and cares for the children in the home of one of the parents. An employer may organise the service or subsidise the cost.
INFORMATION AND REFERRAL SERVICE
Information and referral services may be provided by agencies to advise employees on the availability of child care either near their work location or near their home. The scope of the service may range from the provision of information through to the matching up of parent needs with existing vacancies with service providers.

This option is a relatively inexpensive method of providing child care assistance. There is no commitment to subsidise the cost of the child care, only to pay for the service provided by a referral agency, or to recruit someone to provide the service in-house. The agency will in the former instance have to pay for the referral agency fees (usually scaled according to the level of usage) or the employee’s salary in the latter instance.

One advantage of this option is that it enables parents to more easily obtain information in their own localities not just in the vicinity of work.

NSW Government agencies which offer an advisory service:
- Director of Public Prosecutions
- Environment Protection Authority
- Pacific Power
- Public Works and Services
- State Rail Authority

INFORMATION KIT
Agencies may provide employees with a kit of information on options available in the community or near work, for example vacation care service providers. Employees then contact the service providers and make their own arrangements.

NSW Government agencies providing information kits:
- Department of Training and Education Coordination
- Premier’s Department
- Public Works and Services
- Sydney Water
- Totalisator Agency Board

CARE OF SICK CHILDREN
When children are unwell parents are faced with the problem that most services will not look after children who are unwell and may be contagious. Options available to employers wishing to assist employees with sick children are:
- sponsoring a family day care service to provide special care for sick children
- supporting a “get well room” in an approved child care centre
- contracting a home nursing agency to provide carers for sick children in their own homes
- setting up a family room on the employer’s premises with a bed, computer equipment, etc so that employees may bring mildly unwell children to work with them.

If choosing to establish a family room, guidelines for its use should be widely distributed to employees. They should include information on what types of illness are acceptable in children using the room and the name of a contact person for booking the room. It is advisable that the contact person should be available for contact after 7.30 am for bookings, since children frequently get sick during the night without prior warning, leaving parents with a problem early in the morning on how to cope that day.
NSW Government agencies providing a service for sick children: 
- Department of Industrial Relations
- Department of Training and Education Coordination
- Premier’s Department
- Zoological Parks Board

CHILD CARE AT RESIDENTIAL OR OUT OF WORK HOUR TRAINING COURSES
Where child care difficulties prevent employees from attending residential or after hours training courses, agencies may consider helping employees to make their own child care arrangements or providing self-financing child care at the course location.

Agencies have discretion to reimburse the extra expense involved in providing emergency child care, or in looking after children, where the job demands that the normal working routine has been broken. This includes attendance at training courses.

NSW Government agencies providing child care assistance for training:
- National Parks and Wildlife Service

LACTATION BREAKS
A mother friendly workplace has a clearly defined policy which supports and assists a mother in making choices about her return to which enable her to continue to breastfeed her baby for as long as she chooses. As well as physical facilities such as a private room and comfortable surroundings which allow a mother to express and store breast milk, these places also provide additional paid lactation breaks during the day to assist the mother to maintain breast feeding.

Lactation breaks are necessary to enable a mother to feed her baby or to express breast milk. Although a mother may not actually feed her baby for a number of hours, lactation breaks are important for maintaining an adequate milk supply and for the physical comfort of the mother. The breast milk expressed at these times is stored for the baby’s feeding when away from the mother. Ideally there should be two lactation breaks over an eight hour period to ensure maintenance of breast feeding. These breaks should be in addition to regular meals and rest breaks.

(See Appendix 6 for details)
APPENDIX 1
Childcare fee relief and other family assistance payments

A number of fee relief options are available depending on family circumstances. Further information is available through Department of Social Security or Medicare offices.

The Commonwealth Government is intending in 1996 to set up family centres as a one stop option for all family related funding enquiries.

Types of assistance available for child related expenses are:

- **Maternity allowance:** a one off payment of $816 after the birth of a child. Families who qualify for the basic family payment ie their combined family income is less than $61,020 per year, are entitled to the payment. There is a higher income limit for subsequent children (add $3,051 for each child already in the family). Information is available from the Department of Social Security.

- **Family Payment:** a payment to families to help with the cost of living and helping to make ends meet. A new rate structure was introduced in January 1996. It is means tested and at present pays a maximum of $21.70 per fortnight, cutting out at an annual family income of $61,020. Further information is available from the Department of Social Security.

  Families on lower incomes may be entitled to an additional family payment. For example, families with one child earning less than $21,700 get an additional family payment of $67.20 per fortnight. Those earning between $21,700 and $34,830 get a payment which decreases from $67.20 by 50 cents for each $1 over $21,700.

  The basic and additional family payment was rolled into one from 1 January 1996.

- **Parenting Allowance:** if one parent stays at home to look after a child, the parent may claim up to $61 per fortnight, depending on income from any part time employment and the level of total family income.

  Further information is available from the Department of Social Security.

- **Sole parent allowance:** a sole parent may be entitled to a sole parent pension if unemployed (from the Department of Social Security) as well as a family payment and a guardianship allowance. This allowance is $30.10 per fortnight and information is available from the Department of Social Security.

- **Childcare Cash Rebate:** this helps families to meet some of the costs of child care when they are working, looking for work, studying or training. This is paid if the care giver is registered with Medicare. The rebate to families earning less than $70,000 per year is for 30% of the costs above $16.50 per week, to a maximum of $28.80 for one child or $62.55 for two or more children in care. The rebate to families earning more than $70,000 per year is reduced to 20% of the cost above $16.50. Further information may be obtained from Medicare.

- **Childcare Assistance:** this is paid directly to the child care provider and reduces the fees paid by parents. It may cut fees by as much as 85% depending on family income. Childcare Assistance is available if total weekly family income is up to $1,181 with 1 child in care, or $1,431 with 2 children in care. Assistance is provided for work related or occasional care. Parents pay the first $16.50 each week for one child or $19 for two or more children. This option is available for centre based care, family day care and outside school hours services.

For a child in an approved day care centre or family day care scheme charging $112.50 per week for 50 hours of care, or an approved occasional care service charging $2.25 per hour, the following rates apply:
<table>
<thead>
<tr>
<th>Gross family income</th>
<th>What you pay</th>
<th>Child Care Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ per week</td>
<td>$ per hour</td>
</tr>
<tr>
<td>485</td>
<td>0.33</td>
<td>16.50</td>
</tr>
<tr>
<td>500</td>
<td>0.37</td>
<td>18.50</td>
</tr>
<tr>
<td>600</td>
<td>0.65</td>
<td>32.50</td>
</tr>
<tr>
<td>700</td>
<td>0.92</td>
<td>46.50</td>
</tr>
<tr>
<td>800</td>
<td>1.20</td>
<td>60.00</td>
</tr>
<tr>
<td>900</td>
<td>1.48</td>
<td>74.00</td>
</tr>
<tr>
<td>1000</td>
<td>1.75</td>
<td>87.50</td>
</tr>
<tr>
<td>1181</td>
<td>2.25</td>
<td>11.50</td>
</tr>
</tbody>
</table>

For two dependent children the following rates apply:

<table>
<thead>
<tr>
<th>Gross family income</th>
<th>What you pay</th>
<th>Child Care Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ per week</td>
<td>$ per hour</td>
</tr>
<tr>
<td>515</td>
<td>0.38</td>
<td>19.00</td>
</tr>
<tr>
<td>600</td>
<td>0.76</td>
<td>38.00</td>
</tr>
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<td>700</td>
<td>1.21</td>
<td>60.50</td>
</tr>
<tr>
<td>800</td>
<td>1.66</td>
<td>83.00</td>
</tr>
<tr>
<td>900</td>
<td>2.11</td>
<td>105.50</td>
</tr>
<tr>
<td>1000</td>
<td>2.56</td>
<td>128.00</td>
</tr>
<tr>
<td>1200</td>
<td>3.46</td>
<td>173.00</td>
</tr>
<tr>
<td>1431</td>
<td>4.50</td>
<td>225.00</td>
</tr>
</tbody>
</table>

Other family payments are:

- Child Disability Allowance of up to $69.50 per fortnight (not means tested)
- Multiple Birth Allowance of $87 per fortnight for triplets and $116 for quadruplets (means tested as for family allowance)
- Rent Assistance of up to $77 per fortnight with one or two children and $88 for three or more children (means tested and paid with additional Family Payment).
APPENDIX 2
Fringe Benefits Tax (FBT)

The purpose of this section is to outline the issues surrounding the payment of fringe benefits tax by employers for the sponsoring of child care for employees. It is recommended that agencies consult the Australian Taxation Office regarding the FBT implications of the option/s they are considering implementing.

Fringe benefits are benefits, other than salary or wages, provided by an employer to employees. Such benefits include, among other things, the provision of services and the use of property. FBT is calculated on the value of the benefits provided and is paid by the employer. The provision of some benefits, such as child care, are exempt from FBT under certain circumstances, such as:

- the employer has an interest in the child care premises (ownership, lease or sub-lease);
- lease rentals, management fees and child care fees are commercially based and independent of each other; and
- the agreement with the child care centre manager is an ordinary commercial agreement and not tied in with the lease.

Business premises are defined as premises which are used wholly or in part for the employer’s business operations, but does not include any part of premises used as a residence by the employer, employees, associates or employees of associates. A child care facility does not have to be located at the main place of business operations to qualify as being located on an employee’s business premises. A facility may qualify as business premises provided it is not located in a place of residence, and provided that the employer has control over the premises.

Whether the employer has sufficient control over the premises for it to be determined that the child care facility is on its business premises depends on the circumstances of the particular case. The employer should own the premise or at least have a lease or sub lease over the premises. A lease must operate on a normal commercial basis and the calculation of lease rentals, management fees and child care fees should be commercially based and independent of each other. This is referred to as “operating on an ordinary and arms length basis”.

If the employer engages child carers to manage the child care facility on its behalf, the management agreement should also operate on a normal commercial basis. It should be able to be terminated by the employer on normal commercial grounds. Termination of the management agreement should not require termination of the lease, nor should the employer’s rights under the lease be affected in any way.

Until early 1996 also FBT exempt were employers’ contributions to Commonwealth funded child care services to secure priority access for employees’ children, provided that:

- the contribution was made under an agreement between the employer and the manager of an eligible child care service; the child care centre provided the same level of service to all children;
- all parents were charged the same fees and the priority fee is not used to meet child care fees;
- the priority fee was used to benefit all children; and
- the centre kept a record of place reservation and fees.

This provision is, in June 1996, under review by the Australian Taxation Office.

To qualify for exemption from FBT for reserving places, centres were required to be community sponsored, privately owned or owned by other employers. The exemption applied primarily to long day care services, however vacation care, outside school hours care and care for sick children programs which operate in conjunction with long day care centres also qualified.
To qualify, an employer was required to make a contribution to an eligible child care centre under the employer contribution guidelines. Only contributions made exclusively for the purpose of securing reserved access to child care places for employees’ children qualified for exemption. An employer could pay part or all of the employees’ child care fees, but this payment must be made separately from the employer contribution and will attract FBT.

These two exemptions outlined above are covered by subsections 47(2) and 47(8) respectively of the Fringe Benefits Tax Assessment Act 1986.

Vacation and outside school hours care for employees’ children are also exempt from FBT provided that the care takes place on the employer’s business premises. The care does not have to be provided at the employer’s main place of business operations provided the employer retains control over the premises used.

Reserving places in a family day care scheme has also qualified for FBT exemption (and is at the time of writing under review) but payment to a home based carer to secure priority of access does not qualify.

It is advisable to obtain a private ruling from the Australian Taxation Office prior to entering into any arrangement.

The Australian Taxation Office has at the time of writing handed down a draft determination on the definition of “employer’s premises”, tightening up on previously accepted interpretations of the meaning of “employer’s premises”. This draft determination is the subject of community consultation prior to finalisation.
APPENDIX 3
Salary sacrifice

The term salary package refers to the total value of cash and other benefits received by an employee. Payment is expressed in terms of the total cost to the employer. Salary packaging introduces the notion of being paid by means other than just salary and leave loading. This is achieved through sacrificing salary for specified employment benefits.

Salary sacrifice refers to the purchase of employment benefits from pre-tax earnings. Pre-tax earnings sacrificed for benefits attract a fringe benefit tax (FBT) rather than PAYE tax.

Employers and employees may arrange remuneration packages which will reduce the employee’s salary entitlement and provide a fringe benefit as part of their remuneration package. This arrangement is known as salary sacrifice. The income tax liability of the employee is reduced. This loss in income to the Australian Taxation Office is offset by the liability for FBT by the employer.

In NSW Government agencies salary packaging can only be implemented through an enterprise agreement or a variation to an existing award or industrial instrument. Where remuneration is currently prescribed by an award or other industrial instrument salary sacrifice arrangements may only be introduced through formal modification of those arrangements, otherwise income taken in benefits may still attract income tax.

In the NSW public sector an arrangement has been made which maintains the employee’s superannuation benefits and payments at a level which is not affected by the employee’s reduction in salary. Employer sponsored child care is an “approved employment benefit” in terms of superannuation arrangements. Therefore the value of this benefit is treated as part of the employee’s salary for superannuation purposes. Please refer to DIRETFE Circular No 3 of 1994, Salary Packaging -“Approved Employment Benefits” for Superannuation Purposes for details.

Child care fees can be deducted by an employer from an employee’s gross salary; however the employer may attract FBT. This applies when a child care facility is provided by the employer on site or at an approved location nearby. When an agency does not set up its own child care facility the employer may instead reserve places in an existing child care centre, on behalf of employees, however this option may attract FBT. In some situations this may necessitate employees who receive award wages to re-negotiate these via enterprise agreements.

The benefits of salary sacrifice to a particular employee must be offset against the loss of benefits from the Commonwealth Childcare Assistance and Childcare Cash Rebate. These rebates are available to families who meet child care expenses out of after tax income.

The salary sacrifice must be part of a salary package, not just pre-tax payment of child care fees by an employee. In the NSW public sector awards must be revised and ratified by the Industrial Relations Commission to allow for salary sacrifice.

Salary sacrifice is considered to be most effective for people whose salary is higher than $55,000 to offset the loss of the Commonwealth Government rebates.

The Australian Taxation Office treats each employer supported child care service on a case by case basis and it is recommended that agencies wishing to implement a salary sacrifice option discuss it with the Australian Taxation Office. It is advisable to obtain a private ruling from the Australian Taxation Office prior to entering into any arrangement.

The Australian Taxation Office draws a distinction between a deduction from a salary and a reduction of salary. The former refers to child care costs being deducted from an employee’s pre-tax salary -this is not an appropriate salary sacrifice arrangement. The latter refers to a reduction in employee salary which is offset by the provision of certain benefits as part of a salary package. This is recognised by the Australian Taxation Office as a salary sacrifice arrangement, while the former is not. The reduction in salary however has implications for salary levels during annual leave, sick leave, long service leave, and other entitlements.
If salary packaging does not take place in a salary sacrifice situation, it is not possible to obtain exemption from FBT. A situation in which an employee receives a salary, part of which is applied towards the provision by the employer of child care is a salary deduction and is not true salary sacrifice. A situation in which an employee is paid a reduced salary together with a child care benefit is true and effective salary packaging and is possibly acceptable to the Australian Taxation Office. However, at the time of writing, this provision is under review by the Australian Taxation Office.

If an employee is covered by an award, the Industrial Relations Commission needs to approve proposed changes to the employee’s salary entitlement before the arrangements can take place. If the employee is employed on a contractual basis it is only necessary to renegotiate the salary package or employment contract.

The distinction is one between deduction and reduction. In the first situation there is a deduction from salary to satisfy the provision of a child care benefit. In the second situation there is a deduction in salary which gives rise to a different legal entitlement to the employee and constitutes salary sacrifice. Appropriate advice should be sought.

Benefits of salary sacrifice child care payments:

| TABLE A – child care payments are reduced pre tax as part of salary sacrifice |
|-------------------------------|---------|---------|---------|
| Gross salary                | 30,000 | 40,000 | 50,000 |
| Child care payments         | 12,500 | 12,500 | 12,500 |
| Net taxable income          | 17,500 | 27,500 | 37,500 |
| Tax                         | 2,769  | 5,920  | 9,477  |
| Net income                  | 14,731 | 21,580 | 28,023 |

| TABLE B – child care payments are tax has been deducted |
|-------------------------------|---------|---------|---------|
| Gross salary                | 30,000 | 40,000 | 50,000 |
| Tax                         | 6,804  | 10,574 | 15,022 |
| Net income                  | 23,196 | 29,426 | 34,978 |
| Child care payments         | 12,500 | 12,500 | 12,500 |
| Net income                  | 10,696 | 16,926 | 22,478 |

NB: it is suggested that a comparison be made of the benefits of salary sacrifice as against the benefits of obtaining the Childcare Assistance or Childcare Cash Rebate at different salary levels.

[Source: Work and Childcare Advisory Service, 1995]
APPENDIX 4
Examples of Benefits

Studies have shown that there can be major benefits in terms of improved productivity, reduced turnover and absenteeism, and improved employee morale for employers who invest in child care. Some of these studies are outlined below (references can be found in Appendix 7).

- Studies have found that problems with child care arrangements affected productivity and job effectiveness for both men and women, for example, male employees at Westpac utilise 60% of the child care services offered.

- One study has shown that employees who experience work-family conflict are three times as likely to think about resigning as those who do not. The Work and Family Institute, USA has conducted a study revealing that 23% of employees not offered child care assistance would trade salary and benefits to obtain such assistance, and 46% would change employers to obtain the assistance.

- When an employee resigns, the resulting costs consist of not only the visible expenses of recruiting and training a replacement but also the hidden inefficiencies of delays, sub optimal performance of new employees and ripple effects on co-workers. Researchers concur that turnover costs between 93% and 150% of a departing employee’s salary and up to 200% of salary for a highly skilled or senior person (Journal of Accountancy, 1995).

- Westpac has calculated that it costs $65,000 to $80,000 to retrain a person to the same level of experience as someone who has left after 7-10 years’ experience.

- In 1989 Esso calculated a cost of $100,000 over a period of 7 years, to train a professional person up to the skill required to move on in the company. The percentage of professional women returning to the company after maternity leave increased from 53% to 82% after the establishment of a child care centre. It also led to a decrease in absenteeism and, as a consequence, a reduction in costs related to absenteeism.

- A 1992 study by the St Paul companies, USA, found that employees who believed that work was causing problems in their personal lives were much more likely to make mistakes than those who had few job related personal problems (30% compared with 19%).

- Corning (USA) estimated in 1990 that it costs a minimum of $40,000 to recruit, hire and train a new professional employee. In another example, IBM Australia estimated in 1990 that the loss of a skilled employee with eight years experience cost the organisation $80,000. Telstra (then OTC) claimed that it would cost $180,000 to replace a valued worker who resigned after taking maternity leave.

- In 1990 the Australian Manufacturing Council’s Automotive Division estimated that the cost of replacing two clerks was $32,000 and the cost of replacing a manager was $77,000.

- In 1987 the Union Bank (USA) opened a 60 place child care centre near its operations centre containing 1,200 employees. The centre cost $430,000 to establish and operating costs in its first year were $105,000. By the end of 1987 it was evident that benefits accruing through savings on the cost of absenteeism and turnover were defraying the cost of establishment and operation -savings were calculated at $138,000 for the first year.

- Work family conflict is by no means exclusive to women. Studies by the Fatherhood Project at the Families and Work Institute, USA suggest that such conflict among men may be under reported because they are more inhibited than women in raising personal issues at work. The National Study of the Changing Workforce, by the Family and Work Institute, USA found virtually identical proportions of men and women reported work family conflict and that both sexes placed equal value on dependent care benefits.
• Employees facing work family conflict are three times as likely to consider leaving their jobs as those who do not (43% compared with 14%).

• A University of Chicago study found that the more employees used family supportive benefits, the more they exhibited initiative, teamwork, flexibility and openness to employee involvement programs such as total quality efforts. Studies by the Work and Family Institute, USA support these findings. In the USA there has been an increase in company supported short term and backup child care in surveyed employers from 5% in 1993 to 12% in 1994. Honeywell determined that it saved $45,000 over and above the cost of the programs in the first nine months of operation. A38 person accounting firm (Brown, Armstrong, Randall & Reyes) estimates that by providing seasonal on site child care it netted an additional $25,000 annual income through increased staff availability.

• It was estimated in 1989 in “Child Care in the Workplace: Cost benefit study of employer sponsored child care” by the Australian Office of the Status of Women, that the reduction in the rate of absences by employees with children in a work based centre is equivalent to 2% of their annual gross salaries.
APPENDIX 5
Cost benefit analysis methods

A number of approaches to analysing the costs and benefits of providing employer sponsored child care are outlined below. These approaches are considered to be approximations due to the difficulty of measuring some of the benefits and costs accurately.

The method used by an agency will depend on the data available to the agency and the particular character of the agency.

CALCULATION SITUATION—1

To assess the benefits of long day care it is necessary to:

• compile the total cost of doing nothing for each employee grade classification eg absenteeism;
• put these costs on an annual basis (ie spread over the average time a parent will use a long day care centre, say one place for four years);
• work out the average cost per employee and multiply by the number of users proposed for the centre;
• add in the annual fee income the agency would expect each filled place to yield, taking into account data from the survey about the level of fees which potential users indicated they might be prepared to pay.

This gives a cash value to the total financial benefits to the agency per user per annum. For example:

<table>
<thead>
<tr>
<th>grade</th>
<th>salary cost</th>
<th>recommended training</th>
<th>training cost</th>
<th>total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$450</td>
<td>4 days</td>
<td>$500</td>
<td>$950</td>
</tr>
<tr>
<td>b</td>
<td>$800</td>
<td>5 days</td>
<td>$900</td>
<td>$1,700</td>
</tr>
</tbody>
</table>

• Add up the cumulative cost for employees
• Add the cost of recruitment
• Add the cost of temporary promotion eg for 2 months while a position is being filled
• Add loss of employees experience – this is difficult to quantify but at least needs to be recognised in the analysis.

REDUCTION IN COST OF MATERNITY LEAVE, SPECIAL LEAVE AND SUBSTITUTION

Calculate the cases of leave for child care problems and how many work days were lost at what grades -this can be costed.

Substitution of employees to fill their place may be costed.

Comparison of costs and benefits can show that the annual cost of providing one place in a proposed long day care centre would be:
capital cost (over 5 yrs) | 534  
contribution to running costs | 2,127  
**TOTAL** | **2,661**  

Contrasted with loss in training, recruitment and temporary promotion at level X is

| training                              | 1,985  
| recruitment of replacement            | 750   
| temporary promotion (2 months)        | 480   
| **TOTAL**                             | **3,215**

Savings would be higher for trained employees. Value = $554

**CALCULATION SITUATION—2**

**To assess the benefits of establishing a 40 place long day care centre:**

Estimated establishment cost of building a 40 place centre in 1991 was $536,504 and the annual operational costs (minus fees) were $87,997. The average annual salary of the users was $28,048. The annual savings were:

| Turnover                | $67,320  
| Absenteeism            | $16,840  
| Tax benefits           | $99,635  
| Maternity leave        | $5,608   
| Recruitment            | $39,967  
| Productivity           | $33,640  
| Public relations       | $50,000  
| **TOTAL SAVING**       | **$313,010**

(some statutory authorities may be eligible for these)

After five years, the net benefit to the company was estimated to be more than $360,000.

[Source: Child Care in the Workplace: Cost benefit Study of Employer Provided Child Care, 1993, Office for the Status of Women]

**CALCULATION SITUATION—3**

Calculating the cost of sick leave for an employee earning $30,000:

- take the salary + employer costs @ 15%  
- divide by 260 days  
- multiply by the number of days sick  
  = cost of sick leave

Example: \((30,000 + 450) / 260 \times 10 = $1,327\)

The employee’s sick leave costs the agency $1,327 or 3.8% of salary costs. The pertinent question here is how much of this sick leave is for child care purposes.

**Recruitment cost:**

Replacement cost for an employee includes the cost of the recruitment process, diminished return on investment, cost of the lost experience and the extra cost of providing cover for the workload.
Personnel costs - 20 hrs personnel time at $15 per hour = $300
Stationery = $50
Management costs - 5 hours shortlisting at $110 = $550
10 hours interviewing at $110 = $1,100
Advertising costs = $500
**TOTAL** = **$1,280**

**Costs of training an employee on $30,000 (5 day in house training):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trainer’s costs (per day) at $700 (divided by 10 attendees)</td>
<td>$70</td>
</tr>
<tr>
<td>Trainee costs per day</td>
<td>$115</td>
</tr>
<tr>
<td>Temporary cover per day</td>
<td>$100</td>
</tr>
<tr>
<td>Cost of equipment, materials and premises per day</td>
<td>$100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$385</strong></td>
</tr>
</tbody>
</table>

**Cost of providing temporary cover for an employee:**

If the position of an employee who would earn $30,000 is vacant for 2 months, an employee may be acted into higher duties to cover the position. This will result in extra supervision by the manager. Approximated costs are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager on $40,000 at 3 hours per week for 8 weeks</td>
<td>24 hours</td>
</tr>
<tr>
<td>Employee on higher duties at 5 hours per week for 8 weeks</td>
<td>40 hours</td>
</tr>
<tr>
<td>24 hrs at 16.50</td>
<td>$400</td>
</tr>
<tr>
<td>40 hrs at 22.00</td>
<td>$880</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,280</strong></td>
</tr>
</tbody>
</table>

**Cost of limited functioning of new recruit:**

Calculated where a new employee earning $8,000 is initially 60% efficient and 40% inefficient, becoming fully effective after 1 year.

**Summary of cost of doing nothing about child care for one employee needing child care:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment costs</td>
<td>$2,500</td>
</tr>
<tr>
<td>Training costs</td>
<td>$1,925</td>
</tr>
<tr>
<td>Temporary cover</td>
<td>$1,280</td>
</tr>
<tr>
<td>Limited functioning</td>
<td>$8,000</td>
</tr>
<tr>
<td><strong>TOTAL COST</strong></td>
<td><strong>$13,705</strong></td>
</tr>
</tbody>
</table>

[Source: Corporate Culture and Caring, Business in the Community, Institute of Personnel Management, March 1993]
CALCULATION SITUATION—4

Calculating turnover costs:

First of two approaches for a $50,000 salary:

| Inefficiency of incoming employee (average time for full efficiency 13.5 months) | $24,000 |
| Inefficiency of co-workers associated with new employee | $15,000 |
| Inefficiency of departing employee | $3,000 |
| Inefficiency of workers associated with employee leaving | $1,000 |
| Inefficiency of position being filled while vacant | $24,500 |
| Out of pocket processing costs | $3,000 |
| Personnel department processing costs | $1,000 |
| Other employee processing costs | $3,500 |
| **TOTAL COST** | **$75,000** |
| Ration of turnover cost to salary | 75,000/50,000 = 1.5 |

Second approach:

| Cost of recruiting (33% of salary) | $16,500 |
| Cost of training (10% of salary) | $5,000 |
| Cost of learning curve (50% of salary) | $25,000 |
| **TOTAL COST OF TURNOVER** | **$46,500** |
| Ration of turnover cost to salary | 46,500/50,000 = 0.93 |


CALCULATION SITUATION—5

Calculating turnover costs for a $50,000 salary.

**Sample Financial Analysis Model.**

Much of the data for this model must be estimated. Use very conservative estimates in completing the model to avoid overestimates and to increase the credibility of the results. For example, to calculate the cost benefit of employee retention, assume that work family programs help to retain just 1/2 of 1% of program users.

The cost savings would then be calculated by finding the following information:

- number of cases (program users)=
- number of employees retained (.005 x number of cases)=
- average cost of turnover (.75 x average direct salary)=
- dollar savings (number retained x turnover costs)=

Employer Sponsored Childcare: Policy and Guidelines
<table>
<thead>
<tr>
<th>Quantities factors</th>
<th>Savings ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. employee time saved</td>
<td></td>
</tr>
<tr>
<td>2. additional output due to increased focus and motivation</td>
<td></td>
</tr>
<tr>
<td>3. employee retention</td>
<td></td>
</tr>
<tr>
<td>4. health care cost prevention</td>
<td></td>
</tr>
<tr>
<td>5. reduced absenteeism</td>
<td></td>
</tr>
</tbody>
</table>

**Qualitative factors total**

Savings represented by quantitative factors minus program costs to achieve savings equals

**Dollars saved**

<table>
<thead>
<tr>
<th>Quantities factors</th>
<th>Savings ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. improved morale and loyalty</td>
<td></td>
</tr>
<tr>
<td>2. enhanced quality efforts</td>
<td></td>
</tr>
<tr>
<td>3. positive public and community relations</td>
<td></td>
</tr>
<tr>
<td>4. enhanced recruitment</td>
<td></td>
</tr>
<tr>
<td>5. reduced absenteeism</td>
<td></td>
</tr>
</tbody>
</table>

**Qualitative factors total**

Savings from quantitative factors plus estimated value of qualitative factors equals

**Total savings/value**

[Adapted from Work/Family Directions Inc., 1993 as reported in The business case for work family programs, Journal of Accountancy vol180 no 2, p 53, August 1995]
APPENDIX 6
Lactation Breaks

What is a mother friendly work place
A mother friendly workplace is one which supports a mother in her effort to combine her commitments to her child while participating in the paid workforce. It has a clearly defined policy which supports and assists a mother in making choices about her return to work which will be of benefit to her and her baby.

When a mother returns to work, a mother friendly workplace has practices which enable her to continue to breastfeed her baby for as long as she chooses. As well as physical facilities such as a private room and comfortable surroundings which allow a mother to express and store breast milk, these places also provide additional paid lactation breaks during the day to assist the mother to maintain breast feeding.

Mother friendly workplaces require little physical change and are very cost efficient. The cost of establishing a mother friendly workplace is quickly recouped with the return of the mother to the workforce. Breastfed babies are protected from a range of illnesses and therefore parents of breastfed babies have a reduced rate of absenteeism.

Benefits of continued breast feeding
There are many benefits of continued breast feeding for the mother, the child and the community. These include:

• mother friendly workplaces have a positive impact on employer-employee relations and can contribute to a positive image of the organisation;

• women who are able to continue to breast feed their child are more likely to return to work after maternity leave;

• babies who are breastfed are less susceptible to a wide range of illnesses because of their mother’s immunity. This means that the mother is less likely to be absent due to baby being ill;

• mothers who breastfeed have a reduced risk of developing other health problems later in life;

• breast feeding provides a positive economic advantage for families.

Education and information
Organisations may provide information and advice for those employees about to take maternity leave. A mother friendly workplace can extend this by providing specific information on breast feeding including organisational policy on encouraging breast feeding mothers in the workforce.

Combining breast feeding and paid work will be more likely achieved with good educational and support services prior to the birth as well as when the return to work is imminent.

Other employees need also to be provided with information on policy to ensure their support for breast feeding employees.

Lactation breaks
Lactation breaks are necessary to enable a mother to feed her baby or to express breast milk. Although a mother may not actually feed her baby for a number of hours, lactation breaks are important for maintaining an adequate milk supply and for the physical comfort of the mother. The breast milk expressed at these times is stored for the baby’s feeding when away from the mother. Ideally there should be two lactation breaks over an eight hour period to ensure maintenance of breast feeding. These breaks should be in addition to regular meals and rest breaks.
Equipment and facilities
The provision of facilities for breastfeeding mothers is relatively inexpensive and requires minimal reorganisation of the workplace facilities and equipment. The facilities required are:

- a clean private room with power points and a lockable door, a comfortable chair, and a table
- washing facilities, e.g., a sink and tap
- a refrigerator for storing expressed breast milk
- a storage area for equipment such as a breast pump.

A model clause
The following model clause may be incorporated into enterprise agreements or award provisions:
Employees who are breastfeeding shall be provided with the facilities and support necessary to enable them to combine a continuation of such breastfeeding with their employment. The provision of facilities and support shall include:

- up to two paid lactation breaks each of up to thirty minutes duration, with such breaks being in addition to rest periods and meal breaks otherwise prescribed in this agreement
- a clean and hygienic private room with power points, a lockable door, a comfortable chair, a table, washing facility, a refrigerator for storage of expressed breast milk, a storage area for a breast pump
- access in paid time, at no cost, to a breastfeeding consultative service.
APPENDIX 7
Contacts

Advice on requirements

Commonwealth Department of Health and Family Services, 3rd floor, 120 Sussex Street Sydney, ph 2253555

Department of Community Services 164 Liverpool Road Ashfield 2131, ph 716 2222

Local Government

Public Employment Office, GPO Box 5341 Sydney NSW 2001, ph 9228 4444,
PEO@premiers.nsw.gov.au

CONSULTANTS/SERVICE PROVIDERS

Contact Children’s Services Switchboard 30-34 Wilson Street Newtown 2042 ph 557 0900

Families at Work level 6, 127 York Street Sydney 2000, ph 2611855

KU Children’s Services, 129 York Street Sydney ph 264 8366

Family Day Care Liaison Unit, pa Box 88 Richmond 2753, ph (045) 886 000

Lady Cowrie, Elliott Avenue, Erskineville 2045 ph 5172755

Sydney Day Nursery Schools Association Inc, 141-145 Pitt Street Redfern 2016 ph 699 9311

The Australian Academy, 28 Margaret Street Sydney 2000 ph 248 1862

National Family Day Care Council PO Box 146 Avoca Beach 2251 ph (043)811 053

Network of Community Activities (Out of School Hours Services), 66 Albion Street Surry Hills 2010 ph 212 3244
APPENDIX 8

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