



2 February 2016
Committee Secretary
Education and Employment Legislation Committee
At: eec.sen@aph.gov.au

Dear Committee Secretariat,

Re: Inquiry into the Family Assistance Legislation Amendment (Jobs and Families Child Care Package) Bill 2015

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

Summary of reforms

The *Family Assistance Legislation Amendment (Jobs and Families Child Care Package) Bill* ('the Bill') contains a number of major early childhood education and care reforms which together formed a centrepiece of the 2015-16 budget. The package, which was revised in November, will deliver additional investment of \$3.2 billion over the forward estimates. It includes the following elements:

- A new streamlined child care subsidy which will replace the CCB, CCR and JETCCFA from 1 July 2017 which will meet:
 - 85% of the benchmarked costs of care for families under \$65,700 per annum;
 - 50% of the benchmarked costs of care for families on incomes of between \$170,000 and \$250,000 tapering down to 20% of costs for families on more than \$340,000 per annum (with a fee cap of \$10,000 for those on incomes upwards of \$185,000).
- A new requirement that parents participate in at least 4 hours of recognized activity per week to be eligible for more than 12 hours per week of subsidy (down from current eligibility for 24 hours per week without activity requirements). Some exemptions apply (e.g. for grandparent carers).
- The creation of four activity tiers linked to parental activity, with those participating in less than 4 hours per week of approved activity only eligible for subsidised care if deemed to be low income, in which they are eligible for 12 hours of subsidy per week;
- The creation of 3 programs to provide additional assistance for disadvantaged or special needs children, replacing existing programs; and
- 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, with limited transitional support for affected services



Additional investment should be secured from general revenue

ACOSS welcomes increased investment in early childhood education and care, and supports reform to simplify the child care payments system including moving to a single subsidy payment. However, we have a number of significant concerns about the package and funding arrangements proposed.

The Government has directly linked proposed cuts to family payments to its child care reforms, with the savings from payment cuts (mainly affecting families with older children) intended to be redirected to deliver additional investment in child care (benefitting some families with younger children, but with many low income families likely to lose). Our serious concerns about the proposed family payments cuts are outlined in the attached [Policy Brief](#), and will again be canvassed in our forthcoming submission to the inquiry into the *Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill (No. 2) 2015*.

Revisions to the child care package announced in November resulted in budget savings of \$1.9 billion over the forward estimates. This included the tightening of income tests, a reduction in the size of the nanny trial and the abolition of the top-up assistance for high fee services (together delivering a \$400 million saving to Government over the forward estimates), in addition to \$500 million saved through a downward revision of program costs¹ and \$930.6 million in savings from changes to Family Day Care compliance arrangements.

ACOSS believes that these savings should be redirected in the May 2016 Budget to address gaps in the new childcare package as detailed below, with additional funds secured from a further tightening of income tests for higher income families, not from payment cuts to low income families.

All children should have access to 2 days of subsidised ECEC per week

Under the current system, families are entitled to a minimum of 24 hours per week of subsidised care and more than 24 hours if they are engaging in at least 15 hours per week of approved activities. Under the proposed new rules, as noted above, families engaging in less than 4 hours of week of approved activity will only be eligible for 12 hours a week of subsidised care.

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

¹ MYEFO states that this is “largely reflecting a higher than expected proportion of child care fee assistance payments being made in arrears”.



ACOSS recommends that the activity requirements to access a minimum of 2 days education and care should be removed to ensure children in families without paid work have access to sufficient quality care.

Fee assistance should be better targeted to maximise policy outcomes and ensure sustainability

ACOSS broadly supported the Productivity Commission's model for structural reform which recommended that families on high incomes (above \$250,000) receive a lower base subsidy (the Productivity Commission recommended 20% of the benchmark costs of care). The Government's revised child care package adopts a 50% threshold for families on incomes of \$170,000-\$250,000, tapering to 20% for families on more than \$340,000 per annum. The Government has also increased the fee cap for high income families, from \$7500 to \$10,000 per annum. This has increased the costs of the package, which the Government is now seeking to pay for through cuts to family payments.

ACOSS agrees with the Government that childcare subsidies are not welfare payments, but the level of subsidy should be appropriately targeted to those who struggle with childcare costs. Above all, childcare subsidies are an investment in the education of young children. The generosity at the higher end is in stark contrast to the proposed cuts to payments to low income families, and points to a broader imbalance in the policy design. We support further tightening of the income tests for higher income earners and a reduction in the fee cap for families on incomes of more than \$180,000 per year and propose that savings achieved be directed towards addressing inadequacies in the new system for children in low income families or disadvantaged communities.

An Aboriginal and Torres Strait Islander community based program should be established within the new Child Care Safety Net

The existing Budget Based Funding program, which funds 303 services across Australia, most of which are Aboriginal and Torres Strait Islander focused, would be abolished under the proposed reforms. From 1 July 2017 these services will have to operate on the mainstream, fee-based, Childcare Subsidy. ACOSS is concerned about the viability of this funding model for Aboriginal and Torres Strait Islander services and families. We are also concerned that the reform package fails to deliver investment in the creation of additional Aboriginal and Torres Strait Islander child care services, despite the Productivity Commission report highlighting that an additional 15,000 ECEC places would be needed to close the gap in Aboriginal and Torres Strait Islander children's attendance.²

We support SNAICC's recommendation to establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net. SNAICC proposes that:

“This program would have an integrated funded formula that provides services with the flexibility to respond to child and family needs where a user-pays model is insufficient. This would provide top up funding for operational costs to redress services' income gap from the

² Productivity Commission, *Childcare and Early Childhood Learning*, Report No. 73, October 2014 at page 525.



mainstream subsidy and fees based on 3-year applications. Staff could therefore focus on children and family needs, rather than complex and uncertain funding systems that depend on parental capacity to manage Centrelink record keeping.”

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

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

Detailed modelling of policy impacts should be undertaken and published

Limited data has been released by the Government on the impacts of the proposed policy changes of different family types and income levels. Specifically, the Government has not released separate modelling of the family payment and child care changes, only publishing selected cameos. Further, the Department of Social Services has to date not answered relevant Senate Estimates questions posed about the impacts of the package on low income families, including the impact of changes to the activity test. We have therefore had to rely on modelling from other sources. For example, modelling by NATSEM confirms that the majority of sole parents on low incomes will be adversely affected by the combined effect of the family payment cuts and childcare package, with an estimated 88.9% of those in the lowest quintile worse off in 2018-19, after the childcare package has come into effect.³

We urge the Committee to call on the Government to release detailed modelling of the distributional impacts of its policy changes, including the impacts of changes to the activity test.

Recommendations:

The Federal Government should:

1. Redirect savings from tightening of income test and other policy changes to address gaps in the child care package, and draw any additional funds required from general revenue, not cuts to family payments;
2. Provide a minimum of 2 full days (20-24 hours) of subsidised early childhood education and care per week for all families, regardless of activity. Activity requirements should apply only to families seeking care for more than two days per week;
3. Establish an Aboriginal and Torres Strait Islander community based program within the new Child Care Safety Net;

³ Ben Phillips, Analysis of the 2015-16 Federal Budget, NATSEM, June 2015.



4. Provide a commitment that low income families currently receiving additional fee assistance through the JETCCFA program will be no worse off under the new arrangements;
5. Release detailed modelling of the distributional impacts of child care policy changes, including the impacts of changes to the activity test. It should separately model and release the distributional impacts of proposed changes to family payments.

Yours sincerely,

A handwritten signature in black ink, appearing to read "C Goldie".

Dr Cassandra Goldie
CEO