SUBMISSION TO THE FAMILY ASSISTANCE LEGISLATION (CHEAPER CHILD CARE) BILL 2022

The Parenthood – October 2022

This submission addresses the Family Assistance Legislation (Cheaper Child Care) Bill 2022 (referred to as the CCS Reform Bill) under the key lenses of affordability and accessibility.

The Parenthood strongly supports this Bill as a key reform to improve the affordability of early learning and care on the pathway to a 90% universal subsidy. We look forward to engaging with the Productivity Commission and the Government as it develops a policy blueprint for a truly universal early learning and care system across Australia.

However, affordability is moot if families are unable to access places in services. The current workforce crisis across the sector threatens to undermine the effectiveness of these reforms by not allowing services to increase places to meet demand due to staff shortages. This is urgent work that needs to be addressed by the Government now, ahead of the implementation of the CCS Reform Bill.

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About The Parenthood

The Parenthood is an independent, not-for-profit advocacy organisation that represents more than 77,000 parents, carers and supporters nationally. Our mission is to make Australia the best place in the world to be a parent because when parents and caregivers are supported, children can thrive and our whole community will be stronger.

Affordability

1. The CCS Reform Bill will substantially reduce out of pocket costs

This Bill represents the biggest increase in affordable early learning and care since the Howard & Rudd Government reforms to the Child Care Benefit and Rebate in 2007 and 2008, respectively.

Currently, many secondary income earners (mostly women) face effective marginal tax rates of 70-100% when taking on additional days of work and care. For many families, that means it ends up costing them more to work more. With around 60% of secondary income earning parents working part-time, this Bill has great potential to substantially incentivise hundreds of thousands of parents (mostly mothers) to increase their days of work. This has economic benefits but also helps improve female financial independence and security, including in relation to superannuation.

A family earning $110,000 a year with a child in care three days a week at $120 a day will be around $30 a week better off. If the secondary income earner increases their care days (and work days) from three to four days a week, four days of care under the proposed reforms will cost less than three days of care now[1]. Even extending to five days care a week, the additional cost would be just $3 a week, against the opportunity of earning two additional days of income and two additional days of early learning a week.

IMPACT OF CCS REFORM BILL ON OUT OF POCKET COSTS WITH A $120 DAILY FEE

Income p.a. $	OLD CCS 1/7/22	OLD CCS* 1/7/23	NEW CCS 1/7/23	Gain %	Gain per day $	Extra Cost of 3rd day#	Extra Cost of 4th day#	Extra Cost of 5th day#
70000	85%	85.0%	90.0%	5%	6.00	-3.60	1.20	6.00
80000	82.5%	84.4%	90.0%	6%	6.77	-9.27	-6.10	-2.93
90000	79.2%	81.0%	88.0%	7%	8.37	-8.47	-3.70	1.07
100000	75.8%	77.7%	86.0%	8%	9.97	-7.67	-1.30	5.07
110000	72.5%	74.4%	84.0%	10%	11.57	-6.87	1.10	9.07
120000	69.2%	71.0%	82.0%	11%	13.17	-6.07	3.50	13.07
130000	65.8%	67.7%	80.0%	12%	14.77	-5.27	5.90	17.07
140000	62.5%	64.4%	78.0%	14%	16.37	-4.47	8.30	21.07
150000	59.2%	61.0%	76.0%	15%	17.97	-3.27	11.90	27.07
160000	55.8%	57.7%	74.0%	16%	19.57	-2.47	14.30	31.07
170000	52.5%	54.4%	72.0%	18%	21.17	-1.67	16.70	35.07
180000	50.0%	51.0%	70.0%	19%	22.77	-1.27	17.90	37.07
190000	50.0%	50.0%	68.0%	18%	21.60	-6.00	12.00	30.00
200000	50.0%	50.0%	66.0%	16%	19.20	-13.20	2.40	18.00
250000	50.0%	50.0%	56.0%	6%	7.20	-49.20	-45.60	-42.00
300000	35.6%	37.5%	46.0%	9%	10.25	-55.10	-48.45	-41.80

** CCS thresholds indexed by 7.75% in line with Treasury CPI forecasts; #Gain/loss after booking an extra day of care – 2 to 3 days, 3 to 4 days or 4 to 5 days, and accounting for a fall in the CCS rate of 3% if family income rises by $15,000 (i.e. an extra day of work).*

More examples:

A sole parent earning $60,000 per annum using three days of care per week would be $1.20 a week better off moving to four days of work and care, plus the additional income of working an extra day a week;[2]

A family earning $110,000 per annum using two days of care per week and increasing care (and work) to three days a week would pay just $6.87 extra for the additional day, offset by a $15,000 increase in family income;

A family earning $150,000 per annum using three days of care per week and moving to four days of care and work would be $11.90 a week better off, in addition to the additional $15,000 increase in family income.

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[1] This assumes the CCS rate falls by 3% as the family income rises by $15,000 p.a. with the extra day's work.

[2] They would still face an effective marginal tax rate on this extra income of in excess of 50% due to the reduction in means-tested Parenting Payments.

As evidenced here, the reforms will have a substantial positive impact on the incentives for secondary income earners to increase their days of work (and care). This gives credence to the Treasury forecast that the reforms will generate the equivalent of 37,000 additional FTE employees, or 185,000 additional days of work. The Grattan Institute modelled the impact a little higher, predicting 220,000 additional days of work from the reform.[3] This will be a very substantial injection of skilled, trusted employee days into a tight labour market that will provide a substantial boost to the economy.

The reform is good for children, good for families, and good for the economy, and should be supported by the Senate.

Recommendation 1: That the Senate support the Bill, so out of pocket costs for families start falling from next July.

2. These benefits could be undermined by excessive fee increases.

The predicated gains for families could be eroded if providers take the opportunity to increase fees faster than their costs. With inflation expected to peak at 7.8% by year's end, fee increases in late 2022 and 2023 are likely to be much higher than in previous years. The Government needs to pay close attention to ensure families are not ripped off by excessive fee increases.

The ACCC Price Regulation Inquiry will be crucial in addressing fee increases in the medium term but the Inquiry's interim report in June may be too late to address excessive fee increases between now and June. We recommend that the Department monitor fee increases carefully and 'name and shame' providers not doing the right thing.

Fast tracking the reporting of fee increases to the *Starting Blocks* website will help families shop around in 2023 and is discussed further below.

Recommendation 2: That the Government be proactive in calling out excessive fee increases by providers over the next year and provide a timely response to the interim ACCC price regulation inquiry.

3. Strengthen price transparency through the Starting Blocks website

This Bill includes important provisions to strengthen the reporting requirements for large providers, in relation to publishing fees, fee increases, costs and profits to the Starting Blocks website. These requirements align with standard financial reporting and should not be onerous on providers. If anything, they should be extended to a wider group of providers, potentially with revenue in excess of $10 million (i.e. 5 or more centres).

Starting Blocks has great potential to support families to make better decisions about affordable care but has largely failed to provide an effective portal for families to receive timely advice on fees and affordability because:

i. The majority of fees on the site are out of date. There should be clearer consequences for failing to update fees. The whole sector benefits from real time reporting of fee increases.
ii. There are no clear rules about which fee is reported or the session length, so parents may not be comparing like with like. We would recommend that services report their 10 hour fee (which is the most common one for long day care) if they have one. Consistent reporting would also support parents to input accurate information into the CCS Calculator as well, which requires hourly fees, not daily.

[3] https://grattan.edu.au/news/explainer-everything-you-need-to-know-about-the-major-parties-new-childcare-policies/

iii. The site gives no visibility about other key concessions that impact on parental costs (e.g. whether the provider charges for public holidays, offers 9 or 10 hour sessions, multi-day discounts, multi-child discounts, holiday discounts, Christmas shutdowns etc.) These conditions should be much more transparent as they impact on affordability.
iv. The site does not indicate which services are CCS-eligible, so families are not able to compare affordability of sessional kindergartens and centre-based day care.
v. The site is very clunky and needs to be more user friendly. The Department should do more user testing with real parents to ensure it meets their needs.

Adding the reporting of profits and fee increases for large providers is a welcome addition. 'Profit' for private providers increasingly has two elements – the operating profit and the asset value profit. Many large providers have low levels of operating profit because part of the fees parents pay are servicing the high interest bill for the owner's purchase of the entity. When the entity is on-sold, the profit is then realised. Australia's second largest private provider, Affinity Education, reported statutory profits (after tax) of just $23 million on a revenue of $779 million in the three years to 2020, after paying $79 million in bank and finance interest costs. Yet, its private equity owners made a staggering $430 million in profit when the company was on-sold in 2021.[4] To capture this additional element of 'profit', the Department should consider reporting of profits as 'earnings before interest and tax' basis. Annual fee increases should also be reported as soon as possible, so that families can make more informed choices and shop around over the next year.

Recommendation 3: That the Starting Blocks website be comprehensively overhauled to provide real time information on fees (based on a standard 10 hour session), fee increases, other components of the centre's offer and made more user friendly.

4. Urgently review the hourly rate cap

The hourly rate cap is out of date and needs to be updated. When the CCS commenced, 11% of long day care centres had an average fee above the hourly fee cap. By September 2021, this had risen to 15.7%.[5] Hourly fees in nursery rooms tend to be higher than those in birth to three years rooms. Hourly fees are higher for shorter sessions (9-10 hours) than for longer session (11-12 hours) and for inner city centres compared to regional centres.

When the CCS was developed in 2015, the hourly fee was set at the average hourly fee plus 17.5%. In September 2021, the average hourly fee was $11.00, and the average plus 17.5% was $12.93. But the fee cap was only $12.31, having fallen behind by 5%. That gap almost certainly widened in the last year.

The hourly rate cap for Family Day Care also needs to be urgently reviewed, with 31.8% of services now exceeding the fee cap on average, impacting on affordability and access for many families.

The Parenthood would recommend an immediate increase in the hourly fee cap to the 2015 benchmark of the average plus 17.5%. Then the Government should conduct a full review of the fee cap policy, potentially alongside the ACCC inquiry.

Recommendation 4: The hourly fee cap should be restored immediately to its full value at the commencement of the CCS package in 2015, and then comprehensively reviewed to ensure it best serves the diverse needs of families.

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[4] Australian Financial Review 17/6/2021 "Quadrant $650m Affinity buy puts childcare deals back in the hotseat."
[5] https://www.education.gov.au/child-care-package/early-childhood-data-and-reports/data-usage-services-fees-and-subsidies

Accessibility

5. Fix the activity test to improve early learning access for children facing disadvantage

The CCS Reform Bill makes a small improvement in improving access by fixing the activity test - in part - for Aboriginal children with a new base entitlement of 36 hours per fortnight. This should be seen as the first step in fixing the Base Entitlement – low income families should also have their entitlement increased to at least 36 hours per fortnight.

In next year's May Budget, we would like to see the activity test modified to give all families access to two days of early learning (at least 40 hours per fortnight to subsidise two full days of long day care). The activity test should only then come into play if families want to access more than two days a week.

The Independent Evaluation of the CCS Package conducted by the Australian Institute of Family Studies (AIFS Review) was highly critical of the policy decision to cut the base entitlement from 24 hours a week to 24 hours a fortnight:

> "The 24 hours limit is not particularly significant as a cost constraint on program spending, nor as a factor to change either service or family behaviour, but disproportionately impacts more vulnerable children….. Additionally, it is noted that while those parents with a CCS limit of 100 hours per fortnight have the lowest level of average above the activity test cap on hours of child care subsidy, the incidence does point to some parents having a need for a higher level of access (or access to notional sessions of care that are beyond 10 hours to provide flexibility in start and end times). This was not able to be investigated in detail with the curtailment of the evaluation but is an issue that should be further considered, along with a review of an increase in the 24 hours allocation, given its potential negative impact on disadvantaged children relative to its small impact on program costs, and more generally the extent to which the new structure of allowed hours is resulting in greater rigidity in child care options."[6]

A recent report by Equity Economics found that the activity test was acting as an impediment to both child development and workforce participation objectives:[7]

> "Removing the activity test now will provide a foundation for future reform that delivers universal early childhood education and care for every Australian child. The costs of abolition or simplifying the activity test today will be recouped in improved outcomes for the most disadvantaged Australian children and increased participation of parents in paid work. Long term all Australians will benefit from the improved educational outcomes for children, higher productivity and economic growth."

Recommendation 5: That the base entitlement increase for Aboriginal children to 36 hours be supported, but that the Government move in the next budget to provide a base entitlement of 40 hours (i.e. 2 full days) for all families.

2. Address the workforce crisis to ensure there are enough places to meet demand

Making access to early learning and care more affordable will not deliver the promised economic benefits unless the system is able to expand to accommodate the expected increase in demand. In unveiling the child care reform plan in October 2020, Labor Leader Anthony Albanese said:[8]

> "This is real reform. It will boost women's workforce participation, boost productivity and get Australia working again. Building a childcare system that works for families will turbocharge productivity in

[6] AIFS (2021) "Child Care Package Evaluation: Final Report", p. 346-7

[7] Impact Economics and Policy, August 2022, "Child Care Subsidy Activity Test: Undermining Child Development and Parental Participation" p. 5

[8] Hon. Anthony Albanese Budget Address in Reply 8/10/2020

> workplaces, delivering a much-needed boost in economic growth of up to $ 4 billion a year. For me, the principle is very simple: Early education is vital for our children's future. And childcare is an essential service for families – and for the economy."

There is a substantial shortage of educators across the early childhood sectors, with 7,200 vacancies posted in August, more than twice the pre-pandemic level. Attrition rates are rising as educators complain of low pay, burnout and lack of professional recognition. Centres are already capping enrolments because they can't find staff. And it is getting worse – as staff try to juggle workload caused by vacancies, they too burnout and decide to leave. Many – particularly early childhood teachers – leave to work in the schools sector where pay rates are 20-30% higher.

The Parenthood is extremely concerned that, without an immediate intervention, the increased demand for child care expected next July will not be able to be met as many centres won't be able to find the staff. Waiting lists for understaffed centres could balloon out and the economic boost from a bigger, more productive workforce will not be delivered. Every unfilled educator job represents around 12 parents unable to get care and unable to go to work. Things need to change.

Government investment in the sector needs to support an increase in wages. Without increased investment, a 20% pay rise would result in an increase in fees of 12-14%. That is more than parents can afford and would defeat the affordability objective of the reforms. Longer term, funding reforms recommended by the Productivity Commission and industrial relations reforms (including sector wide bargaining) could help to deliver a solution. In the short term , before the CCS reforms commence in July 2023, more urgent action is needed.

The Parenthood supports the call from the sector for the Government to fund an interim 10% wage supplement for educators and teachers to stabilise the workforce ahead of the July reforms. A supplement would help reduce the record-high attrition rates and give educators more reasons to stay in the sector. In the longer term, the supplement could be folded into the new funding and industrial instruments as these are agreed and implemented.

The CCS Reform Bill has been costed as $900 million less expensive than the Cheaper Child Care policy taken to the 2022 Federal Election; a result of several well-targeted integrity measures. The Parenthood would like to see these savings directed toward funding a 10% wage supplement for educators and teachers.

Recommendation 6: That the Government fund an immediate 10% wage supplement for early childhood educators and teachers to help stabilise high workforce attrition rates and ensure the workforce is in place to accommodate the expected increase in demand for places from the CCS reforms. Longer term, the Government, unions and employers should work together to develop new funding and industrial instruments to bring educator and teacher wages up to rates comparable to those in schools.