



Australian Council of Social Service

4 August 2015

To: Early Childhood Australia

By email: consultations@earlychildhood.org.au

Dear secretariat,

Re: Child Care System National Consultation

Thank you for the opportunity to provide input on proposed changes to Australia's child care system.

ACOSS is a national voice for people affected by poverty, disadvantage and inequality. Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities have the opportunities and resources they need to participate fully in social and economic life.

This submission responds to the overall structure and design of the childcare reforms announced by the Federal Government in May this year.

Background

Evidence shows that a well-educated population is the key to Australia's economic and social wellbeing. However, significant numbers of children and young people, particularly from low-income households and disadvantaged communities, are not achieving their educational potential. Lack of education has long been recognised as a key factor in poverty and disadvantage. Those who are better educated are at less risk of poverty, while those living in poverty are less likely to achieve high quality educational outcomes.

Studies show that access to high quality early childhood education and care plays a critical role in children's educational outcomes throughout formal schooling, including in areas such as school attendance, completion rates, behavioural outcomes in class and interest and motivation.¹ Recent research conducted by Melbourne University found that children who attended preschool achieved markedly higher NAPLAN literacy and numeracy scores than those who did not.² Research from the

¹ Berlinski, S., Galliani, S. and Gertler, P. (2009) The effect of pre-primary education on primary school performance. *Journal of Public Economics*, 93(1-2), 219-234; Queensland Department of Education, Training and Employment (2013) *Evaluation of the Early Years Centre initiative – Summary Report*.

² Warren, D. and Haisken-DeNew, John P. (2011) *Early Bird Catches the Worm: The Causal Impact of Pre-School Participation and Teacher Qualifications on Year 3 NAPLAN Cognitive Tests* MIAESR, University of Melbourne.



United Kingdom demonstrates that these advantages continue through to better employment and wage outcomes at age 33.³

In addition to providing an important educational foundation for children, access to affordable, flexible care for children strengthens women's workforce participation.

The Budget 2015-16 child care package

A package of early childhood education and care reforms formed a centrepiece of this budget, delivering an additional investment of \$3.5 billion/ five years. When fully implemented in 2017, this will deliver an annual increase in childcare funding of \$1.4 billion on top of current funding which was \$6 billion in 2013-14.⁴

ACOSS welcomed the Government's announcement of substantially increased investment in early childhood education and care in May, and supports reform to simplify the child care payments system, including moving to a single subsidy payment. However, we have significant concerns about four key aspects of the reform package:

1. The proposed introduction of more stringent activity requirements, which will reduce access to early childhood education and care for children in families without paid work;
2. The proposal to fund the additional childcare investment through cuts to family payments which disproportionately impact on low income families, including sole parent families;
3. The extension of fairly generous fee subsidies to families on high incomes, which has significantly inflated the cost of the package yet is unlikely to improve workforce participation rates for these families;
4. The move away from Budget Based Funded services to mainstream funding models, which will affect many Aboriginal and Torres Strait Islander services and families; and
5. The implications of reforms to additional fee assistance programs for families not in paid work.

These concerns are addressed individually below.

All children should have access to at least 2 days of care per week, regardless of their parents' employment status

Under the current system, families are entitled to a minimum of 12 hours per fortnight of subsidised care and more than 24 hours if they are engaging in at least 15 hours per week of approved activities. Under the proposed new rules, subsidy levels would be determined by the level of

³ Goodman, A. and Sianesi, B. (2005) *Early Education and children's outcomes: How long do the impacts last?* Institute for Fiscal Studies.

⁴ Includes CCB, CCR and funding for the universal access to preschools national partnership agreement. See Department of Education, Annual Report 2013-14, available at: https://docs.education.gov.au/system/files/doc/other/department_of_education_annual_report_2013-14_0_0.pdf.



approved activity undertaken, from a minimum of 12 hours per week for those falling below the 4 hour per week activity test, to 18 hours per week for those participating in 4-8 hours of approved activity per week, to 36 hours per week for those participating in more than 16 hours of approved activity per week to a maximum of 50 hours for those participating in more than 24 hours of approved activity per week. ACOSS is very concerned that families engaging in less than 4 hours of week of approved activity will only eligible for just 12 hours a week of subsidised care, down from the current entitlement to 24 hours a week.

We note that this proposed shift to impose more stringent activity requirements is at odds with moves in comparative countries to increase access to free childcare, for all children. For example, the UK Government currently provides access to 2 days free childcare for children aged 3+ years, with both major parties pledging to increase access to at least 25 hours per week.

We also note that the proposed childcare assistance activity requirements are at odds with current expectations of parents with young children under income support policy settings. For example, Parenting Payment recipients with young children (under 6 years of age) are currently not expected to be activity looking for work or engaging in other training or development activities, as the assumption is that they are primarily engaged in caring for children. By contrast, the proposed childcare eligibility rules reflect a different assumption and expectation; that parents be engaged in at least 4 hours per week of approved activity. This inconsistency reflects a perception that the main purpose of childcare is to support workforce participation, ignoring its fundamental role in early childhood development. ACOSS believes that the activity requirements should be removed to reflect a better balance between these policy objectives, to ensure children in families without paid work have access to sufficient quality care and to achieve greater consistency between the assumptions and expectations underpinning childcare and income support policies.

The Regulatory Impact Statement states that the Additional Child Care Fee subsidy will provide top up fee assistance to families on incomes below \$65,000 who do not meet the activity test, as well as 'families transitioning from income support', 'families experiencing temporary financial hardship', and 'children at risk of serious risk or neglect'. It seems more accurate to describe this subsidy as a safety net than a 'top up' payment for low income families who do not meet activity requirements given it functions as the base subsidy for these families. Additional fee assistance will cover up to 120% of the hourly fee cap for families with children at serious risk of abuse or neglect and those in 'temporary financial hardship' (with the additional subsidy time limited, for 13 weeks). It will also cover 95% of the hourly fee cap for parents 'transitioning from income support to work', linked to approved activities, with ongoing fee assistance to enable study proposed to be subject to evidence of satisfactory progress. ACOSS notes that there is some uncertainty about the likely impact of the proposed changes on current JETCCFA recipients, discussed below.



Additional investment in childcare is supported, but the revenue required should not be found by cutting essential support for low and moderate income families

Combined, the 2015-16 and 2014-16 budgets represent a \$9 billion reduction in spending on family payments over the forward estimates of which approximately \$6 billion in savings will adversely affect low income households.⁵ These savings have been directly linked to additional expenditure on childcare services.

Analysis suggests that low income and disadvantaged families will be significantly worse off if the 2014-15 and 15-16 Budget measures pass, notwithstanding the boost the child care investment discussed below. The impacts of payment rate freezes will be increasingly felt over time. In 2015-16, the impacts of restricting the Part B payment to families with children under 6 years will mean that:

- A single parent with one 8 year old child stands to lose \$48.50 per week due to the loss of FTB Part B and the end of year supplements;⁶
- A single parent with one 12 year old child stands to lose \$62.50 per week due to the loss of FTB Part B and end of year supplements;
- A couple household with two school age children stands to lose \$65 per week.

Modelling by NATSEM confirms that the majority of sole parents on low incomes will be adversely affected by the combined effect of the family payment cuts and childcare package, with an estimated 88.9% of those in the lowest quintile worse off in 2018-19, after the childcare package has come into effect.⁷

Beyond a universal base, fee assistance should be effectively targeted to maximise policy outcomes and ensure sustainability

ACOSS broadly supported the Productivity Commission's model for structural reform which recommended that families on high incomes receive a lower base subsidy (of 20% of the benchmark costs of care). The child care package instead adopts a 50% threshold for families on incomes of \$170,000 and above. This has significantly increased the costs of the package, which the Government is now seeking to pay for through cuts to family payments.

ACOSS agrees with the Government that childcare subsidies are not welfare payments, but they should be targeted to those who struggle with childcare costs. Above all, childcare subsidies are an investment in the education of young children. The generosity at the higher end is in stark contrast to the proposed cuts to payments to low incomes families, and points to a broader imbalance in the policy design.

⁵ Including Family Tax Benefit Part A and B and Paid Parental Leave.

⁶ Based on the difference between the current weekly payment rate for single income families with child over 5 years of \$59.45 per week and the proposed \$14 Family Tax Benefit allowance.

⁷ Ben Phillips, Analysis of the 2015-16 Federal Budget, NATSEM, June 2015.



The proposed changes to the Budget Based Funding program are likely to threaten the viability of many Aboriginal and Torres Strait Islander family and children's services

The existing Budget Based Funding program, which funds 303 services across Australia, most of which are Aboriginal and Torres Strait Islander focused, will be abolished under the proposed reforms. From 1 July 2017 these services will have to operate on the mainstream, fee-based, Childcare Subsidy. ACOSS is concerned about the viability of this funding model for Aboriginal and Torres Strait Islander services and families. We are also concerned that the reform package fails to deliver investment in the creation of additional Aboriginal and Torres Strait Islander child care services, despite the Productivity Commission report highlighting a gap of 15,000 places.

The reforms should ensure that low income families who are not in paid work are, at a minimum, no worse off

Additional fee assistance will be available for some parents on income support who are seeking to transition to work through the Additional Child Care Subsidy which will replace the existing JETCCFA program. ACOSS is seeking a commitment from Government that affected low income families will not be worse off as a result of the proposed changes, including single parent families who are beneficiaries of the current scheme.

Yours sincerely,

Cassandra Goldie
ACOSS CEO