



Submission to the
Senate Education and Employment Legislation Committee
Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022

10 October 2022

Authorisation

This submission has been authorised by the NFAW Board

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Inquiry Into the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022

The National Foundation for Australian Women (NFAW) is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres, and ensuring that the aims and ideals of the women's movement and its collective wisdom are handed on to new generations of women. NFAW is a feminist organisation, independent of party politics and working in partnership with other women's organisations.

We welcome the opportunity to make a submission to this Bill.

In general we support the provisions of the Bill. However, we note that there are key features of the current child care system implemented in 2018 which have not been addressed in this Bill. They warrant further consideration and review. Some of these issues were raised in the Government's independent Evaluation of the Child Care Package (AIFS, 2022).

NFAW supports child care measures that:

- increase child care subsidies to families to improve the affordability of child care
- better regulate child care providers' fee charging practices
- provide greater flexibility and accessibility of child care, particularly for vulnerable families and disadvantaged communities
- help fund wage increases and better conditions for early childhood educators.

NFAW also supports ongoing funding for universal access to early childhood education in the year before full-time school, as well as support for state and territory governments to implement universal access to preschool for all three year olds (i.e. starting two years before full-time school).

While the NFAW recognises the need for a progressive system of subsidised child care for families in the short and medium term, with more support provided to families who need it most, we also advocate for the goal of universal, free early childhood education and child care for *all children* in the longer term. This should be part of a 10-15 year productivity agenda for long-term social and economic well-being across Australia, including measures to support child and family well-being.

We also advocate for a simpler system of child care support. The current system is impacted by different family factors (family income, size, activity level) and by different child care service types, location, fee charging practices and business models.

NFAW comments on the proposed changes in the Bill

The total cost of the measures in the Family Assistance Legislation Amendment (Cheaper Child Care) Bill is expected to be around \$4.5 billion over four years from 2022-23, taking account of expected savings from increased payment integrity measures in the Bill. The NFAW welcomes this investment by the Australian Government.

This submission addresses particular measures in the Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022. It draws also attention to other possible measures not included in the Bill that warrant further attention via the proposed Productivity Commission and Australian Consumer and Competition Commission (ACCC) reviews. The Productivity Commission is to conduct a comprehensive review of the child care sector, including consideration of a universal 90 per cent child care subsidy (CCS) rate, and the ACCC will investigate pricing in the child care sector.

We note that there was a detailed review by the Productivity Commission [Inquiry into Child care and early childhood learning](#) in 2015, following extensive consultation. This inquiry led to wide-ranging reforms to the child care subsidy system with the introduction of the Child Care Package in 2018. The Child Care Package has been since been evaluated (AIFS, 2022).

The NFAW is of the view that several features of the current child care system implemented in 2018 are not covered in this Bill and they should be reviewed by the Productivity Commission and the ACCC to further improve the affordability, accessibility and flexibility of child care for families (more detail below).

Measures in the Bill to promote the affordability of child care

The NFAW supports proposed changes in the Bill to improve the affordability of child care:

- greater subsidisation of the cost of child care through higher rates of CCS subsidy (**Schedule 1**)
- more hours of subsidised care for Aboriginal and Torres Strait Islander children (**Schedule 3**)
- out of pocket costs for families to be discounted or waived in certain circumstances (**Schedules 5 and 6**)
- CSS to be paid for allowable absences in more circumstances than previously (**Schedule 7**).

The NFAW supports the Bill's proposed increase to the CCS in **Schedule 1** from 85 to 90 per cent for the first child in care for families with a combined household income of \$80,000 p.a., as well as the change to the taper in the subsidy rate for families earning over \$80,000 up to \$530,000 – reducing by one percentage point for each additional \$5,000 of family income.

We also support maintenance of the higher rate of subsidy for second and subsequent children announced by the Coalition Government in 2021. Reducing levels of CCS taper according to various income thresholds, differing from the taper proposed for CCS for the first child in care. This is confusing for families wanting to understand the impact of their income and number of children in care on out-of-pocket child care costs.

The Explanatory Memorandum acknowledges that data show that child care costs can be a barrier preventing parents, in particular, secondary income earners in a couple, from entering the workforce. According to the Minister's Second Reading Speech in support of the Bill, the Treasury has estimated that these measures will increase the hours worked by women with young children by up to 1.4 million hours per week in 2023-24 – equivalent to an extra 37,000 full-time workers. The speech also notes that child care costs have gone up 41 per cent in the last eight years. This includes the period of child care reforms implemented as part of the 2015 Productivity Commission Inquiry into Child Care and Early Learning and introduction of the Child Care Package, designed to improve the affordability, accessibility and flexibility of child care.

In the absence of other changes, such as changes to the way sessions of care are charged by service and the hourly rate of subsidy for different types of child care, the NFAW believes the proposed changes in **Schedules 1, 3, 5, 6 and 7** may not sufficiently increase child care affordability for families and alleviate workforce disincentives for women.

Cost of living increases in 2022 also need to be considered. Prior to the COVID-19 pandemic child care costs absorbed around 18 per cent of household income for an average-earning Australian couple with two young children. The OECD average in 2019 was 10 per cent (OECD, 2020).

Measures in the Bill to support child care affordability for early childhood educators

The NFAW supports the measure in **Schedule 5** which confirms the early childhood educator discount for child care agreed to in the 2021-22 Mid-Year Economic and Fiscal Outlook. However, we note this workforce support measure will only apply to educators with children under school age who attend the same child care service where the educator works.

The NFAW advocates for better remuneration, recruitment and retention of the ECEC workforce and a future Equal Remuneration Order by the Fair Work Commission to help address the gender pay gap for feminised, caring professions. Better remuneration of child care educators by employers would likely require an increase to the hourly rate (fee cap) paid by the Government for different care types, which is not included in this Bill.

Measures not considered in the Bill to improve affordability

Other potential measures to increase affordability will need to be considered in the Productivity Commission and ACCC reviews:

- changes to the Government's hourly fee cap, whether it is sufficient and operating as intended to place downward pressure on child care fees
- whether the activity test is an incentive for families to work, or work more hours/days
- whether the activity test is preventing vulnerable families, who are not eligible for Additional Child Care Subsidy, from using child care
- whether the activity test should be abolished
- adequacy of the fortnightly limit of 100 hours of subsidised care
- services' fee charging practices and the length of the session families pay for.

In particular, the disincentives for women to work more hours/days need to be considered. Child care costs are still the main financial barrier to going full-time, with many women losing more than they gain by working an extra day (Wood et al., 2020).

NFAW is aware that the cost of child care is also driven by the fee charging practices of child care services, including the hourly charge and the length of the 'session of care' charged by services (whether or not families use the whole session). Services generally charge for 12 hour per day sessions of care. The session of care needs to be considered by the Productivity Commission, alongside the 100 hours limit on allowable subsidised care per fortnight. For a family where both partners are working full-time, the limit of 100 hours per fortnight leaves them paying for 20 hours of unsubsidised care per fortnight (10 days of care x 12 hour sessions totalling 120 hours), in addition to out-of-pocket/gap fees for the subsidised hours/sessions of care.

We are not aware of any legislated changes to sessions of care as a result of the last Productivity Commission Inquiry (2015) and wide-ranging reforms to the child care subsidy system introduced with the Child Care Package in 2018. We understand that since 2018, some child care providers and services have decided to offer shorter sessions of care, although they generally charge a higher hourly rate for shorter sessions. It would be timely for the proposed Productivity Commission review to consider the effect of sessions of care on child care affordability and the limit of 100 hours of subsidised care per fortnight – neither has been considered in this Bill, yet they are important features of the child care system affecting the affordability of child care.

The impacts of the Government's hourly rate cap and the activity test have not been considered in the Bill (other than proposed changes for Aboriginal and Torres Strait Islander families to provide 36 hours of subsidised care to children, irrespective of whether their parents or carers meet the activity test).

We suggest they should also be included in the scope of the Productivity Commission review. The effectiveness of the hourly rate cap in applying 'downward pressure' on child care fees should also be considered by the ACCC.

Measures in the Bill to support vulnerable or disadvantaged families

The NFAW strongly supports the proposed change in **Schedule 3** of the Bill to the activity test for Aboriginal and Torres Strait Islander families, allowing an increase from 24 to 36 hours per fortnight of subsidised care. We note that families still need to be able to afford this subsidised care. Our understanding is that only those families that are eligible for the Additional Child Care Subsidy (ACCS) would receive free child care, in certain circumstances and for a limited period of time. The rest would need to pay the gap fees.

The independent AIFS [Child Care Package Evaluation](#) (2022), commissioned by the Australian Government in 2018, noted that:

- the 24 hours a fortnight in subsidised care for families who do not meet the activity test has disproportionately impacted children in more disadvantaged circumstances
- there are also some significant issues around access for children with additional needs, eg. problems in finding suitable care and children being asked to leave care
- the limit of 24 hours per fortnight subsidised CCS support for families who do not meet the activity test in general only enables the purchase of a day of subsidised care a week in most child care services, which is usually insufficient for children's early learning and development
- overall, the implementation of the Child Care Package appears to have had only a limited impact on changing access to child care.

The NFAW advocates for changes to the activity test for *all* families, and in particular, vulnerable or disadvantaged families and families with a child with additional needs as they may not be eligible for ACCS. We understand that vulnerable families benefited from increased access to subsidised child care when the activity test was suspended during COVID-19 lock downs. We also note and support the recommendation to remove the activity test in a recent report by Impact Economics and Policy (2022) on the [Child Care Subsidy activity test: Undermining child development and parental participation](#).

Measures not in the Bill to support early childhood development

The Coalition Government did not pursue the Council of Australian Government's long term [National Early Childhood Development Strategy](#) (Commonwealth of Australia, 2009) beyond 2013. They placed little emphasis on children's early development, focusing instead on workforce needs and 'Jobs for Families' policies – a narrow focus that also been acknowledged by the AIFS Evaluation of the Child Care Package.

The NFAW is pleased to note that this Government has committed to developing a whole-of-government approach to the early years through an *Early Years Strategy* which will examine programs and funding delivered across government that impact on early childhood development. It is also implementing a range of priorities under the [National Aboriginal and Torres Strait Islander Early Childhood Strategy](#) (2021).

We believe it is important for the Government to consider ECEC policies in the broader context of workforce supports, family well-being and children's early childhood development, rather than simply through the lens of increasing workforce participation and productivity.

Measures in the Bill to promote greater integrity and transparency in the provision of child care and payment of subsidies

The NFAW supports the Bill's proposed measures in **Schedule 2** for reporting of certain financial information by large child care providers, although it is not year clear how it will assist parents to make more informed choices about what child care service to send their child to (as stated in the Explanatory Memorandum). The large majority of child care providers are 'single service' providers that will not be subject to these reporting requirements.

The NFAW supports proposed measures in **Schedule 4** to deal with serious non-compliance with family assistance law and strengthen the payment integrity of CCS payments. We are concerned about the motives and business models of some providers in the child care sector, necessitating successive Government payment integrity and anti-fraud measures since 2013.

Better monitoring of impacts of the proposed changes to the legislation is needed

The Explanatory Memorandum notes that the Bill will give effect to the Government's [Plan for Cheaper Child Care](#), fulfilling commitments in the 2022 Federal election to make early childhood education and care (ECEC) more affordable for 96 per cent of families currently using child care, with no families being worse off. To understand whether this goal is being achieved over time, the NFAW welcomes regular updates on child care affordability and accessibility in the Department of Education's published data, as well as analysis of child care administrative data via the Productivity Commission review.

Published data could include the percentage of families for whom child care is cheaper as a result of the proposed measures, as well as average hourly fees across child care service types, average out-of-pocket costs for families and availability of child care by Australian Bureau of Statistics remoteness areas (e.g. metropolitan, inner regional, outer regional, remote and very remote areas) relative to the 0-4 year old population (ABS Census estimated resident population).

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