

3 November 2016

Senator Nick Xenophon
Parliament House
CANBERRA
Email: senator.xenophon@aph.gov.au
CC. Rebekha Sharkie, Senator Skye Kakoschke-Moore, Senator Stirling Griff

Dear Senator Xenophon,

Re: Families Assistance Amendment (Jobs for Families Child Care Package) Bill 2016

We are writing collectively to encourage you to support an amended version of the Jobs for Families Child Care Package legislation that delivers more affordable access to early learning and child care for both working families and for children who would benefit most from access to early learning.

We support the broad thrust of the Jobs for Families Child Care Subsidy Package that will deliver:

- Increased investment in early learning that will make access to early learning and child care more affordable for low and middle income families. Most working families will be better off under the proposed new subsidy which will reduce affordability barriers to workforce participation, particularly for many women returning to work after having children.
- Streamlining current subsidies (Child Care Benefit and Child Care Rebate) into a single means tested subsidy as the current system is complicated, difficult for families to understand and does not target sufficient support to the children and families that need it the most.
- Child Care Safety Net programs that increase funding by around 20% for children with identified additional needs.

Modelling by PWC last year found that the childcare reforms would boost workforce participation with the equivalent of 20,000 women supported to join the workforce. Within three years, the productivity benefit of increased workforce participation would add around \$3 billion to GDP and around \$1 billion to government coffers in increased taxes and welfare savings.

Our organisations are of the strong view that while the package is strongly aligned to meet workforce participation objectives, it needs to be amended to better reflect child development objectives. Our proposals are:

1. Increase the base entitlement from 12 to 15 hours of subsidy, and raise the income threshold for the base entitlement from \$65,710 to \$100,000;
2. Provide an increased base entitlement of 22.5 hours for Aboriginal and Torres Strait Islander Children and a specialised Aboriginal and Torres Strait Islander program to support otherwise unviable services;
3. Ensure the activity test and subsidy approval processes are sufficiently flexible to accommodate the complex needs of families.

1. Increase the Base Entitlement from 12 to 15 hours

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

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

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

To ensure children can access at least two days of early learning, the base entitlement needs to be increased for children under school age from 12 hours per week to at least 15 hours per week as this is the minimum hours required to deliver two sessions of early learning to improve children's outcomes. There is considerable research showing that at least 15 hours of access to quality early learning is the minimum necessary to make a difference to children's development outcomes.¹

We propose raising the income threshold for the base entitlement from \$65,710 to \$100,000, covering the bottom 40 per cent of families that account for 56% of children likely to start school developmentally vulnerable, and aligning the base entitlement threshold for the Child Care Subsidy with the cut off for Family Tax Benefit payments. Children who start school behind are more likely to stay behind, and to not to meet minimum standards on NAPLAN literacy and numeracy tests in Year Three.² The AEDC shows that children who have had access to sufficient amounts of quality early learning programs are a third less likely to start school developmentally behind.

This proposal does not deliver on the sector's consensus view that all children should have access to a minimum of two days in a quality early learning program, which will require additional investment. We would welcome the opportunity for a continuing dialogue with the Government on how we can continue to move towards the objective of increasing children's participation in early learning, where Australia lags leading OECD countries, particularly in respect to 3 year old children.

¹ Pam Sammons "Does Preschool make a difference?" 92:113 at 100 in Sylva, K., Melhuish E, Sammons P, Siraj-Blatchford I and Taggart B (2010) "Early Childhood Matters: Evidence from the Effective Preschool and Primary Education project" Routledge New York; A review of research on the effects of early childhood education and care (ECEC) upon child development. Brussels, European Commission pp 25-38 <http://ecec-care.org/>; Loeb, S., Bridges, M., Bassok, D., Fuller, B., Ruberger, R. (2007), How Much is too much?, 'The influence of preschool centers on children's social and cognitive development, Economics of Education Review, 26, 52-56; Kalb G, Tabasso D and Zakirova R (2014) "Children's participation in early childhood education and care, and their developmental outcomes by Year 5: A comparison between disadvantaged and advantaged children" Melbourne Institute of Applied Social and Economic Research May 2014 at p.8; Harrison L, Ungerer J, Smith G, Zubrick S (2009) "Child care and early education in Australia: The Longitudinal Study of Australian Children" DSS Social Policy Research Paper No 40 p. 152; Houg B, Jeon S H & Kalb G (2011) "The effects of child care on child development" Melbourne Institute of Applied Social and Economic Research, May 2011 at p 51; Coley R, Lombardi C, Sims J (2015) Long-Term Implications of Early Education and Care Programs for Australian Children, Journal of Educational Psychology, Vol. 107(1), Feb 2015, p 284-299.

² ABS 4261.3, ABS 4261.6

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

- This will benefit around 80,000 low income families who currently do not meet the activity test and could be worse off under the package. Hence, much of the 'cost' is restoring what might be taken away. A single income couple family that does not meet the activity test earning \$70,000 with a child in long day care two days a week would be up to \$91 a week worse off under the package as proposed compared to what they get now.
- Economic research in Australia³, Canada⁴ and the United States⁵ shows that giving disadvantaged children access to early learning will provide a significant long term boost to productivity and economic growth, and generate significant long term savings to the budget.
- \$150 million is less than 1.5% of the total outlay for the Child Care Subsidy (\$11 billion) in 2018-19. The sector is willing to further discuss with the Government and the Senate how this outlay could be better targeted to prioritise child development outcomes and to minimise the overall impact on the budget beyond the \$3.1 billion already provided across the forward estimates. Our organisations have identified a number of savings measures within the package to better target expenditure to achieve early learning outcomes. This will mean the package overall is more balanced in favour of outcomes for children as well as workforce participation outcomes. Some areas we are willing to further discuss include:
 - o Redirecting some of the substantial budget savings that the Government has made on compliance and integrity measures (upwards of \$500 million a year) to support access to early learning for low income families;
 - o Redirecting some of the substantial budget forecast savings that the Government will receive due to lower than expected child care fee increases;
 - o Redirecting some of the \$1.1 billion of budget savings the Government will achieve in 2017-18 from the one year delay in the commencement of the Child care Subsidy;
 - o Tighter targeting of some of the gains flowing to high income families, such as reducing the increase in the cap for high income earners from \$2500 to \$1500;
 - o Reducing the benchmark fee for Out of School Hours Care services by \$1 an hour to better target the overall subsidy to better meet early childhood development and affordability objectives while still ensuring 70% of OOSHC services fall under the benchmark fee;
 - o Tighter targeting of the base entitlement on incomes between \$65,710 and \$100,000 if required.

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

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

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

2. Increase base entitlement for Aboriginal and Torres Strait Islander Children

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

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

3. Ensure the activity test and subsidy approval processes are flexible

To ensure that the new subsidy is flexible to accommodate the needs of families, we also propose:

- Refining the approval process for Additional Child Care Subsidy for Child Wellbeing and establishing state specific working groups to develop guidelines and business processes;
- A six week transition period where a families entitlement to subsidy has changed to give sufficient time to make other arrangements;
- Ensuring that the definition of 'activity' encompasses a broad definition of volunteering and generous treatment of work-related activities including travel, work experience and job search, and maximum flexibility in managing the CCS entitlements of casual workers to support workforce participation and continuity of care;
- A comprehensive review of the Child Care Subsidy after two years to ensure it continues to meet affordability and accessibility objectives, including the adequacy of the benchmark fees, usage patterns of child care and the impact of the new subsidy and Safety Net Programs on categories of children most likely to be vulnerable (e.g. Aboriginal and Torres Strait Islander children, children with additional needs, low income families).

The sector has been engaged in consultations with the Department on many of the rules governing these issues, and considerable progress has been made. It would be appropriate for the Senate seek firm assurances from the Government on the final outcome on these issues.

4. Breaking the funding nexus to Family Tax Benefit Savings

We believe that the Jobs for Families Child Care Package Bill is an important piece of reform that stands on its own merits and should not be conditional on additional savings from Family Tax Benefits. We also note that the Government has achieved \$4 billion in savings to Family Tax Benefits and \$1.4 billion in savings to childcare assistance since the 2015 Budget, which is more than enough to fund the \$3.1 billion package. Further the package will largely pay for itself as noted by the Productivity Commission in its report⁶ and modelling by PWC, based on the real life experience of Quebec where fiscal gains to Government exceed cost by a ratio of 1.51 to 1⁷.

⁶ Productivity Commission (Oct 2014) report on Child care and Early Learning p.13

⁷ Fortin P, Godbout L & St Cerby S (2012) "Impact of Quebec's Universal Low Fee Child care Program" Quebec

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

Yours sincerely,

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