



Early Childhood Australia
A voice for young children



Australian Childcare Alliance



**EARLY LEARNING AND CARE
COUNCIL OF AUSTRALIA**



22 September 2016

Secretary
Senate Employment and Education Legislation Committee
Parliament House
CANBERRA ACT 2600

Dear Secretary,

Submission: Family Assistance Legislation (Jobs for Families Child Care Package) Bill 2016

We wish to make a submission on the Jobs for Families Child Care Package bill currently before the sector. We are four organisations working in the early learning and child care sector, including three peak bodies, with a strong interest in representing the interests of young children. We have been closely involved in the development of this package over the past four years, making submissions to the Productivity Commission Inquiry, supporting consultation with the sector and with families and providing advice to the Government on the proposed reforms.

Families have waited long enough for child care reform to deliver affordability

Our first and most important message to the Senate is that increased investment in early learning and reforms to the child care subsidy system are long overdue. The proposed changes will make early learning and care more accessible and affordable to the benefit of children, families and Australia's future prosperity. Families with young children are struggling to afford the amount of early learning and care that they need to participate in the workforce and enhance their child's early learning and development. The majority of working families will be better off under the proposed new subsidy and this will reduce affordability barriers to increased workforce participation, particularly for many women returning to work after having children. We note also that this bill delivers on commitments given by the Government over two elections to make early learning and care more accessible and affordable.

The sector supports the broad thrust of the reform model

We support the broad reform directions. Our organisations have welcomed the Government's child care subsidy reform proposals that will streamline current subsidies (Child Care Benefit and Child Care Rebate) into a single means tested subsidy that is more generous to low and middle income working families. The current system of subsidies is complicated, it is difficult for families to understand and it does not target sufficient support to the children and families that need it the most.

Despite our support for the reforms, our organisations and the early childhood sector more broadly, have been concerned about the potential impact of the activity test that will apply to the new subsidy. The activity test will apply to both parents in two parent households and there are many families where one or both parents have a tenuous or irregular pattern of work, experience unemployment or illness or other barriers to employment. This may mean that children in families that cannot consistently meet the requirements of the activity test may be excluded altogether or have highly irregular access to early learning.

The *Jobs for Families Child Care Package* is an important reform that combines multiple assistance measures into a single, means tested payment, the Child Care Subsidy. Supported by an additional



investment of \$3.1 billion, support is targeted particularly at low and middle income working families. Average assistance for low income families will rise from around 74 per cent of fees to 85 per cent of fees. The number of low income families receiving maximum assistance will also rise, with the income threshold rising from around \$45,000 to \$65,710 to cover 25 per cent of all families.

Assistance for two income families on middle incomes will also improve, with the annual cap on child care assistance (currently \$7500) being removed on the 80% of families earning less than \$185,710. The cap has been frozen at its 2008 level for nine years. Assistance for high income families will be reduced from 50% of fees to 20% of fees on incomes above \$340,000.

The package also includes Child Care Safety Net programs that have seen funding increased by around 20% for children with identified additional needs.

We welcome these elements of the proposed child care package reforms and believe they will have a positive influence on workforce participation.

The package can be improved to deliver child development objectives

We are concerned that that package reduces the base entitlement to access early learning for children in families that may struggle to consistently meet the activity test. Currently the base entitlement for families who do not meet the activity test provides up to 24 hours of means tested Child Care Benefit on family incomes up to around \$146,000. Under the new subsidy, this will be cut to 12 hours a week, and only available to families earning less than \$65,710. Up to 100,000 low income families could be worse off as a result of this change.

The sector is of the strong view that 12 hours of subsidy is not adequate to ensure children can access two days of early learning, and that the base entitlement needs to be increased for children under school age from 12 hours per week to at least 15 hours per week as this is the minimum number of hours required to deliver two sessions of early learning to improve children's outcomes. There is considerable research showing that at least 15 hours of access to quality early learning is the minimum necessary to make a difference to children's development outcomes.¹

This proposal does not deliver on the sector's consensus view that all children should have access to a minimum of two days in a quality early learning program, which will require additional investment.

¹ Pam Sammons "Does Preschool make a difference?" 92:113 at 100 in Sylva, K., Melhuish E, Sammons P, Siraj-Blatchford I and Taggart B (2010) "Early Childhood Matters: Evidence from the Effective Preschool and Primary Education project" Routledge New York; A review of research on the effects of early childhood education and care (ECEC) upon child development. Brussels, European Commission pp 25-38 <http://ecec-care.org/>; Loeb, S., Bridges, M., Bassok, D., Fuller, B., Ruberger, R. (2007), How Much is too much?, 'The influence of preschool centers on children's social and cognitive development, Economics of Education Review, 26, 52-56; Kalb G, Tabasso D and Zakirova R (2014) "Children's participation in early childhood education and care, and their developmental outcomes by Year 5: A comparison between disadvantaged and advantaged children" Melbourne Institute of Applied Social and Economic Research May 2014 at p.8; Harrison L, Ungerer J, Smith G, Zubrick S (2009) "Child care and early education in Australia: The Longitudinal Study of Australian Children" DSS Social Policy Research Paper No 40 p. 152; Houg B, Jeon S H & Kalb G (2011) "The effects of child care on child development" Melbourne Institute of Applied Social and Economic Research, May 2011 at p 51; Biddle N, Seth-Perdie R. (2013) "Development Risk Exposure and Participation in early childhood education: how can we reach the most vulnerable children?" Australian National University research paper; Coley R, Lombardi C, Sims J (2015) Long-Term Implications of Early Education and Care Programs for Australian Children, Journal of Educational Psychology, Vol. 107(1), Feb 2015, p 284-299; Chang M Singh K (2008) Is All-Day Kindergarten Better for Children's Academic Performance? Evidence from the Early Childhood Longitudinal Study Australian Journal of Early Childhood, v33 n4 p35-42 Dec 2008; Melhuish, E., Ereky-Stevens, K., Petrogiannis, K., Ariescu, A., Penderi, E., Rentzou, K., Tawell, A., Slot, P., Broekhuizen, M., & Leseman, p. (2015). Ontario Ministry of Education (Oct 2013) "A Meta Perspective on the Evaluation of Full Day Kindergarten during the First Two Years of Implementation".



We would welcome the opportunity for a continuing dialogue with the Government on how we can continue to move towards the objective of increasing children's participation in early learning, where Australia lags leading OECD countries, particularly in respect to 3 year old children.

We propose raising the income threshold for the base entitlement from \$65,710 to \$100,000. This would cover the bottom 40 per cent of families, and align the base entitlement threshold for the Child Care Subsidy with the cut off for Family Tax Benefit payments. The Australian Early Development Census (AEDC) shows that 56% of children who are most developmentally vulnerable when they start school come from the least advantaged 40% of families². Children in the second quintile are 2.6 times more likely to be developmentally vulnerable as children in the top quintile on the language and cognitive skills domain and 2.1 times more likely on the communication and general knowledge domain, the two domains most likely to be impacted by access to early learning and most likely to predict later literacy and numeracy outcomes. Children who start school behind are more likely to stay behind, and are far more likely not to meet minimum standards on NAPLAN literacy and numeracy tests in Year Three.³ The AEDC shows that children who have had access to sufficient amounts of quality early learning programs are a third less likely to start school developmentally behind. International research shows access to two or more years of quality early learning results in better educational outcomes throughout a child's school years.⁴

Increasing the base entitlement from 12 to 15 hours for children under school age is also vitally important as 12 hours is simply not enough to make a difference to a child's development. In a long day care environment, 12 hours of subsidy would support just one day of early learning a week, which is simply not enough to establish and maintain one on one relationships between children and educators which is at the heart of quality early learning. This has been recognised by COAG in the National Partnership for Early Childhood Education under which more than \$2 billion has been invested since 2009 to increase the minimum hours of early childhood education for children in the year before school to 15 hours. The United Kingdom provides 15 hours of free access to early childhood education for all 3-5 year old children and the 40% of 2 year olds who are most disadvantaged. New Zealand provides 20 hours of early childhood education for all 3- 5 year olds. This month, Ireland became the latest OECD country to offer free early childhood education for all 3- 5 year olds. Australia is well behind international best practice.

We estimate that increasing the base entitlement will cost the budget around \$150 million a year. Many in the sector would prefer a base entitlement higher than 15 hours, particularly for disadvantaged children. But, given the current constrained fiscal environment and the need to find some offsetting savings for any additional spend, we are willing to accept that 15 hours represents a reasonable, evidence based outcome that aligns the base entitlement for early learning with the base entitlement for preschool in the year before school. We note that 15 hours of Child Care Subsidy paid at a maximum rate of 85% of fee is also generally more generous than 24 hours of Child Care Benefit at a maximum rate of \$4.80 per hour (FY18). The additional 'cost' of the increased base entitlement should be considered in the light of several issues:

- This will benefit around 80,000 low income families who would otherwise be worse off under the package. Hence, much of the 'cost' is restoring what is being taken away. A single

² AEDC National Report 2015 p.32, developmentally vulnerable on 2 or more domains

³ ABS 4261.3, ABS 4261.6

⁴ TIMSS & PIRLS test results in Year Four <http://timssandpirls.bc.edu/>



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- income family earning \$70,000 with a child in long day care two days a week would be up to \$91 a week worse off under the package as proposed compared to what they get now.
- Economic research in Australia⁵, Canada⁶ and the United States⁷ shows that giving disadvantaged children access to early learning will provide a significant long term boost to productivity and economic growth, and generate significant long term savings to the budget.
 - \$150 million is less than 1.5% of the total outlay for the Child Care Subsidy (\$11 billion) in 2018-19. The sector is willing to further discuss with the Government and the Senate how this outlay could be better targeted to prioritise child development outcomes and to minimise the overall impact on the budget beyond the \$3.1 billion already provided across the forward estimates. Some areas we are willing to further discuss include:
 - o Redirecting some of the substantial budget savings that the Government has made on compliance and integrity measures (upwards of \$500 million a year) to support access to early learning for low income families;
 - o Redirecting some of the substantial budget forecast savings that the Government will receive due to lower than expected child care fee increases;
 - o Redirecting some of the \$1.1 billion of budget savings the Government will achieve in 2017-18 from the one year delay in the commencement of the Child care Subsidy;
 - o Tighter targeting of some of the gains flowing to high income families;
 - o Reducing assistance on high fee services that do not meet identified affordability and early childhood development objectives;
 - o Tighter targeting of the base entitlement on incomes between \$65,710 and \$100,000

ECA, ACA and ELACCA have identified a number of savings measures within the package to better target expenditure to achieve early learning outcomes. This will mean the package overall is more balanced in favour of outcomes for children as well as workforce participation outcomes.

Increase access to early learning for Aboriginal and Torres Strait Islander children

Aboriginal and Torres Strait Islander children are twice as likely as other children to start school developmentally vulnerable. Increasing Aboriginal and Torres Strait Islander children's participation in early childhood education is a key target of the Closing the Gap initiative, a target Australia is falling short in meeting. We propose increasing the base entitlement for Aboriginal and Torres Strait Islander children from 12 hours to 22.5 hours, supporting at least three sessions a week. This base entitlement should be available to families eligible for Family Tax Benefit Part A.

We also support establishing a specialised Aboriginal and Torres Strait Islander program to top up funding from Child Care Subsidy and fees to ensure viability of Indigenous services situated in particularly impoverished communities, potentially within the existing Child Care Safety Net - Community Child Care Fund allocation supplementing funding through the mainstream subsidy. This closely targeted program recognises that many Indigenous services emerged out of a gap in the mainstream market and are not currently viable; would aim to provide access to those most vulnerable Indigenous children not otherwise accessing early years services; and seek to overcome the significant barriers of service access for impoverished Indigenous families.

We note that individual members have made recommendations to improve the approval process for Additional Child Care Subsidy for Child Wellbeing and to establish state specific working groups to

⁵ PWC (2014) "Putting a value on early childhood education and care in Australia"

⁶ Kershaw P, Warburton B, Anderson L, Hertsman C, Irwin L, Forer B (2010) "The Economic Costs of Early Vulnerability in Canada" Canadian Journal of Public Health 2010:101 pp S58-S12

⁷ Heckman J, Moon S, Pinto R, Saveljev P & Yavitz A (2010) "The rate of return to the HighScope Perry Preschool Program" Journal of Public Economics 92 114-128; www.heckmanequation.org



progress development of guidelines and business processes for the Additional Child Care Subsidy. We commend these recommendations to the Senate.

The new subsidy must continue to deliver on affordability and accessibility objectives

We propose that the legislation should be amended to provide for a six week transition period where a families entitlement to subsidy has changed. This would give families who have had a major change in income (that might see them lose the base entitlement) or reduction in hours of work (that might see their hours of subsidy cut) maintained at their previous level of entitlement for six weeks. This would assist families to make alternative care arrangements while providing continuity of learning for children during what could be a period of upheaval for a family.

We would urge the Government to continue a dialogue with the sector on the development of the key Ministerial Determinations and the design of the new subsidy to:

- Ensure that the definition of ‘activity’ encompasses a broad definition of volunteering and generous treatment of work-related activities including travel, work experience and job search.
- Ensure maximum flexibility in managing the CCS entitlements of casual workers to support workforce participation and continuity of care.

We would also like to commence a dialogue on how Australia can continue to move towards the objective of increasing children’s participation in early learning, where Australia lags the top performing OECD countries, particularly in respect of 3 year olds.

Further, we would recommend a comprehensive review of the Child Care Subsidy after two years to ensure it continues to meet affordability and accessibility objectives, including the adequacy of the benchmark fees, usage patterns of child care and the impact of the new subsidy and Safety Net Programs on categories of children most likely to be vulnerable (e.g. Aboriginal and Torres Strait Islander children, children with additional needs, low income families).

The Child Care Package should be ‘decoupled’ from cuts to family payments

Our final key message is that we would like to decouple funding for the Jobs for Families Child Care Package from the proposed cuts to Family Tax Benefits. We believe that the Jobs for Families Child Care Package Bill is an important piece of reform that stands on its own merits.

More significantly, we would argue that the package has already been paid for several times:

1. The package was developed after the then Prime Minister announced on 7 December 2014 he would be dropping the Paid Parental Leave Scheme and investing the savings from the \$2 billion annual cost of the scheme into child care “*because they are both important*”.⁸
2. The Government has already achieved sufficient savings from cuts to Family Payments to fund the Child Care Subsidy since the Jobs for Families Child Care Package was announced in May 2015 totalling around \$1.2 billion in 2018-19. This equates to the full year cost of the Child Care Subsidy in 2018-19. These cuts were in addition to the \$620 million of annual cuts to Family Payments that passed the Parliament in 2014-15.
3. The Government will save \$473 million in 2018-19 from tighter rules on ‘child swapping’ in family day care, \$27 million from recently announced compliance measures, an additional \$288 million a year from other compliance activities,⁹ and has foreshadowed further measures.

⁸ <https://pmtranscripts.dpmc.gov.au/release/transcript-24037>

⁹ <http://www.senatorbirmingham.com.au/Media-Centre/Media-Releases/ID/2916/Crackdown-on-child-swapping-saving-taxpayers-77-million-a-week>



4. The cost of the Child care Subsidy in 2018-19 is likely to be less than forecast in the Budget because of lower fee increases. Senate Estimates was advised that the LOCMOCC budget model for child care subsidies projects average increases of around 6-7% p.a in long day care fees between 2014-15 and 2018-19.¹⁰ Tougher market conditions and completion of the rollout of National Quality Reforms are seeing much lower actual increases, closer to 5%.¹¹ Lower fee increases would reduce the cost of the Child care Subsidy by around \$800 million in 2018-19.
5. Child care assistance pays for itself by increasing workforce participation, with a more productive workforce generating more income and paying more tax. The Productivity Commission concluded: *“Greater workforce participation by parents can boost measured economic output and tax revenue, reduce reliance on welfare support and promote social engagement.”*¹² Modelling by PWC found that within three years, the proposed Child Care Package would generate around \$1 billion in increased taxes and welfare savings, with savings exceeding costs within a decade. Economic analysis of a large increase in child care subsidies in Quebec found the Government received \$1.51 in taxes and welfare savings for every dollar in additional subsidy¹³. Australian analysis shows that working mothers pay more in tax (\$9 billion) than they receive in child care assistance (\$8 billion). Prime Minister Malcolm Turnbull, at his campaign launch on 26 June, noted that raising workforce participation was an important objective of his Government’s plan for ‘Jobs and Growth’: *“We know that the economy is people - their lives, their futures, their security.....A strong economy means a mum whose kids are now at school and wants to work a few more days, or work full-time, will have plenty of opportunities to do so. And our child care reforms will make it easier for her to do so too.”*

Conclusion – time to move forward with reform

The sector has been on this reform journey for four years. Families are desperate for some relief and the package will pay for itself by lifting workforce participation and delivering long term educational outcomes for children. The amendments we propose to the legislation are modest, and affordable. We would urge the Parliament to bring this package on for debate forthwith and deliver a child care reform package that is good for working parents, good for children and good for the future prosperity and social inclusiveness of Australia.

Yours sincerely,

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¹⁰ Response to Senate Community Affairs Estimates Committee Question On Notice SQ15-469

¹¹ Dept of Education admin stats <https://docs.education.gov.au/node/41151>

¹² Productivity Commission (Oct 2014) report on Child care and Early Learning p.13

¹³ Fortin P, Godbout L & St Cerby S (2012) “Impact of Quebec’s Universal Low Fee Child care Program” Working Paper, University of Sherbrooke, Quebec