

# CHAPTER 2

## Issues for consideration

### Context of the bills

2.1 As discussed in Chapter 1, earlier versions of both bills were examined by Senate Committees during the previous parliament, and reports were tabled in the Senate.

2.2 As there are few changes to the bills currently being considered, this report will provide a brief overview of those bills and then focus on several key issues raised by submitters to the inquiry and witnesses who appeared at the committee's public hearings.

2.3 This chapter sets out:

- an overview of both bills; and
- key issues raised during this inquiry, including:
  - workforce participation;
  - the proposed activity test contained in the Jobs for Families bill;
  - Budget Based Funding (BBF);
  - the use of savings from the Social Services bill to fund the Jobs for Families Child Care Package; and the
  - potential impact of the Social Services bill on families.

### Overview of the bills

#### *Jobs for Families bill*

2.4 The Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016 (Jobs for Families bill) reintroduces major reforms under the government's Jobs for Families Child Care Package.<sup>1</sup>

2.5 The Hon Christian Porter MP, Minister for Social Services, set out in the second reading speech for the Jobs for Families bill, that '[t]his is the single largest investment in early learning and child care that Australia has ever seen', and that:

This package will deliver genuine, much-needed reform for a simpler, more affordable, more accessible and more flexible early education and childcare system and will invest around \$40 billion in child care and early childhood

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1 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 32.

education over the next four years, including more than \$3 billion in additional funding.<sup>2</sup>

2.6 The package is intended to simplify the existing child care system, by improving affordability, accessibility and flexibility.<sup>3</sup>

### *Productivity Commission Report*

2.7 The Jobs for Families Child Care package is the Australian Government's response to a report by the Productivity Commission into Childcare and Early Childhood Learning. The Productivity Commission reported in October 2014.<sup>4</sup>

2.8 The Productivity Commission reported that this form of care is of great significance:

Formal and informal Early Childhood Education and Care (ECEC) services play a vital role in the development of Australian children and their preparation for school, and in enabling parents to work. Many families use a mix of formal ECEC and informal, non-parental care.

The number of formal ECEC services has expanded substantially over the past decade. Over the same period, Australian Government funding has almost tripled to around \$7 billion per year, and now covers two thirds of total ECEC costs. Despite this, many parents report difficulties in finding ECEC at a location, price, quality and hours that they want.<sup>5</sup>

2.9 The Productivity Commission recommended reforms to achieve a more accessible, flexible and simpler system, focussing on three priority areas:

- a single means and activity tested child-based subsidy, paid directly to the approved service;
- inclusion of children with additional needs in mainstream services, and delivery of services for children in disadvantaged communities; and
- funding on a per child basis for approved preschool programs.<sup>6</sup>

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2 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 32.

3 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 32.

4 Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report No. 73*, 2014. The report was publicly released in February 2015.

5 Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report No. 73 - Overview*, 2014, p. 2.

6 Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report No. 73 - Overview*, 2014, p. 2.

### *Child Care Subsidy*

2.10 The main provision of the Jobs for Families bill is the proposed introduction of the Child Care Subsidy, which will be a single, means-tested subsidy paid directly to service providers to be passed on to families. The new subsidy is intended to simplify the existing multi-payment system, and will be better targeted, providing 'more assistance to low and middle income families'.<sup>7</sup>

2.11 The subsidy will be allocated according to the combined family income, and the meeting of an activity test. The subsidy rate will taper at one per cent for every \$3 000 of family income. For families earning more than \$185 710, an annual subsidy cap of \$10 000 per child will apply. The table below sets this out.

<b>Combined family income</b>	<b>Subsidy percent of the actual fee charged</b>
Up to \$65 710	85%
More than \$65 710 to below \$170 710	Tapering to 50%
\$170 710 to below \$250 000	50%
\$250 000 to below \$340 000	Tapering to 20%
\$340 000 or more	20%

Department of Education and Training, *Jobs for Families Child Care Package Overview*.<sup>8</sup>

### *Activity test*

2.12 The amount of hours of child care subsidy accessible by families will be determined by an activity test which will categorise families into three tiers, or steps. The table below sets out the hours of child care subsidy accessible per number of hours of activity.<sup>9</sup>

7 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf) (accessed 21 September 2016).

8 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf), (accessed 21 September 2016).

9 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf), (accessed 21 September 2016).

Step	Hours of activity (per fortnight)	Maximum number of hours of subsidy (per fortnight)
1	8 hours to 16 hours	36 hours
2	More than 16 hours to 48 hours	72 hours
3	More than 48 hours	100 hours

Department of Education and Training, *Jobs for Families Child Care Package Overview*.<sup>10</sup>

2.13 The activity test requirements will take into account:

- paid work;
- self-employment;
- unpaid work in a family business;
- looking for work;
- volunteering; or
- studying.<sup>11</sup>

2.14 Those families who do not meet the minimum requirements for the activity test may be eligible for the Additional Child Care Subsidy.

#### *Additional Child Care Subsidy*

2.15 For some families who do not meet the activity test, the Additional Child Care Subsidy (ACCS) is proposed as a 'top up payment' in addition to the Child Care Subsidy.

2.16 The ACCS is part of the Child Care Safety Net, and recognises that extra support is needed for some vulnerable children, including:

- children at risk of serious abuse or neglect;
- families experiencing temporary financial hardship;

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10 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf) (accessed 21 September 2016).

11 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf) (accessed 21 September 2016).

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- grandparents on income support who are the primary carer of their grandchildren;
  - parents transitioning to work from income support; and
  - low income families who do not meet the activity test.<sup>12</sup>

2.17 The Department of Education and Training set out that the name of the subsidy for children at risk of serious abuse or neglect has changed from Additional Child Care Subsidy (At Risk) to Additional Child Care Subsidy (Child Wellbeing). The Department of Education and Training explained the reason for the change of name:

This change was prompted by feedback from the sector that the original name of the payment could deter families from accessing this additional support, which is at odds with the policy intent. While the name has changed, the intent, design and application of the subsidy remain the same.<sup>13</sup>

2.18 There are four types of ACCS payments, established in the following hierarchy:

- ACCS (child wellbeing);
- ACCS (grandparent);
- ACCS (temporary financial hardship);
- ACCS (transition to work).

2.19 The Explanatory Memorandum for the Jobs for Families bill sets out that where a person may be eligible for more than one type of ACCS for a session of care, the type higher up in the hierarchy will take precedence.<sup>14</sup>

2.20 For example, if a person is eligible for the transition to work ACCS as well as the grandparent ACCS, they will receive the grandparent ACCS.

### ***Social Services bill***

2.21 The main provisions of the Social Services bill seek to reform Parts A and B of the Family Tax Benefit (FTB) by increasing the fortnightly rates of FTB Part A (FTB A) and introducing a new rate structure for FTB Part B (FTB B). The Social

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12 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf) (accessed 21 September 2016).

13 Department of Education and Training, *Submission 13*, p. 2.

14 Family Assistance Legislation Amendment (Jobs For Families Child Care Package) Bill 2016, *Explanatory Memorandum*, p. 35.

Services bill also seeks to phase out FTB A and B supplements by reducing the payments until they cease on 1 July 2018.

2.22 The Family Tax Benefit (FTB) is an income tested two part payment made to families to assist with the cost of raising children. Part A is a per child payment which is made to eligible families, while Part B payments provide added assistance to single parents and families with one main income.

2.23 The Social Services bill's key measures seek to:

- increase the fortnightly rates of FTB A by \$10.08 for each FTB child in the family up to the age of 19 years, with an equivalent fortnightly rate increase of around \$7.48 for certain youth allowance and disability support pension recipients under the age of 18;
- introduce a new rate structure for family tax benefit Part B (FTB B), and make other amendments to the rules for FTB B by:
  - increasing the standard rate by \$1 000.10 per year for families whose youngest child is under one year of age;
  - maintaining the current standard rates for families with a youngest child aged between one and under five and between five and under 13 years of age;
  - maintaining the current standard rate for single parents who are at least 60 years of age, grandparents and great-grandparents with a youngest child aged between 13 and 18;
  - introducing a reduced standard rate of \$1 000.10 per year for individuals whose youngest child is aged 13 to 16 (currently \$2 832.40), and who are not single parents aged 60 or more or grandparents or great-grandparents; and
  - remove entitlement to FTB Part B for single parent families who are not single parents aged 60 or more or grandparents or great-grandparents, from 1 January of the calendar year their youngest child turns 17;
- phase out FTB A and B supplements by:
  - reducing FTB Part A supplement to \$602.25 a year in 2016-17, and to \$302.95 a year from 1 July 2017 and ceasing on 1 July 2018; and
  - reducing FTB Part B supplement to \$302.95 a year in 2016-17, and to \$153.30 a year from 1 July 2017, and ceasing on 1 July 2018.<sup>15</sup>

2.24 In the Senate inquiry about the previous bill, the Community Affairs Committee heard that the measures:

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15 Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016, *Explanatory Memorandum*, p. 1.

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...are to do with the sustainability of the system, as well as to encourage anticipation and help pay for the Jobs for Families measures. In that sense, we know that better targeting FTB B will assist the sustainability of the welfare payment system.<sup>16</sup>

### **Key issues – Jobs for Families bill**

2.25 In this section, key issues for consideration relating to the Jobs for Families bill will be discussed, including:

- the effect of the bills on enhanced workforce participation;
- the activity test contained in the Jobs for Families bill; and
- Budget Based Funding (BBF);

2.26 The committee notes the broad support from submitters and witnesses to the reforms proposed by the Jobs for Families bill.

2.27 A joint submission was received from four major representative groups, including Australian Childcare Alliance, Early Childhood Australia, the Early Learning and Care Council of Australia and Goodstart Early Learning. The organisations also appeared together at the committee hearing. In his opening remarks to the committee, Mr Bernie Nott, Co-Chair of the Early Learning and Care Council of Australia, stated:

We support the broad reforms in the jobs for families package; however, the bill is not perfect. It needs minor changes to better deliver on child development objectives. But it does promise a more generous, simpler and better targeted childcare subsidy, leaving some 800,000 working families better off.<sup>17</sup>

### ***Workforce Participation***

2.28 According to the Explanatory Memorandum for the Jobs for Families bill:

The objective of the Jobs for Families Child Care Package is to improve access to quality education and child care, support parents as they balance work and family responsibilities, and enable greater engagement with the workforce.<sup>18</sup>

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16 Mr Scott Rollason, General Manager, Family Day Care Australia, *Committee Hansard*, 3 October 2016, p. 23.

17 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016, p. 10.

18 Family Assistance Legislation Amendment (Jobs For Families Child Care Package) Bill 2016, *Explanatory Memorandum*, p. 6.

2.29 Increased workforce participation is therefore considered to be an important goal for many Australian families, and the Jobs for Families bill is designed to help facilitate this through increases in subsidised child care:

This package will deliver genuine reform by encouraging greater workforce participation and productivity and by meeting families' needs by providing increased subsidised child care.<sup>19</sup>

2.30 Historically, subsidised child care has assisted women to return to work following the birth of their children. The Productivity Commission noted, in its 2014 report into Early Childhood Education and Care, that:

Almost all of Australia's 3.8 million children aged 12 years or under have participated in some type of early childhood education and care (ECEC), and for around half of these children, formal or informal ECEC is the usual type of care.<sup>20</sup>

2.31 Further, they note that the rate of women returning, or wishing to return, to work after the birth of children is increasing:

The workforce participation rate of mothers with a child under 15 years has grown from 57 per cent to 67 per cent over the past two decades.<sup>21</sup>

2.32 Submitters to the inquiry generally praised the Jobs for Families bill's intention to increase participation in the workforce and invest in early childhood education and care. For instance, Family Day Care Australia submitted that the bill has:

...the potential to benefit the majority of families utilising ECEC, through more affordable ECEC and hence increased participation, which will lead to better learning and developmental outcomes for more of Australia's children and support increased workforce participation.<sup>22</sup>

2.33 This view was supported at the hearing by Early Learning and Care Council of Australia (ELCCA):

There is also the mounting evidence from research in workforce participation that every increase in workforce participation will deliver to the bottom line. We feel that this reform package will contribute significantly in that sense.<sup>23</sup>

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19 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016, p 21.

20 Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report No. 73 - Overview*, 2014, p. 3.

21 Productivity Commission, *Childcare and Early Childhood Learning, Inquiry Report No. 73 - Overview*, 2014, p. 5.

22 Family Day Care Australia, *Submission 18*, p. 4.

23 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016, p. 11.

2.34 Goodstart Early Learning referred to a modelling report that it commissioned and provided to the committee as part of its submission.<sup>24</sup>

The model is for a specific package and shows around 20,000 equivalent full-time workers would join the workforce within three to 10 years, and within three years the budget would receive an extra billion dollars in tax revenues and welfare savings as a result of those additional workers and the higher productivity as a result.<sup>25</sup>

2.35 Goodstart Early Learning also argued that in addition to boosting the current workforce by encouraging more parents to work, investing in early childhood education and care would have long-term positive effects:

Getting the policy settings right for the Early Childhood Education and Care...sector offers a significant opportunity for Australia to improve our national human capital potential well into the future with the added benefit of improving our productivity in the short term by promoting women's workforce participation.

Ensuring all children have access to quality early learning is in Australia's best long-term interests because investing in early learning now will increase our future productivity and make Australia's economy more competitive in the future.<sup>26</sup>

2.36 The Hon Christian Porter, Minister for Social Services, stated that the reforms would have a positive effect for many families:

We want families to choose their child care around their work, rather than limit their work hours to suit their child care. It is estimated that the package will encourage more than 230,000 families to increase their involvement in paid employment.<sup>27</sup>

#### *Child care and workforce participation – submitter views*

2.37 Some submitters expressed concerns that workforce participation was the focus of the legislation at the expense of a focus on early childhood education and care.

2.38 At the committee hearing, the Australian Home Childcare Association raised concerns about 'the overall focus of the package on workforce participation at the expense of early education'.<sup>28</sup>

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24 Goodstart Early Learning, *Submission 41*.

25 Mr John Cherry, Goodstart Early Learning, *Committee Hansard*, 3 October 2016, p. 11.

26 Goodstart Early Learning, *Submission 41*, p. 3.

27 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 34.

28 Ms Natasha Randall, Committee Secretary, Australian Home Childcare Association, *Committee Hansard*, 4 October 2016, p. 1.

2.39 The Community Child Care Association articulated a similar position:

We are concerned that the jobs for families package, by treating child care only as a means to support and incentivise parents' workforce participation, fails to recognise the right of all children to access high-quality early education and care. Furthermore, it fails to recognise that investment in early education and care provides positive outcomes for children, families and the broader community.<sup>29</sup>

2.40 At the committee hearing, the Department of Education and Training told the committee that the definition of 'activity' had been broadened:

The last time we met with the committee we read out the definition based on our thinking at that point in time. One of the things we have been doing since then is talking with the sector about the inclusion of activity—parental-engagement-type activities. So, reading in a school or reading in centre based care. We have now proposed to broaden the definition of volunteering to pick that up as well.<sup>30</sup>

### *Activity test*

2.41 The activity test contained in the Jobs for Families bill ties the number of subsidised hours of child care available to the number of hours of activity a parent undertakes. The amount of hours of child care subsidy accessible by families will be determined by an activity test which will categorise families into three tiers, or steps. These tiers have been set out in Chapter 1.

2.42 The activity test will take into account:

- paid work;
- self-employment;
- unpaid work in a family business;
- looking for work;
- volunteering; or
- studying.<sup>31</sup>

2.43 While broadly supportive of an activities test, some submitters have raised concerns over the application of the new activity test provisions, including:

- the removal of the minimum 24 hours of subsidised care;

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29 Ms Leanne Giardina, Executive Director, Community Child Care Association, *Committee Hansard*, 3 October 2016, p. 24.

30 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016 p. 29.

31 Department of Education and Training, *Jobs for Families Child Care Package Overview*, [https://docs.education.gov.au/system/files/doc/other/a3\\_overview.pdf](https://docs.education.gov.au/system/files/doc/other/a3_overview.pdf) (accessed 21 September 2016).

- the effect of the measures on:
  - families with fluctuating employment hours;
  - vulnerable children;
  - Indigenous families; and
- the experience of parents in fly-in-fly-out employment (fif).<sup>32</sup>

2.44 A number of submitters put forward the view that a minimum number of hours of subsidised care be provided which is exempt from an activity test. Submitters had differing views on the minimum number of hours. Some submitters, for example, recommended that the current minimum number of 24 hours of subsidised child care per fortnight be accessible to parents who do not meet the activity test requirement proposed in the bill,<sup>33</sup> while the Mitchell Institute recommended 15 hours.<sup>34</sup>

2.45 Similarly, witnesses at the committee's public hearings held different views about the minimum number of hours of subsidised childcare. For example, Mr Bernie Nott, Co-Chair of the Early Learning and Care Council of Australia, proposed that the 12 hours of child care provided under the 'base entitlement' per week be increased to 15 hours, and to increase the income threshold from \$65 710 to \$100 000.<sup>35</sup>

2.46 Mr Nott told the committee:

We believe all children should have access to a minimum of two days in a quality early learning program, but that would cost a lot more. Given the tight budget, 15 hours of early learning represents a reasonable, evidence-based outcome to support child development in Australia's future.<sup>36</sup>

2.47 Mr John Cherry, Advocacy Manager, Goodstart Early Learning, emphasised that this would deliver two days of 7.5 hour sessions:

I can speak on behalf of the country's largest provider. We certainly believe that the key to actually going from 12 to 15 is that it forces you to offer two sessions, two days, because 12 hours in the long day care environment is closest to one day but certainly when you move to 15 then you have to offer that over two days. As the largest childcare provider we would say that we

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32 See, for example: Ms Lisa Bryant, *Submission 1*; United Voice, *Submission 2*; Wynbring Jida MACS, Port Lincoln Children's Centre and Minya Bunhii Childcare Centre, *Submission 4*; SNAICC, *Submission 16*; The Parenthood, *Submission 24*, p. 9.

33 For example: United Voice, *Submission 2*; National Welfare Rights Network, *Submission 23*, Carewest, *Submission 11*.

34 Mitchell Institute, *Submission 7*.

35 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016 p. 10.

36 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016 p. 10.

would be certainly looking at offering sessions over two days that would meet that 15-hour entitlement.<sup>37</sup>

2.48 Mr Cherry continued that:

One of the challenges with staffing—one of the reasons we think 7½ works better than six, for example—is to try to ensure that you can actually have as many people working a full-time shift as possible. Seven and a half equates roughly to a full-time day, so it is one of the things that attracted us to that. But if we did move to half-time sessions, obviously you would staff accordingly.<sup>38</sup>

2.49 The Mitchell Institute acknowledged that early education comes at a cost, and that reforms must be addressed within the context of funding and should address the needs of the most vulnerable children:

I think recognising that any moves to address the issues around the activity test will need to happen within the same broad funding envelope, we would suggest it is more of a priority to ensure that the most vulnerable children have access to high quality early education. Those are the children who will benefit from that access the most. They deliver the biggest return on investment, and shifting children's outcomes for those kids has flow-on effects throughout their whole lives and, therefore, to the system.<sup>39</sup>

2.50 Some witnesses discussed concerns about the unintended effects the new activity test could have in situations where parents have irregular work, such as shift work. Mr Nott stated:

We support a broad definition of 'activity' to underpin the new activity test. We also support flexibility for parents who work casual or irregular hours, and that must be compensated in the activity test. We propose a six-week transition period for families facing a cut in their subsidy.<sup>40</sup>

2.51 During discussion about how the activity test could affect families relying on casual or irregular work, Goodstart Early Learning provided the following evidence about the proposed estimation process which it characterised as 'generous':

Other than the fact that the estimation process will be based on the parents' high estimate of what they are going to need over the next three-month period. So, if their work is irregular, obviously they have to plan their child care on the basis of their high points rather than their average. So they have acknowledged that it be based on a high point. That might alleviate it a little

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37 Mr John Cherry, Advocacy Manager, Goodstart Early Learning, *Committee Hansard*, 3 October 2016, p. 13.

38 Mr John Cherry, Advocacy Manager, Goodstart Early Learning, *Committee Hansard*, 3 October 2016, p. 18.

39 Dr Stacey Fox, Policy Fellow, Mitchell Institute, *Committee Hansard*, 3 October 2016, p. 43.

40 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016 p. 10.

bit, but what we are concerned about are people who do drop in and out of the workforce completely or people who have lost their job and may be looking for another job. We are concerned that this provision would at least make it easier for those families to maintain their access to child care while they are looking for work, because it is really hard, as anybody would know, to find a childcare spot when you are offered a job. The best way to be available for work is to make sure you maintain your child care for as long as you can within the finances you have available.<sup>41</sup>

2.52 Following on from this point, Early Childhood Australia suggested that it 'is also a lot better for children to have continuous access on regular days'.<sup>42</sup>

2.53 However, the committee noted other evidence from Early Childhood Australia and Early Learning and Care Council of Australia (ELCCA) that suggested it may be difficult to predict how the proposed changes will affect families with parents whose work patterns are irregular.<sup>43</sup>

### ***Budget based funding***

2.54 Budget Based Funding (BBF) is a program providing a contribution to the operational costs of certain child care facilities, early learning and school aged care services in approved locations, such as rural and remote locations. Mobile services may also be covered by BBF.

2.55 There are approximately 300 facilities currently provided with funding through this program. The Department of Education and Training notes that:

These services are predominantly located in regional, remote and Aboriginal and Torres Strait Islander communities where the market would otherwise fail to deliver services to meet the needs of children and their families. Many are the sole providers of child care in their communities.<sup>44</sup>

2.56 Some submitters raised concerns over the removal of BBF, for reasons including:

- uncertainty over whether Aboriginal and Torres Strait Islander child care facilities could continue operating;
- the implications for this policy on the Closing the Gap targets; and

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41 Mr John Cherry, Advocacy Manager, Goodstart Early Learning, *Committee Hansard*, 3 October 2016, pp 11–12.

42 Ms Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 3 October 2016 p. 12.

43 Ms Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 3 October 2016, p. 16; Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016, p.16.

44 Department of Education and Training, *Budget Based Funding Program*, <https://www.education.gov.au/budget-based-funded-programme> (accessed 29 September 2016).

- the potential for children in rural, remote and very remote areas to be unable to access the same care.<sup>45</sup>

2.57 The National Association of Mobile Services for Rural and Remote Families and Children (NAMS) represents mobile services funded by BBF that operate in rural, regional and remote areas of Australia. NAMS pointed out that mobile services are unique, indicating a mainstream approach may not work:

Mobile services operate in the communities in which they operate in Australia because they are not sustainable. They operate with an operational subsidy, which is the budget based funding.<sup>46</sup>

2.58 NAMS noted that mobile services do not have administrative staff and do not have the capacity to administer what would be required under a mainstream model.<sup>47</sup> NAMS further argued that 'there needs to be a total review of children's services funding and something that really enhances rural and remote Australian and Indigenous services', further stating:

We would like to see growth in mobile services, not diminishment in mobile services, and we would like to see a dedicated funding model for rural and remote Australia.<sup>48</sup>

2.59 Secretariat of National Aboriginal and Islander Child Care (SNAICC) submitted that the transition for BBF facilities into mainstream services would have a strong impact of Aboriginal and Torres Strait Islander children and families. SNAICC submitted that although:

...positive changes are incorporated within the Jobs for Families Child Care Package, SNAICC is deeply concerned that the package will lead to significantly reduced participation in quality early learning of Aboriginal and Torres Strait Islander children experiencing vulnerability.<sup>49</sup>

2.60 During the committee hearing, the Department of Education and Training addressed a number of concerns raised about the removal of BBF. In relation to mobile services, the department clarified:

We have never said that mobiles would not be funded. Mobiles are a very complex group of BBFs. They get funding from a range of different

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45 See, for example: Mr Liam McNicholas, *Submission 10*, p. 3; Early Childhood Australia, *Submission 25*, p. 9; National Association of Mobile Services for Rural and Remote Families and Children (NAMS), *Submission 42*, p. 5.

46 Ms Anne Bowler, President, National Association of Mobile Services for Rural and Remote Families and Children, *Committee Hansard*, 3 October 2016, p. 2.

47 Ms Anne Bowler, President, National Association of Mobile Services for Rural and Remote Families and Children, *Committee Hansard*, 3 October 2016, p. 2.

48 Ms Anne Bowler, President, National Association of Mobile Services for Rural and Remote Families and Children, *Committee Hansard*, 3 October 2016, p. 2.

49 SNAICC, *Submission 16*, p. 3.

sources. Often they get a lot of state and territory government funding as well. We want to do this analysis and identify how that can be best funded going forward.

I know there are some concerns around the travel and how that will be subsidised, and that there are some concerns around the time they spend setting up, because the subsidy will just go to the hours that children are there. But there is flexibility in the CCCF—the grant process—to recognise the additional costs of travelling and of setting up, and of all the time that is non-contact time for the educator with the child, if that makes sense.<sup>50</sup>

2.61 In relation to questions about transitional plans for BBF services, the Department of Education and Training provided the following evidence:

...It was really quite disappointing to read some of the statements made yesterday, because there have been many reviews, including a 2014 review of BBF and an ANAO report, which said that there are many issues with this program—that it is flawed and that there are equity issues.

...

I thought they were talking about the 2014 review yesterday, based on feedback I got from people who attended. But this is a long journey. We have some BBF services that get as little as \$100 per child per year and some that get tens of thousands of dollars per child per year. The program has been capped and closed for 15 years. This is about making some changes. It is not about taking the Indigenous 'culturalness' out of these programs. It is about a different funding source—not a closing of the programs or the services. I cannot say that often enough.<sup>51</sup>

2.62 The Department of Education and Training also provided evidence that changes have been made to the package as a result of feedback received during consultation:

It is probably fair to say that our thinking is evolving. When we announced the Community Child Care Fund we announced it as a competitive grants process. I think that more recently, based on some of the consultation, we accepted there is a need to have a discretionary bucket within the CCCF that is not based on competition. We have been talking to some in the sector about it.<sup>52</sup>

...

Only 70 per cent of kids who go to BBFs are Indigenous, but it is to help the BBFs in their transition. I guess that the other kind of misconception

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50 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016, p. 29.

51 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016 p. 28.

52 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016 p. 29.

that seems to be out there is that the CCCF is just a one-off. It is not; it is part of the budget going forward with the whole package. So some people might transition in two years and some people might not transition for 10 years. There is flexibility in the CCCF, based on these individual plans I talked to the senator about previously—to structure that in a way that best meets the needs of the individual BBFs.

That is what we are about, and those plans will help us define how the subsidy and the CCCF funding come together.<sup>53</sup>

2.63 The committee notes concerns raised by submitters and witnesses that the removal of BBF will mean that some services become unviable. However, the committee also notes evidence provided by the Department of Education and Training that BBF is a flawed system that results in inequity, and it supports efforts to address these issues to ensure that funding is provided appropriately to all services.

2.64 The committee further notes that the Department of Education and Training is currently undertaking a comprehensive assessment of the capacity of BBF services to transition to the new package, as well as a transition support process.<sup>54</sup> This involves extensive consultation with industry representatives.

### **Committee view**

2.65 The committee heard from some submitters that the bill places a strong focus on workforce participation, rather than on early childhood education and care. While the bill does place some focus on workforce participation and the activities of parents who receive subsidised child care, the committee considers that this is entirely appropriate and in line with community expectation. Further, that the reforms can achieve quality early childhood education and care as well as provide opportunities for parents to achieve greater participation in the workforce. However, the approach must be balanced.

2.66 The committee notes the broad support by many submitters and witnesses for an increase in workforce participation, however, it also notes the view that this should not come at the expense of a focus on children and their needs. The committee is not persuaded that a focus on workforce participation has come at the expense of the needs of children, and is of the view that the bill can achieve both.

2.67 The committee notes that there is no outright objection to an activity test from submitters or witnesses, but rather that there are different views about how the activity test should be structured.

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53 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016 p. 29.

54 Ms Emma Sydenham, Deputy CEO, SNAICC—National Voice for Our Children, *Committee Hansard*, 3 October 2016, p 5

2.68 The committee considers that the activity test is both balanced and in line with community expectation that parents with children in subsidised child care are engaged in paid or unpaid work or looking for work or are studying.

2.69 The committee also notes that a number of witnesses pointed out that the Department of Education and Training has conducted extensive consultation about the provisions of the Jobs for Families package.<sup>55</sup> This demonstrates the Australian Government's strong commitment to industry input so that the reforms can best meet community needs.

2.70 The committee is of the view that the changes to the Jobs for Families bill will result in a fairer system, where low income families receive more help and subsidies to high income families fall.

### **Social Services bill**

2.71 The Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016 (Social Services bill) seeks to reform FTB A and at-home under-18 year old youth fortnightly rates.

2.72 The savings contained in the Social Services bill will provide funding for the Jobs for Families Child Care Package. The Hon Christian Porter MP, Minister for Social Services, summarised the intention of the Social Services bill:

While the family payments structural reforms in this bill will pay for the Jobs for Families Child Care Package, they will also simplify the family tax benefit system and provide more money on a fortnightly basis to those families who need it the most.<sup>56</sup>

2.73 As noted in Chapter 1, the Social Services bill's key measures are the introduction of a new rate structure for FTB B, and an increase in the fortnightly rate of FTB A. The Social Services bill also seeks to phase out FTB A and FTB B supplement payments.

2.74 The Minister for Social Services set out that increased FTB A payment rates would help lower income families access higher fortnightly payments:

The government, under the terms of this bill, would be increasing the fortnightly payment rates of family tax benefit part A by \$10.08 for each

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55 For example: Mr Scott Rollason, General Manager, Family Day Care Australia, *Committee Hansard*, 3 October 2016, p. 30; Ms Helen Mary Gibbons, Assistant National Secretary, United Voice, *Committee Hansard*, 3 October 2016, p. 35; Ms Geraldine Atkinson, Deputy Chairperson, SNAICC—National Voice for Our Children, *Committee Hansard*, 3 October 2016, p. 7; Ms Anne Bowler, President, National Association of Mobile Services for Rural and Remote Families and Children, *Committee Hansard*, 3 October, p. 7; Mr Paul Mondo, Secretary, Australian Childcare Alliance, *Committee Hansard*, 3 October 2016, p. 18.

56 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 29.

child in a family aged up to 19. This is worth an extra \$6,000 over the lifetime of a child. What this means is that around 1.2 million lower income families (including income support families) who receive family tax benefit part A for around 2.2 million children—will now receive higher fortnightly payments from 1 July 2018. The increase in their fortnightly payments will help families better manage their day-to-day and week-to-week budgets by providing them with timely, regularised assistance when they need it the most.

We will also provide an additional \$7.48 per fortnight for under 18 year old youth allowance recipients who are living at home, bringing the payments to the same standard rate as a family tax benefit part A child aged between 13 and 19.<sup>57</sup>

2.75 The Minister for Social Services further set out the need for this reform:

While we understand families will not necessarily be enthusiastic about losing supplements, replacing a poorly targeted end-of-year payment with increased fortnightly payments and a simpler, fairer and more accessible childcare system will, in the long run, provide increased support for Australian families to meet day-to-day living expenses and will increase workforce participation.<sup>58</sup>

### ***Previous consideration by the Community Affairs Committee***

2.76 The Senate Standing Community Affairs Legislation Committee (Community Affairs committee) has previously inquired into an earlier version of the Social Services bill, and tabled its report on 1 March 2016.<sup>59</sup>

2.77 The committee notes that the Community Affairs Committee addressed a range of issues identified by submitters to that committee's inquiry into the bill.

2.78 The iteration of the Social Services bill currently before the committee contains a minor change relating to the commencement date for Schedule 2 of the bill, which has been changed from 1 July 2016 to 1 July 2017.

2.79 The Community Affairs Committee reported that:

Most submitters and witnesses supported reforms to the FTB payments system to ensure it is simpler, fairer and better targeted, and supported the rate increases for certain cohorts.<sup>60</sup>

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57 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 29.

58 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 30.

59 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 [Provisions]*, April 2016.

60 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 [Provisions]*, April 2016, p. 7.

2.80 However, the Community Affairs Committee reported that some submitters and witnesses had 'generally opposed the proposed reduced payment rate for certain families', expressing concerns about the following issues:

- the potential impact on low income and vulnerable families, such as single parents and families of children with disability;
- the costs of raising children increase with children's age, while the measures propose a corresponding reduction in payments;
- the loss of supplements;
- the appropriate encouragement of greater workforce participation; and
- concerns that the IT and payroll system upgrades may not address end of year FTB debts.<sup>61</sup>

2.81 The Community Affairs Committee noted that the iteration of the bill considered in their inquiry was itself a modified version of an earlier iteration. The Community Affairs Committee acknowledged the:

...significant changes to the proposed measures...made by the Government in response to concerns raised by submitters and witnesses during the committee's inquiry into Bill No. 1.<sup>62</sup>

2.82 The Community Affairs Committee's view was that the changes incorporated into the second iteration of the bill 'appropriately address concerns regarding the impact on certain vulnerable families'.<sup>63</sup>

### **Key issues – Social Services bill**

2.83 During this inquiry, the key issue raised by submitters and witnesses was the relationship between the two bills being considered by the committee, with submitters and witnesses expressing concern at the 'coupling' of the two bills.

2.84 The potential impact of the bill on families, particularly families with lower incomes, was also raised by submitters.

#### ***Funding source – coupling of the two bills***

2.85 Although submitters and witnesses generally acknowledged that funding for the Jobs for Families package would require a funding source, many raised concerns over drawing on savings made from the provisions of the Social Services bill.

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61 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 [Provisions]*, April 2016, p. 8.

62 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 [Provisions]*, April 2016, p. 7.

63 Senate Education and Employment Legislation Committee, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015 [Provisions]*, April 2016, p. 22.

2.86 For example, The Parenthood indicated support for the reforms to the jobs for families package, however, suggested that it is unnecessary to fund these reforms with cuts to the FTB:

I am keen to stress to you today that, whilst we are very keen to see the quick progress of an amended version of this jobs for families package of bills, we reject the notion that \$4.8 billion worth of cuts to the family tax benefits system are required to pay for it—and we urge committee members to do the same.<sup>64</sup>

2.87 Catholic Social Services Australia also suggested that other avenues may be available:

It is our view that there are other policy options available to the Government to fund the Child Care Package and which would not result in the reduction of payments to the most vulnerable families and individuals in our community.<sup>65</sup>

2.88 Submitters told the committee that the coupling of the bills was not necessary in order to fund the Jobs for Families package. Mr Bernie Nott, Co-Chair of the Early Learning and Care Council of Australia told the committee that the reforms need not be contingent on the savings measures contained in the Social Services bill:

Early learning and care provides vital child development for the nation's young citizens and allows families to do the work and study which drive Australia's prosperity. Given its vital role, we call for the decoupling of funding for the package from the proposed cuts to family tax benefits. We believe the reforms stand on their own merits and have already been paid for several times.<sup>66</sup>

### ***Impact on families***

2.89 The National Welfare Rights Network (NWRN) submitted the view that the 'burden of budget repair' was being placed poor and vulnerable members of the community.<sup>67</sup> In a submission to the Community Affairs Committee's inquiry into the Social Services bill, NWRN submitted that the bill:

...seeks to draw savings from the family payments system in a way that will have a major impact on the adequacy of payments to low income families and their children, while failing to progress meaningful reform of the well recognised issues with the family payments system.<sup>68</sup>

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64 Ms Jo Briskey, Executive Director, The Parenthood, *Committee Hansard*, 4 October 2016, p. 16.

65 Catholic Social Services Australia, *Submission 28*, p. 1.

66 Mr Bernie Nott, Co-Chair, Early Learning and Care Council of Australia, *Committee Hansard*, 3 October 2016, p. 10.

67 National Welfare Rights Network, *Submission 23*, p. 5.

68 National Welfare Rights Network, *Submission 23*, p. 9.

2.90 Early Childhood Australia told the committee that they held concerns over the impact the Social Services bill may have on lower income families:

The sector generally has supported both a reduction of welfare payments to middle- and high-income families as well as more generous payments through paid parental leave, because of the crisis of affordability in early learning. We have supported that over a number of years and have supported previous cuts. But we are getting to the point now where the cuts to family tax benefits that are being proposed to lower income families no longer have the support of many organisations that work in the sector and also work with disadvantaged vulnerable families.<sup>69</sup>

2.91 While concerns were raised during the hearings, witnesses were unable to suggest viable alternatives to fully fund the package.

2.92 The Department noted:

I would just make the point that in special appropriation there is no such thing as savings. When it goes up it also goes down. The government is required to foot the bill based on a family's eligibility. So we do not get to count them as savings. The finance process does not allow us to count them as savings and they cannot be used to offset other spends. I am just reading to you what is in the budget rules from the Department of Finance.<sup>70</sup>

### *Australian Government view*

2.93 The Hon Christian Porter MP, Minister for Social Services, set out the Australian Government's commitment to early childhood education and care in the second reading speech for the Social Services bill:

The jobs for families childcare packages funded by this bill introduce major reforms that will provide greater choice for almost one million families by delivering a simpler, more affordable, more flexible and more accessible child care system.<sup>71</sup>

2.94 The Minister continued to outline the Australian Government's commitment:

The government is fully committed to the jobs for families package, however more than \$3 billion in additional funding must be paid for, and the measures in this bill are the government's way of making provision for that payment. The refusal of members opposite to support the passage of the measures in this bill, if that were to pass, in the previous parliament left the government with no choice but to defer the implementation of the main

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69 Ms Samantha Page, Chief Executive Officer, Early Childhood Australia, *Committee Hansard*, 3 October 2016, p. 19.

70 Ms Jackie Wilson, Acting Secretary, Department of Education and Training, *Committee Hansard*, 4 October 2016 p. 25.

71 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 29.

measures of the jobs for families package from July 2017 to July 2018. However, if the savings needed to fund the child care package are passed by parliament—that is, the savings contained in this bill—then the government will implement the jobs for families package as soon as possible.

The government's new childcare package and reforms to the family payments system supports parents as they balance work and family responsibilities, while protecting those most vulnerable, and continuing to ensure a high-quality learning experience in our childcare centres.<sup>72</sup>

### **Committee view**

2.95 The committee acknowledges the work of the Community Affairs Committee on the Social Services bill, and notes that the provisions of the Social Services bill currently under consideration are identical to those contained in the bill previously considered.

2.96 The committee notes that the bill considered by the Community Affairs Committee contained certain modified measures that took into account previous concerns raised by stakeholders. These modifications were found by the Community Affairs Committee to appropriately address concerns previously raised.

2.97 The committee is of the view that multiple committee inquiries into this bill have established the key issues held by stakeholders, and the committee acknowledges the time and effort expended by members of the ECEC sector in contributing to these inquiries through submissions and appearances at public hearings.

2.98 The committee heard assertions made by submitters that the proposed reforms in the Jobs for Families Child Care Package are affordable without making cuts to related programs.

2.99 While the committee notes submitters' concerns over the 'coupling' of the measures in the two bills currently under consideration, the committee considers that using the savings made from restructuring and reforming the Family Tax Benefit payments to reform the child care system is justified. The committee notes that no viable proposals to fully fund the package were put forward during the inquiry.

2.100 The measures contained in the Social Services bill will provide greater assistance on a fortnightly basis to lower income families who need it, and will create more accessible and flexible child care system for Australian families.

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72 The Hon Christian Porter MP, Minister for Social Services, *House of Representatives Hansard*, 1 September 2016, p. 29.

**Recommendation 1**

**2.101 The committee recommends that both bills be passed.**

**Senator Bridget McKenzie**

**Chair**

