

LABOR SENATORS' DISSENTING REPORT

1.1 Labor supports the additional investment in child care proposed by the government, but we are not convinced the proposal will achieve the best results for families, children's development or workforce participation. Labor have long argued the importance of proper attention to child development, and affordability of quality early learning. We believe the government needs to ensure extra investment flows to these areas, rather than to the profit margin of providers. Despite the rhetoric of the Turnbull Government about controlling out of pocket expenses for families, research undertaken by the ANU Centre for Social Research and Methods reveals that one in three families will be negatively impacted, 330 042 families will pay more for child care and 157 400 children will be impacted by the new activity test.¹

1.2 Labor is proud of our record in increasing the rebate to 50 per cent to assist parents with out-of-pockets costs, ensuring the quality of care of children through the National Quality Framework, and introducing universal access funding for critical early childhood education. Labor will always be driven to build on this foundation.

1.3 This Bill does not address out of pocket costs for families, only cost to the Government. Whilst Labor Senators support the Government's proposed additional investment in early education and care, it is essential to note that this is funding diverted from other areas, and consider whether there are fairer and more effective ways to direct this investment.

1.4 Labor Senators argue that this bill forms part of a wider pre-election political quick fix, rather than allocation of appropriate funds to areas that will best assist families and best engage children in early education.

Impact on out-of-pocket fees as a result of the Bill

1.5 Labor senators argue that the introduction of an inflexible national subsidy rate will mean many low and middle-income families in high-cost child care markets will face higher out-of-pocket fees.

1.6 Labor senators also voice concerns that the benchmark price funding model will not adequately address fee growth and out of pocket costs for parents. Over time, growth in Early Childhood Education and Care (ECEC) costs will increasingly be borne by parents, particularly in the context of Government's most recent data which shows 'an increase of 9.2 per cent in the average weekly cost of child care per child from September 2013 to September 2014'.²

1.7 The ACTU argue that the benchmark price funding model is 'likely to compromise the ongoing sustainability of funding for early childhood education and

1 NATSEM, 4 March 2016.

2 Department of Education and Training 2015, *Regulation Impact Statement – Jobs for Families Child Care Package*, pg. 18,
http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r5598.

care for families... Over time, this is likely to result in real decreases in support to families'.³ Labor Senators support this argument.

1.8 Further to this, the Government has failed to adequately argue the impact that the investment in early learning has on the economy in the long term. The Grattan Institute found that if Australia increased its female workforce participation rate to that of Canada (which is 6% higher), our GDP would be increased by \$25 billion.⁴

1.9 The Murdoch Children's Research Institute argued:

While it is economically sound that Australians be supported to participate in employment, and child care helps to meet this need, a primary focus on workforce participation misses the greater economic benefit that can be reaped through early investment in children's development.⁵

1.10 Goodstart Early Learning provided an example in their submission:

Experience shows it can be done: the Canadian province of Quebec, faced with one of the lowest female participation rates in Canada in 1997 initiated a policy of subsidizing childcare to a net price of just \$5 a day. More than 70 000 mothers joined the workforce and a decade later Quebec had the highest level of workforce participation in Canada. Economic modelling found the reforms paid for themselves, with Government receiving \$1.51 in additional tax revenue and savings on social welfare for every \$1 paid in childcare subsidies.⁶

Impact of the new activity test for determining eligibility to subsidised child care

1.11 ABS research on barriers to work clearly identifies the availability and affordability of childcare as key impediments to many women either entering the workforce or to increasing their hours.⁷

1.12 Submitters to the Committee argued that the activity test could create a disincentive to mothers entering the workforce or increasing their hours of work, thereby reducing participation.⁸

1.13 This Government has to date done nothing to increase the availability of ECEC places in areas of high need. It would be completely unreasonable for the

3 Australian Council of Trade Unions, *Submission 56*, p. 8.

4 Daley J, 'Game changers: economic reform priorities for Australia', Grattan Institute, June 2012 p. 39.

5 Murdoch Children's Research Institute, *Submission 29*, p. 1.

6 Goodstart Early Learning, *Submission 47*, p. 11.

7 Australian Bureau of Statistics 2013, 'Persons aged 18 years and over, wanted a job or more hours and were available to start work/more hours within four weeks, Selected main reason not looking for work/more hours—By sex', table, *Barriers and Incentives to Labour Force Participation*, cat. no. 6239.0, ABS, Canberra, July 2012 to June 2013.

8 Australian Council of Trade Unions, *Submission 56*, p. 5; The Parenthood, *Submission 61*, p. 10.

Government to introduce a new test that could make accessing care for families, in particular women, without addressing the rising costs of that care.

1.14 A number of submitters argued that the new activity test will be particularly unfair to parents who are in a casualised, seasonal or unstable workforce.⁹ For example, Goodstart Early Learning submitted:

The current subsidy system is very efficient at supporting low and middle-income families with at least one parent in irregular work because it provides a broad base entitlement and a very simple activity test. The new system is more targeted but inadvertently creates barriers to work for families where at least one parent does not have secure, regular employment.¹⁰

1.15 Under this proposed activity test many parents will be fearful they might not meet the work requirements sometimes – if they don't get called in for a shift, if they are ill, or if they have to go away, further adding to the complexity of understanding and administering the system.¹¹ The demand for ECEC also means parents cannot simply withdraw their children from ECEC one week and return them in the following month when they have more shifts secured.¹²

1.16 According to the Independent Inquiry into Insecure work in Australia, nearly 4 million workers are in insecure employment, whether engaged as casuals, on short term contracts, in labour hire or as independent contractors, casuals, on short term contracts, in labour hire or as independent contractors.¹³

1.17 The new activity test will also reduce access to early education for many children, while pushing others out of the system entirely. For example, parents who volunteer, as oppose to engaging in paid work, will be discouraged from doing so. Despite Senator Birmingham reporting that this was something he was keen to ensure was protected, this bill fails to address how parents who volunteer their time could meet the activity requirements, or how the gap in duties performed by these volunteers would be addressed.

What I do want to have a look at, Patricia, though is making sure that the activity test – which is only four hours for entry – is also really encouraging people and parents, especially in the volunteering space, to be engaging in the learning of their children... because that is how we can not only make

9 Goodstart Early Learning, *Submission 47*, p. 5; United Voice, *Submission 19*, p. 18; Murdoch Children's Research Institute, *Submission 29*; Social Policy Research Centre, UNSW, *Submission 8*, p. 1; NCEPH, Australian National University, *Submission 38*, p. 4 (n. 1); Australian Council of Trade Unions, *Submission 56*, p. 5; The Parenthood, *Submission 61*, p. 5.

10 Goodstart Early Learning, *Submission 47*, p. 5.

11 Australian Council of Trade Unions, *Submission 56*, p. 5.

12 PricewaterhouseCoopers, 3 September 2013, *Revealing child care's hidden value: Press Release*, <http://www.pwc.com.au/press-room/2014/childcares-hidden-value.html>

13 Independent Inquiry into Insecure work in Australia, 'Lives on Hold Unlocking the Potential of Australia's Workforce' (2012), p. 4.

sure that we get people out of the home and engaging, but of course more engaged as parents in the learning of their children.¹⁴

1.18 Women are also more likely to be employed in insecure work arrangements.¹⁵ It is therefore women, and women headed households, who will be most disadvantaged by the reforms in this bill. Labor Senators therefore argue that this test is too complex, too harsh and will discourage many parents, many women, from returning to the workforce.

1.19 In the joint submission from the Women and Work Research Group (of the University of Sydney) and Work + Family Policy Roundtable, the groups argue that the creation of more stringent work or training requirements to access care impinges on the inclusivity of early years education, and reduces accessibility for parents with intermittent or casual working conditions. They also argue that the approach proposed by the Government ignores the value on early learning in building and strengthening the development of children's early cognitive, social and emotional development.

1.20 There exists significant evidence that participation in high-quality early learning is beneficial for all children, and improves development and school readiness.¹⁶

1.21 Goodstart Early Learning, in submission to the committee refer to OECD data and significant international studies demonstrating the correlation between increased literacy and numeracy skills for primary school students and greater interaction with Early Childhood Education and Care.

A growing body of research recognises that early childhood education and care (ECEC) brings a wide range of benefits, for example, better child wellbeing and learning outcomes as a foundation for lifelong learning; more equitable child outcomes and reduction of poverty; increased intergenerational social mobility; more female labour market participation; increased fertility rates; and better social and economic development for the society at large. But all these benefits are conditional on 'quality'.¹⁷

And:

International studies in literacy and numeracy of primary school children have also found higher test scores for children who attended 3 or more

14 Birmingham, Simon (Senator) 5 February 2016, *Interview - RN Drive - Patricia Karvelas*, <http://www.senatorbirmingham.com.au/Media-Centre/Interview-Transcripts/ID/2944/Interview--RN-Drive--Patricia-Karvelas>

15 Independent Inquiry into Insecure work in Australia, 'Lives on Hold Unlocking the Potential of Australia's Workforce' (2012), p. 21.

16 Melhuish, E., et al. (2015), '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/>; Goodstart Early Learning, *Submission 47*, p. 11.

17 OECD, 'Starting Strong III: A Quality Toolkit for Early Childhood Education and Care', 2012, <http://www.oecd.org/edu/school/startingstrongiiiqualitytoolboxforearlychildhoodeducationandcare.htm>, in Goodstart Early Learning, *Submission 47*, p. 11.

years of pre-primary education. Again, Australia was one of the countries with the lowest levels of participation in early entry to pre-primary education. Further, a long-running study of the educational experiences of children in England recently reported that 16 year olds who had attended more than two years of quality preschool (compared to none) scored on average 51 points higher on their final GCSE exams, which is the difference between getting eight 'B' grades versus eight 'C' grades.¹⁸

Impact on vulnerable children and Indigenous Services

1.22 The Explanatory Memorandum to the bill recognises access to early childhood education and care as 'one of the most effective early intervention strategies to break the cycle of poverty and intergenerational welfare dependence.'¹⁹ Unfortunately this does not appear to be adequately reflected in the bill.

1.23 Vulnerable and disadvantaged children have the most to gain from early education; we do not want to see them worse off. The new activity test presents an additional administrative burden on already vulnerable families that will act as a barrier to accessing quality early learning for their children, and possibly act as a disincentive for women to return to paid work.²⁰

1.24 There is strong evidence that children from disadvantaged backgrounds benefit most from access to early learning.²¹ ABS data on preschool attendance shows that children from non-working households were five times more likely not to attend preschool as children from households where both parents work.²² Labor Senators argue that we should be increasing the accessibility to ECEC for vulnerable families, rather than decreasing that access.

1.25 A PricewaterhouseCoopers report in 2014 found that the long-term gains in productivity from children who participate in quality child care when they enter the workforce are even greater than the gains from increased workforce participation from their parents. When looking at children in disadvantaged families who were receiving no formal early childhood education, engaging them in early childhood education and care would boost Australia's GDP by a further \$13.3 billion by 2050.²³

1.26 The Parenthood presented evidence to the committee demonstrating that at least one in ten families surveyed said they will not meet the new activity test and will therefore likely need to pull their children out of early learning.²⁴

18 Goodstart Early Learning, *Submission 47*, p. 11.

19 Explanatory Memorandum, *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2015*, p. 6.

20 The Parenthood, *Submission 61*, p. 1.

21 Productivity Commission, 'Childcare and Early Learning Report', 2014, p. 180.

22 ABS cat. No. 4402 Childcare Education and Care Australia, June 2014.

23 Price Waterhouse Coopers, 'Putting a value on early childhood education and care in Australia', 2014, <http://www.pwc.com.au/publications/early-childhood-education.html>.

24 The Parenthood, *Submission 61*, p. 4.

1.27 Treating early education and care as a national economic priority is not just about getting parents into the workforce – it is also about acknowledging the substantial benefits which come from investing in our children. Children who attend quality early education go on to do better in school, in employment and in life.

1.28 The Murdoch Children's Research Institute's Centre for Community Child Health argue that;

... children who have poor experiences in early childhood and arrive at school developmentally vulnerable have higher rates of abuse and neglect, early mental health problems, conduct problems and poor health and nutrition, all of which lead to longer-term problems in adulthood and thus the cycle of disadvantage is repeated.²⁵

And:

In the long run, significant improvements in literacy, numeracy and other skills are unlikely without substantial investment in early learning.²⁶

1.29 Goodstart Early Learning, a peak body in the ECEC industry, argue:

The 23 per cent of Australian children who start school developmentally vulnerable represents a significant long- term diminution of Australia's future human capital potential.²⁷

1.30 Locking children out of the benefits of early education is short-sighted and shows a lack of understanding about the enormous economic and social benefits from having children access quality early education.

1.31 Children with Disability Australia (CDA) (now Children and Young People with Disability Australia (CYDA)) presented evidence to the committee on the impact the changes would likely have on children with disability who already face significant barriers in accessing early learning services. They argue that the bill lacks consideration of the needs and circumstances of children with disability and families.

Families of children with disability are sometimes referred to as carers as they provide unpaid care and support to their child. Available statistics show carer workforce participation is much lower than the rest of the community. CDA members frequently report difficulties with gaining and keeping employment. Many families report a strong desire to undertake paid employment. The overwhelming lack of care options for children with disability creates a barrier to achieving this.²⁸

1.32 Further to this, Labor Senators argue that provisions in the Bill regarding the Additional Child Care Subsidy (ACCS) for children at risk of experiencing abuse and neglect (of which children with disabilities face a higher risk in general) require

25 Murdoch Children's Research Institute, *Submission 29*, p. 1.

26 Murdoch Children's Research Institute, *Submission 29*, p. 1.

27 Goodstart Early Learning, *Submission 47*, p. 1.

28 Children with Disability Australia, *Submission 35*, p. 3.

clarification, and key definitions regarding the payment of this subsidy should be contained not in the *Minister's Rules* but in the explanatory memorandum of the bill.

1.33 It is also worth noting that in its current wording, the bill leaves open the possibility that a child in the child protection system who has access to the Additional Child Care Subsidy (at risk) might not have all their child care costs met by the Government. Labor Senators argue that this leaves children in the child protection system worse off under the reforms.

1.34 Labor Senators also have particular concerns regarding the replacement of the current Budget Based Funding program, which provides block funding to Aboriginal children's services (and some other services) with mainstream, user pays models, and the impact the government's changes will have on Indigenous children and families who access these services.

1.35 Currently, approximately 240 *Budget Based Funded Services* and 38 *Aboriginal and Torres Strait Islander Children and Family Centres* provide focused and community based early years services for Indigenous children, in addition to a number of mainstream services. These are developed and operated consistently with evidence on what works to support positive outcomes for Indigenous children experiencing vulnerability.²⁹

1.36 These services are often small and in remote locations and have given evidence that they would not survive in a mainstream model. Many have extensive waiting lists, and are already under pressure from their communities.³⁰ They are not financially viable without ongoing support, but for many Indigenous children they are the only available early education service. Many provide a base for the entire family to access services and engage with the community.³¹

1.37 Indigenous children comprise just 2.9 per cent of children participating in early childhood education and care programs, despite making up 5.5 per cent of the population.³² The Productivity Commission has identified that 15 000 more early education places are needed for Indigenous children.³³ Labor Senators argue that the Government should create more services – not less.

1.38 The Secretariat of National Aboriginal and Islander Child Care (SNAICC) using data analysed by Deloitte Access Economics (DAE) in their submission to the inquiry argue that;

...when the eligibility requirements for the CCS are taken into account, including the activity test and the reduction in the minimum entitlement for

29 Secretariat of National Aboriginal and Islander Child Care, *Submission 65*, p. 9.

30 Secretariat of National Aboriginal and Islander Child Care, *Submission 65*, p. 9.

31 Secretariat of National Aboriginal and Islander Child Care, *Submission 65*, p. 10.

32 Productivity Commission, *Child Care and Early Childhood Learning*, Report No. 73, October 2014.

33 Productivity Commission, *Child Care and Early Childhood Learning*, Report No. 73, October 2014, p. 525.

low-income families, access to subsidised hours for many vulnerable families is significantly reduced and funding received by services is, on average, materially lower than current levels.³⁴

1.39 DAE concluded that:

Without additional funding from alternative government revenue streams, such as grants under the IAS, it could be expected that services will increase fees, reduce their size and/or reduce staff numbers in order to remain viable. In addition, wrap around services which are provided to encourage increased engagement in early childhood services, and provide other community services, may also be reduced. Each of these measures may adversely impact on the level, nature or quality of services provided to Aboriginal and Torres Strait Islander children and families.³⁵

1.40 Labor Senators support the arguments submitted by SNAICC with regard to the impact on Indigenous and remote families and communities. We commend them for their efforts in analysis of the Bill, and implore Government Senators to more closely analyse the impact on these communities.

Conclusion

1.41 Labor Senators believe that the additional investment is poorly targeted to achieve policy outcomes.

1.42 One in three families will be made worse off by these changes. Many of those families will be worse off are those marginally attached to the workforce, or seeking to engage with the workforce. The proposed activity test will make workforce participation more difficult for many families. The Bill will not limit out of pocket costs for families, or put a cap on rapidly rising fees – it will only limit cost to government.

1.43 The Government simply has not convinced Labor senators of this committee of the policy merits of their child care changes, and of the merits of this Bill. We also note research from the Australian National University (ANU) commissioned by the Early Childhood Australia that found one in three families would be worse off under the bill, and the inability of the Government to argue against the accuracy of these figures.

Recommendations

Considering the evidence presented to the Committee, Labor Senators recommend the following amendments to the Bill:

- 1. Ensure that vulnerable children, or children at risk of abuse, not be worse off under the reforms;**

34 Secretariat of National Aboriginal and Islander Child Care, *Submission 65*, p. 3.

35 Deloitte Access Economics, 'Impact of the Child Care Assistance Package on Indigenous Communities', 2016, Commissioned by the Secretariat of National Aboriginal and Islander Child Care, p. i.

2. **Ensure that families in Aboriginal and Torres Strait Islander communities not be worse off under the reforms by establishing an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net;**
3. **Ensure volunteering is treated similarly to paid work or study under the activity test;**
4. **Ensure provisions are made to ensure casual and seasonal workers are not disadvantaged by the activity test by including appropriate averaging and transitional arrangements, and including a six week 'exceptional circumstances' exemption; and**
5. **The Government should provide modelling showing the longer term impact of the proposed benchmark price on the proportion of ECEC costs borne by parents and its impact on out of pocket costs. The Government should structure the child care subsidy more effectively to limit out of pocket costs for parents.**

Further, Labor Senators recommend that the government:

6. **Expand the Explanatory Memorandum to address key definitions (particularly with regard to abuse and neglect) pertaining to subsidies and payments;**
7. **Extend the Ministerial Advisory Council on Child Care and Early Learning to include key stakeholders and peak bodies in the industry;**
8. **Review internationally recognised research on the returns on investment that public expenditure on early learning brings, ensure ECEC in Australia is in line with OECD best practice, and make sure levels of investment in early childhood are consistent with the best outcomes for children and the community; and**

9. **Immediately release to the public all data, research and evidence used in developing the legislation – including complete details of the impact the changes will have on families - so that the Senate can make a more informed assessment of its impact on all Australian families.**

Senator Sue Lines
Deputy Chair