



Australian Government

Australian Government response to the
Senate Education and Employment Legislation Committee report:

Inquiry into the Family Assistance Legislation Amendment (Jobs for Families Child Care
Package) Bill 2016 [Provisions] and
Social Services Legislation Amendment (Family Payments Structural Reform and
Participation Measures) Bill 2016 [Provisions]

February 2017

Introduction

The Australian Government welcomes the report by the Senate Education and Employment Legislation Committee in relation to the inquiry into the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016 (the Child Care Bill) and Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016 (the Social Services Bill).

The *Jobs for Families* Child Care Package (the Package) will provide genuine and necessary reform for a simpler, more affordable, accessible and flexible child care system. The Government's child care assistance package strikes the right balance between targeted child care support for hard working families who depend upon it, a generous safety net to protect those most vulnerable in our community and ongoing support for high quality early learning. This is why the passage of the Child Care Bill, as well as the savings required to fund it, is amongst the Government's top priorities for 2017.

The Government thanks those individuals and organisations who contributed to this inquiry, and previous inquiries into these Bills, by preparing written submissions or appearing at the public hearings.

Majority report

The Government welcomes and accepts the recommendation from the Majority Report that these Bills be passed. The Government notes the Committee's view that reforms to the child care system contained within the Child Care Bill will achieve quality early childhood education and care as well as provide increased opportunities for workforce participation.

The Government also notes the Committee's view that the measures contained within the Social Services Bill will provide greater assistance on a fortnightly basis to lower income families who need it, and will create a more accessible and flexible child care system for Australian families.

Dissenting reports and additional comments

The Government's response to each recommendation made in the Senate Committee's report, including those contained in the dissenting reports of Labor and the Australian Greens Senators respectively, and the additional comments by Senator Skye Kakoschke-Moore from the Nick Xenophon Team, is provided below. There will be further opportunity to address concerns raised in dissenting reports and comments throughout the Parliamentary debate.

The Government does not accept the recommendations from Labor and the Australian Greens Senators that the Social Services Bill not be passed. The Government considers that redirecting funding from Family Tax Benefits into greater investment into childcare is a better way to spend public money. This redirection of funding will strengthen the incentives and support required to further increase workforce participation and, based on evidence and research, assist in increasing the living standards of low and middle income families. The Government notes that no other viable proposals to fully fund the Package were put forward during the inquiry and remains of the view that funding offsets are necessary in order to ensure a sustainable child care system into the future. The reforms in the Social Services Bill, in conjunction with those in the Child Care Bill, represent a fair and fiscally responsible way to deliver a simpler and more accessible, flexible and affordable child care system.

The Government acknowledges the range of feedback that has been received in relation to the development of the Child Care Bill over the period of its development, including through the Productivity Commission Inquiry, Regulation Impact Statement consultation process, two

Senate Inquiry processes and ongoing consultation with the sector by the Department of Education and Training, as detailed in Attachment A.

The Government has considered the views of the sector in developing the Child Care Bill and will continue to consult with the sector and with the Senate cross-bench on the Package to ensure these reforms achieve the objectives of increasing affordability, flexibility and accessibility of the child care system for families.

Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016

Recommendations contained in the Committee's Report

The committee recommends that both bills be passed.

The Government accepts the Committee's recommendation and urges Members of the House of Representatives and Senators to vote in favour of legislation to give effect to the policy in both bills. Only then will the Government be able to reform Australia's early childhood education and care system to support families most in need.

Recommendations contained in the Labor Senators' Dissenting Report and the Australian Greens Dissenting Report

Labor Senators recommend that the Senate reject the Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016.

The Australian Greens recommend that the Bill not be passed.

The Government does not accept recommendations from Labor and the Australian Greens Senators that the Social Services Bill not be passed.

The Government considers that redirecting funding from Family Tax Benefits into greater investment into childcare is a better way to spend public money. This redirection of funding will strengthen the incentives and support required to further increase workforce participation and, based on evidence and research, assist in increasing the living standards of low and middle income families.

Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016

Recommendation contained in the Committee's Report

1. The committee recommends that both bills be passed.

The Government accepts the Committee's recommendation and urges Members of the House of Representatives and Senators to support legislation to ensure the Government can support families most in need through a sustainable system that will deliver quality learning experiences for Australian children.

Recommendations contained in Labor Senators' Dissenting Report

1. Key ministerial determinations and rules – which will set many of the parameters affecting the day to day use of the system by families – should be published before the Parliament considers the Bill. This includes those relating to children at risk, financial hardship and the activity test.

In line with legislative process, the Minister's and Secretary's Rules that sit under the Jobs for Families legislation will be tabled following its passage.

In developing the underlying policy for the Minister's and Secretary's Rules, the Department of Education and Training has consulted extensively with, and taken advice from, the sector, as detailed in [Attachment A](#). This has included targeted consultation on the policy parameters of the Additional Child Care Subsidy (Child Wellbeing) payment and the activity test.

A number of changes have already been incorporated in proposed Rules as a result of feedback from the sector. As the Department of Education and Training is still refining draft Rules, and will continue to seek feedback, it is not possible to publish a final set of Rules at this time, noting that Rules can only be made by the Minister or Secretary once the primary legislation has been passed by the Parliament.

The Department of Education and Training will continue to engage with the sector as these Rules are developed and will ensure that there is adequate opportunity for review and further feedback.

2. The transition process for Budget Based Funded Indigenous and Mobile services should be stopped and direct ongoing support should be guaranteed.

The Government is committed to ensuring these valuable community services continue to operate beyond the introduction of the Package. Senator the Hon Simon Birmingham, Minister for Education and Training, wrote to all BBF services in December 2016, expressing this commitment and clarifying the transition process ([Attachment B](#)).

The current funding model for Budget Based Funded (BBF) services is not working in a fair or transparent way, with some services receiving less than \$100 per child per year and other services receiving thousands of dollars per child per year. A major program review, an ANAO audit and several smaller projects highlighted a range of problems with the BBF Program, including:

- the program objective is unclear

- most BBF services operate outside the regulatory system and are excluded from the National Quality Framework so BBF services are not held to the same quality standards as approved services
- the program is capped and fully committed meaning no new services can be funded in areas of need
- there is no incentive for services to increase utilisation
- in some cases families pay high fees but are not eligible for any fee subsidy
- in some locations approved child care services have been established close to the BBF service so there may no longer be a real need for that service
- funding for BBF services has remained stagnant while funding for mainstream child care has increased steadily for many years.

The Government notes that some stakeholders have called for a separate grant fund for services providing care for Aboriginal and Torres Strait Islander children. To do this would create these same issues, whereby artificial limits would be set, and services would not be paid according to the numbers of children that attend.

The new funding arrangements through the Child Care Subsidy will be demand driven, encouraging new services to open or expand their service delivery where there is need. This will mean former BBF services can be funded equitably based on the number of children they support and the services they deliver.

The new system has been designed to support a diverse range of services that have the flexibility to adapt to the needs of local families. The current arrangements do not allow this flexibility and have effectively limited services that would have benefited from a fairer funding model, such as the one proposed as part of this legislation.

Additional funding will be provided to eligible services through the Community Child Care Fund which will provide grants to child care services to reduce barriers to accessing child care, provide sustainability support for child care services experiencing viability issues and provide capital support to increase the supply of child care places in areas of high unmet demand, particularly in disadvantaged, regional or remote communities.

Further, the Additional Child Care Subsidy will provide extra subsidies to families who are eligible under the child-wellbeing component, those experiencing temporary financial hardship, and people moving from income support into work.

The Department of Education and Training has engaged consultants to provide face-to-face support to BBF funding recipients in their transition to the new child care system or, where appropriate, to move to alternative funding arrangements. This support commenced in May 2016.

Support will be provided in two phases. Phase 1, which will largely be completed by February 2017, is the development of a comprehensive report and transition plan for each BBF funding recipient including mobile BBF services. The analysis undertaken in Phase 1 will inform the ongoing tailored support provided to BBF funding recipients through Phase 2. This face-to-face support is expected to begin in February 2017 and will continue as long as necessary, beyond July 2018 if required.

3. The Government should consider amendments to their child care changes to:

- Ensure vulnerable and disadvantaged children are provided with adequate access to early education and care;
- Ensure the activity test – and associated determinations and rules – don't introduce unnecessary barriers for parents trying to get back into the workforce;
- Continue providing children with access to two days early education a week, and trial any changes to the activity test before their introduction; and
- Provide an immediate increase in assistance for families; in recognition of the cost pressures families will face because of the Government's decision to delay additional assistance until mid-2018.

The new Child Care Safety Net will assist disadvantaged communities and vulnerable and at-risk children and their families by addressing barriers in accessing child care, while encouraging parents to enter or re-enter the workforce. In particular, the Additional Child Care Subsidy component of the Child Care Safety Net will provide targeted additional fee assistance to families and children facing barriers in accessing affordable child care, including:

- children at risk of serious abuse or neglect
- grandparents on income support who are the primary caregivers of their grandchildren
- families experiencing temporary financial hardship
- low income families transitioning to work from income support
- families with an income below around \$65,000 (in 2017 terms) where the family does not meet the activity test.

The activity test will ensure Government support is better targeted to those who depend on child care to work, train, study, or participate in other recognised activities. It is estimated that the Package will encourage more than 230,000 families to increase their involvement in paid employment.

Under the Package, the more hours a parent works, studies, or trains (including in combination with other activities such as volunteering and looking for work) the more hours of subsidised child care they can access. In addition, the new Child Care Subsidy will be paid directly to child care service providers to make the system simpler for families.

A broad range of activities will meet the activity test requirements, including paid work, looking for work, volunteering or study. People on paid and unpaid parental leave who are returning to work would also meet the activity test. To ensure families with casual or irregular work are not disadvantaged by the activity test and to ensure their children receive continuity of care, parents in this circumstance will be able to estimate their hours of activity over a three month period.

The entry point to the activity test is set at a very low base - at least 8 hours of activity a fortnight results in access to up to 36 hours of subsidised child care a fortnight; more than 16 hours of activity a fortnight results in access to up to 72 hours of subsidised care a fortnight; and that more than 48 hours of activity a fortnight results in access to up to 100 hours of subsidised care a fortnight.

We know children from disadvantaged backgrounds benefit most from quality early childhood education and care, and that's why we're providing additional support to those who need it most. Families with incomes below around \$65,000 (in 2017 terms) who do not

meet the activity test will be able to access 24 hours per fortnight of subsidised care — equivalent to two weekly six-hour sessions—at the highest 85 per cent rate of subsidy (this is an increase on the current 72 per cent). The removal of minimum hours per day and days per week opening requirements will allow service providers' to deliver these hours over two sessions per week.

The Government is also considering the sector's proposal to increase the number of subsidised hours for families with low incomes (below around \$65,000 in 2017 terms) who do not meet the activity test from 24 to 30 hours per fortnight as part of its negotiations and deliberations in preparation for Parliamentary debate. Noting that this and any other changes requiring additional expenditure would need to be offset.

As the Child Care Subsidy and Additional Child Care Subsidy will be legislated payments, it would be difficult to trial the new activity test prior to the legislated start date. This is why the Department of Education and Training is consulting on key policy concepts in the Bill that will be set out in Minister's Rules, such as Activity Test definitions and implementation details. This will ensure that key elements of the package are well tested amongst the sector before their final implementation.

To improve affordability for families in the short term, on 1 July 2017 the existing Child Care Rebate will be indexed by the Consumer Price Index for the first time since Labor froze the cap in 2011.

The Government will continue to consult with the sector on the detail of the Package over the coming months to ensure these reforms achieve the objectives of increasing affordability, flexibility and accessibility of the child care system for families.

4. Funding for early education should not be conditional on Family Tax Benefit cuts which will hurt low and middle income families.

As a result of the increased Australian Government investment into child care, the Package is to be implemented using savings contained in the Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016.

The Government notes that no other viable proposals to fully fund the Package were put forward during the inquiry and remains of the view that funding offsets are necessary in order to ensure a sustainable child care system into the future. The reforms in the Social Services Bill, in conjunction with those in the Child Care Bill, represent a fair and fiscally responsible way to deliver a simpler and more accessible, flexible and affordable child care system.

Recommendations contained in the Dissenting Report by the Australian Greens

1. The Australian Greens recommend that the activity test be amended to include an additional amount of base level subsidised childcare for all families that fall within the 0-8 hours of activity to a minimum of two full days care.

The entry point to the activity test is set at a very low base - at least 8 hours of activity a fortnight results in access to up to 36 hours of subsidised child care a fortnight; more than 16 hours of activity a fortnight results in access to up to 72 hours of subsidised care a fortnight; and that more than 48 hours of activity a fortnight results in the maximum amount of subsidised care of 100 hours a fortnight.

A broad range of activities will meet the activity test requirements, including paid work, looking for work, volunteering or study. People on paid and unpaid parental leave who are

returning to work would also meet the activity test. To ensure families with casual or irregular work are not disadvantaged by the activity test and to ensure their children receive continuity of care, parents in this circumstance will be able to estimate their hours of activity over a three month period.

Families with incomes below around \$65,000 (in 2017 terms) who do not meet the activity test will be able to access 24 hours per fortnight of subsidised care—equivalent to two weekly six-hour sessions—at the highest 85 per cent rate of subsidy (this is an increase on the current 72 per cent). The removal of minimum hours per day and days per week opening requirements will allow service providers' to deliver these hours over two sessions per week.

The Government is also considering the sector's proposal to increase the number of hours in the safety net from 24 to 30 hours per fortnight as part of its negotiations and deliberations in preparation for Parliamentary debate. Noting that this and any other changes requiring additional expenditure would need to be offset.

2. The Australian Greens recommend that an adequately flexible reporting grace period be adopted that allows all casual workers, part-time workers with irregular hours or people who lose their jobs to estimate their expected activity and childcare needs, so as not to be disadvantaged by the activity test.

Workers with casual or irregular hours:

To ensure families with casual or irregular work are not disadvantaged by the activity test and to ensure their children receive continuity of care, parents in these circumstances will be able to estimate their hours of activity over a three month period. This will be captured in a Minister's rule, the content of which has been the subject of consultation with the sector.

Individuals who experience sudden change of circumstances:

Current provisions in the Bill already ensure continuity of care when parents experience a sudden change in circumstance that affects their entitlement.

These provisions include:

- The Additional Child Care Subsidy (Temporary Financial Hardship) that will provide short-term increased child care fee assistance to families who are experiencing significant financial stress due to exceptional circumstances. Families experiencing temporary financial hardship will be eligible to receive a subsidy equal to the actual fee charged, up to 120 per cent of the Child Care Subsidy hourly fee cap, for up to 100 hours per fortnight, for a maximum of 13 weeks per event). Families will not be required to meet the activity test during this period.

Individuals' eligibility for this payment can be backdated up to 28 days (from the date of application), in recognition that family circumstances may change with little or no notice.

- The capacity for the Secretary of the Department of Education and Training to make a case-by-case determination of an individual's activity test result based on exceptional circumstances, which could be more than 100 hours of subsidy per fortnight. Exceptional circumstances could include, but would not be limited to, families impacted by significant trauma, the short-term incapacity of the individual or a member of their family, or where the individual, their partner or their child is affected by domestic violence.

- An activity test which recognises the combined total of a broad range of activities (including actively looking for work and volunteering) to help them maintain access to subsidised care where their usual activity ceases unexpectedly.

3. The Australian Greens recommend that unless additional funding for services which meets the needs of vulnerable children in remote and regional Australia and Aboriginal and Torres Strait Islander children is provided, that the current Budget Based Funding levels remain in place.

Refer to the response provided to Labor Senator's Dissenting Report, Recommendation 2, above.

4. The Australian Greens recommend an amendment to include mechanisms for increasing childcare places where vacancy rates are critically low, creating barriers to parents being able to find affordable care.

The Government does not intervene directly in the child care market. Elements of the Package are aimed at encouraging services to be more flexible in how they provide care and child care places to both encourage more providers and to free up potential places in current services. For example, the Government is removing the requirement on the number of hours per day and days per week that an approved service must be open, in order to free services up to respond to the particular needs of their community.

5. The Australian Greens recommend that providers of In Home Care be explicitly referenced in the Bill as being eligible for Child Care Subsidy payments.

In Home Care (IHC) is an important part of the child care and early education landscape and will continue beyond the introduction of the Package in July 2018.

The future policy design for approved child care delivered in the family's home will be informed by the current evaluation of the Nanny Pilot Programme, and the review of IHC. The Institute of Social Science Research at the University of Queensland is currently undertaking the evaluation to inform future policy, which will be designed to cater to a range of different needs, including parents who cannot work for reasons such as disability or illness, parents who live in rural or remote areas away from suitable child care options and parents who are looking to either meet or increase their workforce commitments and cannot access other child care because they work non-standard hours.

It has been over 10 years since there has been a review of IHC and the current review, which will be completed this year, seeks to collect more up-to-date information about the IHC program to inform development of the new policy.

The Child Care Bill contains a rule making provision to prescribe a new service type and a relevant Child Care Subsidy hourly rate cap. Provision will be made for continued Australian Government support for care in the family's home under the Package, based on the findings of the University of Queensland evaluation and the IHC review.

Recommendations contained in the Additional Comments by the Nick Xenophon Team

1. The Department of Education clarify as a matter of urgency whether funding for in-home care will continue to be made available under the Jobs for Families package.

Refer to the response provided to the Dissenting Report by the Australian Greens, Recommendation 5, above.

2. The Department of Education review their consultation procedures to ensure that all appropriate stakeholder groups are comprehensively consulted when reform packages are being developed.

The development and refinement of the Package has been the subject of significant and comprehensive consultation over several years, as outlined in Attachment A.

The Department of Education and Training is committed to ongoing consultation and will continue to engage with the sector on policy settings for the Minister's and Secretary's Rules to be made under the Child Care Bill.

3. The Department of Education and Training make public information in relation to the tenders.

All details relating to contracts executed with the department are publicly available on AusTender which is the Australian Government's procurement information system. The three contract numbers relating to the tender to support Budget Based Funded services to transition to the new child care system are:

1. PricewaterhouseCoopers (PwC) - CN3341068-A2
2. PricewaterhouseCoopers Indigenous Consulting (PIC) - CN3341067
3. Community Child Care Co-operative NSW (CCCC) - CN3341077

Contract number 3341077 with the CCCC was mutually terminated on 31 August 2016 and has been incorporated into contract CN3341068-A2.

The contract was mutually terminated as the CCCC did not have a detailed understanding of key elements of the Package which resulted in contractual obligations not being met, specifically in regards to the support for BBF services to transition to the new child care system or alternative funding arrangements.

4. The Department further consults with stakeholders regarding the suitability of the 15 hours proposal and the impact on business models of ECEC providers.

The Department of Education and Training notes that a number of stakeholders in the early childhood education and care sector have worked together to propose increasing the low income provision (for families with annual income under the low income threshold and who not meet the activity test) from the 24 hours of subsidised care per fortnight (12 hours per week) contained in the Child Care Bill, to 30 hours per fortnight (15 hours per week).

The Government is also considering this proposal as part of its negotiations and deliberations in preparation for Parliamentary debate of the Bills.

The Bill removes regulatory requirements that currently apply to child care services, including the hours per day and days per week a service must open. This will allow providers and services to be able to consider flexible options that may better suit their children and families, as well as their business.

5. The Department conduct modelling on the impact 15 hours of subsidised ECEC would have on childcare workers' workforce participation.

The Government is considering the sector's proposal to increase the number of subsidised hours of care to low income families who do not meet the activity test from 12 to 15 hours

per week and notes evidence given by Mr John Cherry, Advocacy Manager, Goodstart Early Learning to the Committee on this matter, as follows:

“I can speak on behalf of the country's largest provider. We certainly believe that the key to actually going from 12 to 15 is that it forces you to offer two sessions, two days, because 12 hours in the long day care environment is closest to one day but certainly when you move to 15 then you have to offer that over two days. As the largest childcare provider we would say that we would be certainly looking at offering sessions over two days that would meet that 15-hour entitlement.”¹

The removal of minimum hours per day and days per week operating requirements will enable services to consider flexible options that may better suit children and families, as well as their business.

The Department of Education and Training is unable to model the workforce participation of child care workers, including in relation to this proposal, because child care service providers are responsible for making their own business decisions in relation to operational matters including staffing.

¹ Mr John Cherry, Advocacy Manager, Goodstart Early Learning, *Senate Education and Employment Committee Hansard*, Inquiry into the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016, Social Services Legislation Amendment (Family Payments Structural Reform and Participation Measures) Bill 2016, Hearing, 3 October 2016, p. 13.

Summary of consultation for the *Jobs for Families Child Care Package*

The *Jobs for Families Child Care Package* (the Package) reflects extensive consultation and expert analysis over several years. The Package is a response to the Productivity Commission's report *Childcare and Early Childhood Learning*, which was the largest review of child care since the 1990s. The Productivity Commission's inquiry was followed by a Regulation Impact Statement consultation process, two Senate Inquiry processes and ongoing consultation with the sector by the Department of Education and Training. An outline of these consultation processes is provided below.

- The Inquiry into Childcare and Early Childhood Learning by the Productivity Commission, which was commissioned in November 2013 and reported in October 2014. The inquiry drew together a wide range of input from families, service providers, early childhood education professionals, business and other experts. The Productivity Commission held public hearings around Australia and attracted more than 2000 submissions and comments.
- The Regulation Impact Statement consultations undertaken by the Department of Education and Training across Australia in July 2015 as part of the development of the Package.
- The inquiry into the Family Assistance Legislation Amendment (*Jobs for Families Child Care Package*) Bill 2015 by the Senate Standing Committee on Education and Employment which reported on 4 April 2016. The inquiry held a public hearing and received 143 submissions.
- The inquiry into the Family Assistance Legislation Amendment (*Jobs for Families Child Care Package*) Bill 2016 by the Senate Standing Committee on Education and Employment which reported on 10 October 2016. The inquiry held two public hearings and received 50 submissions.
- Consultation by the Department of Education and Training through the following forums:
 - The Ministerial Advisory Council for Child Care and Early Learning, which consisted of 11 members and met nine times since mid- 2014.
 - The Stakeholder Reference Group for Child Care and Early Learning, which consists of nine members and met five times since mid-2014.
 - The specially convened technical reference group of stakeholders, which included 22 participants and met nine times since April 2015.
 - Consultation on the development of the Minister's and Secretary's Rules to be made under the Family Assistance Legislation Amendment (*Jobs for Families Child Care Package*) Bill 2016 which occurred in April 2016, September/October 2016 and December 2016.
 - Consultations on the development of the Community Child Care Fund programmes and policy settings with the sector, state/territory agencies, and other relevant stakeholders.
 - Ongoing consultation with individual peak bodies and services throughout the development of the Package.

The Australian Government will continue to consult with the sector and with the Senate cross-bench on the Package in 2017 to ensure these reforms achieve the objectives of increasing affordability, flexibility and accessibility of the child care system for families.



Senator the Hon Simon Birmingham

Minister for Education and Training
Senator for South Australia

MC16-001696

Dear BBF Funding Recipients and Services,

I am writing to clarify the arrangements being put in place to support Budget Based Funded (BBF) services to operate under the Jobs for Families Child Care Package (the Package).

BBF services play an important role in their community, providing much needed early learning and school aged care or family support services, often in challenging circumstances. I am committed to ensuring that valuable community services continue to operate beyond the introduction of the Package. I want to assure you that you will be able to continue to tailor the delivery of your service to the needs of families in your communities. This includes delivering culturally focussed and integrated services to ensure that the needs of all children are met. The Department of Education and Training is working hard to support BBF funding recipients to enable your service to operate effectively in the new child care system. To this end, I thought it would be useful to set out my commitments to you and your communities.

Firstly, I can assure you the changes under the Package do not come into effect until July 2018. Your current BBF funding agreement ends on 30 June 2017 and as per usual practice, in 2017 we will issue funding agreements for the 2017–18 year. You should not be concerned that BBF funding will cease before the introduction of the Package.

The next 18 months is a period of transition. I will ensure my department continues to work closely with you during this time and beyond, to support your service's successful transition to the Child Care Subsidy (CCS). This work has commenced with PricewaterhouseCoopers (PwC) who have been preparing assessments of the capacity of your service to operate in the new child care system. As you know, this work has involved PwC visiting funding recipients to develop a good understanding of your service, families in your local communities and to better understand the current business and operating model in the context of the Package. PwC has also worked with funding recipients on a range of options for your service in transitioning to the new arrangements. This has been documented in your transition plans. Centre-based services should have received a copy of their plan, and mobile services will receive theirs by early 2017, if not before. This work has been conducted on a service-by-service basis because each service is unique and we want to ensure that the good things already happening continue to take place after the transition to the new package.

This is important work, but it is just the beginning. There will be more support commencing in early 2017 based on the needs identified in the transition reports. PwC and my department will work closely to tailor this support and ensure key issues are addressed.

There are a number of BBF services for which the core purpose is not child care, but family or community support. The Prime Minister, the Hon Malcolm Turnbull MP, has given a firm commitment that we will identify alternative funding sources for these services and support them to transition to these new arrangements. I am working with my ministerial colleagues to find the best solution for these services and the PwC reports will support this work.

As you know, the current BBF program is capped and closed to new providers and does not have capacity to respond to changes in demand or to enable new services to open where they are needed. As a result, some BBF services receive tens of thousands of dollars per child while others have to manage on less than \$100 per child. The total funding available for BBF services has remained stagnant in real terms, while funding for mainstream child care has increased steadily for many years. I understand that some stakeholders have called for a separate grant fund for Aboriginal services. To do this would create these same issues, whereby artificial limits would be set, and services would not be paid according to the numbers of children that attend. I want to ensure that services supporting our most disadvantaged families have access to the same opportunities for additional funding available to other child care services.

The Package to be introduced in July 2018 has been designed to support a diverse range of services so that they have the flexibility to adapt to the needs of local families. As part of these reforms, families and BBF services will be able to access funding streams they have not been able to access previously. When combined, these funding streams will exceed the funding available through the BBF program:

- the Child Care Subsidy (CCS) is a per child payment. Services with more children than currently recognised through their BBF funding allocation will benefit. Families on incomes of less than around \$65,000 will receive a subsidy of 85% of the fees charged, (up to the hourly fee cap)
- the Additional Child Care Subsidy (ACCS) is a top up payment in addition to the CCS, recognising that some families require additional support. This includes:
 - temporary financial hardship
 - transition to work
 - grandparent carers
 - child wellbeing (that is children at risk of abuse or neglect) and
 - low income families who do not meet the activity test.
- the Community Child Care Fund (CCCF) which recognises the unique circumstances in which BBF services operate and the additional challenges and costs you face compared with other service types and mainstream child care services. The CCCF will have the capacity to recognise and support higher cost models of service delivery such as mobile services and services in remote communities, with low numbers of children in attendance.

I note that \$110 million is available through CCCF year on year, which is in addition to the ACCS and the uncapped CCS. Together, these three elements of the Package will offer significantly more funds than currently available through the BBF program.

I have taken on board concerns raised with me about the competitive nature of the CCCF. Based on this feedback, I have asked my department to structure the CCCF with the following key features for BBF services:

- Capacity for discretionary funding of services, outside the main competitive funding round
- Funding determinations would be informed by the work of the PwC consultants
- Capacity for 3–5 year funding agreements to enable longer term planning and to provide greater security of funding
- Funding will be available for services to supplement their fee income, in particular where a service may not otherwise be viable
- Funding agreements will include regular review points (at least six-monthly) with some capacity for funding adjustment either up or down, to respond to significant changes in circumstances affecting service income and costs (e.g. large changes to enrolment numbers or natural disasters)
- Services will know as early as possible how much CCCF they will receive from July 2018.

These are important measures that I hope will give you assurance that we understand the challenge facing BBF services, your communities and families, in transitioning to the Package. That said, we have an iterative transition process in place to carefully inform the final arrangements and I am committed to seeing that process through, particularly since there is plenty of time to do so.

I hope I have been able to reassure you that I take very seriously my commitment to ensure that the good work of BBF services continues to serve families and children well beyond this transition process. Please continue working closely with staff in my department, who are also committed to ensuring this transition is successful for BBF services.

Further information on the Jobs for Families package is available at: www.education.gov.au - Overview Jobs for Families Child Care Package.

Yours sincerely

Simon Birmingham