

Removing barriers to affordable early childhood education and care for the children who need it most – an equity measure

The Opportunity

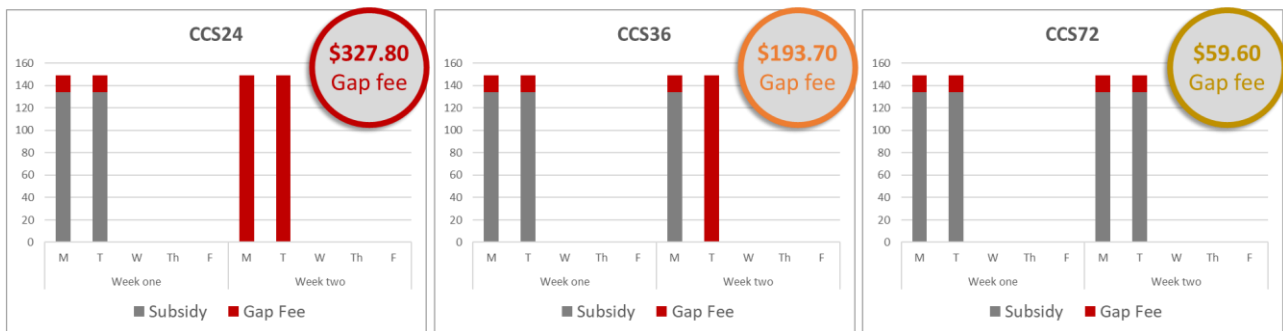
The Government’s commitment to lifting the maximum rate of Child Care Subsidy to 90 per cent of the hourly fee cap for families earning up to \$80,000 will improve equitable access to early childhood education and care. This is an important policy change.

However, the families that are most in need of improved affordability will miss out on these benefits because **they don’t have access to enough hours of subsidy** due to the current design of the activity test. Credible independent and Government commissioned evaluations and sector analysis have shown that structural design of the activity test for low-income families prevents families from accessing enough affordable early learning and care to support child development or promote workforce participation (outlined in the subsequent pages).

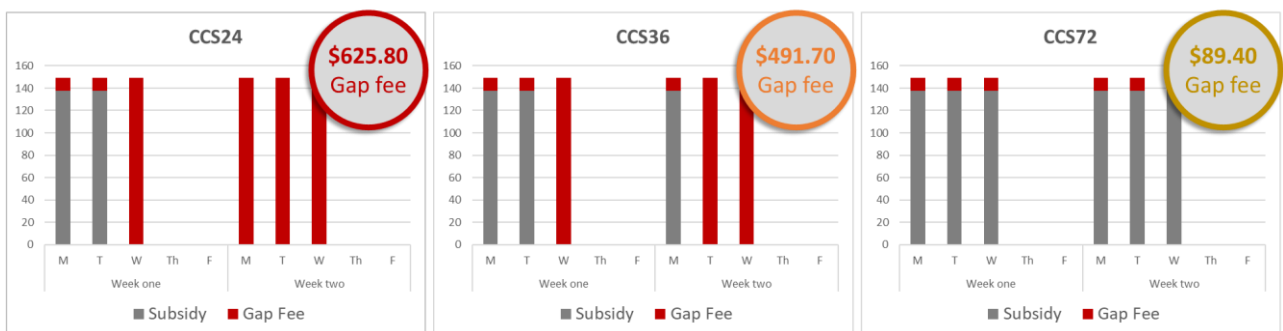
An increase in the rate of the Child Care Subsidy (CCS), without a complementary measure to increase the number of hours available to families with low incomes and less than 16 hours of work, study or training **will exacerbate existing inequity and widen attainment gaps for children in families with low incomes and insecure work**. It will also tangibly increase financial disincentives and out-of-pocket costs and barriers to work, study and training for parents of young children at a time when the Government is trying to increase productivity as part of the skills shortage across the economy.

The charts below demonstrate the current inequity built into the system by comparing the gap fee for families accessing CCS for 24 hours per fortnight (CCS24), CCS for 36 hours per fortnight (CCS36) and CCS for 72 hours per fortnight (CCS72) over two days per week and three days per week patterns of attendance over a fortnight.

Two days per week (under \$80,000)



Three days per week (under \$80,000)



¹ Based on \$149 cost per day and 90% subsidy

A simple solution

A simple legislative amendment to remove the bottom two steps of the activity test (ie CCS-24 and CCS-36) would deliver three crucial and urgent benefits:

1. Improve equity of access for children from low-income households who are yet to meet the activity test threshold and as such are currently excluded from early education and care and amplify the benefits of the Governments election commitment
2. Remove financial and administrative barriers to participating in work, study and job search activities for parents of young children by ensuring ongoing access to affordable child care and early learning
3. Reduce complexity and unnecessary red tape with Centrelink – a key complaint of thousands of Australian families who must report to Centrelink fortnightly if their activity changes.

We estimate that this would benefit up to 80,000 families. Approximately 12,000 accessing CCS24 and a further 41,000 accessing CCS36, which they are eligible to depending on their activity test. We estimate there are a further 20,000 – 30,000 families currently locked out of the system. The majority of families, around 622,000, are accessing Child Care Subsidy for 100 a fortnight, meaning that this proposal will make a significant impact for a smaller proportion of families accessing fewer approved hours of CCS.

The cost of this change would likely be returned in increased tax revenues from parents working more and potentially administrative savings for Services Australia. Administrative data shows families only use the subsidised hours they need – the co-contribution ensures that utilisation is closely aligned to hours of paid work.

It is also technically feasible to introduce this change with the CCS rate change legislation and is a relatively simple systems change for Services Australia.

Current		
Activity test step	Hours of recognised activity per fortnight	*Hours of subsidised child care per CCS fortnight –
1	Up to 8 hours + means test	24 hours
1 a	Exemptions for preschool	36 hours
2	8 hours to 16 hours	36 hours
3	More than 16 hours to 48 hours	72 hours
4	More than 48 hours	100 hours

Proposed		
Activity test step	Hours of recognised activity per fortnight	*Hours of subsidised child care per CCS fortnight –
1	Up to 48 hours	72 hours
2	More than 48 hours	100 hours

**Note Government admin data shows families only use what they need & can afford*

The details and evidence

The issues

In 2018, the previous Government's Jobs for Families Package, halved the minimum Child Care Subsidy (CCS) entitlement for families that do not meet the activity test, effectively cutting access to early learning from two days a week to only one day a week for many of the most vulnerable children in the community.

The minimum CCS entitlement of 24 hours a fortnight for families that do not meet the activity test effectively limits children's access to subsidised early childhood education and care (ECEC) to one day per week because the majority of early childhood education and care services operate daily sessions of 11 hrs. Very few services offer 6 or 9 hour sessions that would enable a child with only 24 hrs per fortnight of subsidy to attend 2 days/week. As a result, many of these children miss out.

There is a robust dual purpose to this proposal:

The first is to ensure that families get at least two days a week of access to ECEC, if needed, to promote child development, especially for disadvantaged children from the age of 2 years, for whom the evidence is clear that early learning programs provide a protective factor against developmental vulnerability and other forms of disadvantage.

The second is to enable sufficient flexibility and incentives to promote workforce participation especially for low-income families – one cannot look for work without sufficient ECEC. For families, this significantly limits the level of flexibility available to them, particularly women, to participate in the economy. One of the most significant impact for families, particularly women, is on those who have insecure, casual or short-term work opportunities. Families find themselves unsure about which activities count towards their eligibility and become stuck in a cycle of not being able to accept work that is available because they do not have predictable access to care. They cannot afford to pay high out-of-pocket cost for unsubsidised access and are concerned about over-estimating their activity.

Case Example: Vrushali is a single mum to Ravi who is 2 years old. Ravi attends Happy Days long day care centre one day a week - usually Tuesdays. The daily fee at Happy Days is \$126.50; Vrushali pays \$25.30 and claims \$101.20 CCS. Vrushali works as a casual retail assistant at Coles; she is offered shifts at short notice and often has to turn them down when she does not have care for Ravi. The team at Happy Days try to be flexible but they cannot always offer a spot for Ravi on other days and Vrushali cannot afford to send Ravi to Happy Days for 2 days/week because she doesn't qualify for the subsidy – it would cost \$126.50 and she usually only earns \$116 per shift. If she wasn't limited to 24hrs/fortnight, Ravi could attend Happy Days more frequently and Vrushali could take more shifts.

Children benefit from high quality early childhood education and care – this is particularly true for vulnerable groups. Yet, a recent AIFS evaluation of the Child Care Package found that the reduction in the minimum hours of subsidised ECEC from 24 hours per week to 24 hours per fortnight 'disproportionately impacted on children in more disadvantaged circumstances' and recommended that it be reviewed (p. 346). In addition, data provided to Senate Estimates show 31,440 families (2.9%) were entitled to CCS24 in 2018-19, which by June 2021 had dropped to just 12,110 families (1.3%) – there has been an overall reduction of 42,000 families since 2018.

Proposed solution: No one left behind—no one held back

There is an opportunity to address this by **abolishing the CCS24 and CCS36 categories, as part of the legislative changes planned this financial year to change the CCS rates**. This change would deliver better equity gains for children and families, increase productivity, and cut red tape.

Abolishing the CCS24 and CCS36 categories will ensure that children in low-income households, including many children at risk of poor education outcomes, would have access to at least 2 days of early learning each week. This would be a significant start to undoing the disadvantage that was baked into Australia's early learning and care system by the previous government. It is also a step towards the Government's commitment to universal

early education for all children without the need to wait for the final recommendations which may still be 2 years away. In other words, we could act now.

This proposal responds directly to the AIFS evaluation of the CCS, released in March 2022, which recommended that the adequacy of CCS24 be reviewed, finding:

“there are significant challenges in the provision of early childhood education and care, including the balance between childcare as an enabler of parental workforce participation and the role of early childhood education and care in child development and as an instrument to address disadvantage”

Workforce Benefits

Families, and particularly women returning to the workforce, need predictable access to ECEC to be able to participate in the workforce. Removing the CCS24 and CCS36 categories would remove the significant barrier of high out-of-pocket cost for unsubsidised ECEC and would provide much needed predictability for families, especially women, to get back into the workforce.

Employers and the economy would also benefit from increased supply of a casual and part time workforce who will be more available to fill shortages through the flexibility and predictability that this measure will delivery.

Enhancing workforce participation and earnings also serves to support women’s safety and wellbeing over the long term, building economic security and increasing their capacity to make decisions if they find themselves in an unsafe domestic relationship.

Red Tape Reduction

This measure can be implemented within the current functionality of the CCS system while significantly simplifying it. It removes a layer of red tape for government, for families and for early childhood service providers.

While an increase to the bottom step of the activity test, to 60 hours offers an alternative approach to improving equity – it does not make the CCS any less complicated. The removal of the two lowest steps creates a simplified solution that delivers the Government’s intended benefits, including improving equity of access for children and families, as well as delivering productivity gains for employers and the economy. It also represents a measured first step towards longer-term reforms to be progressed through the productivity commission reforms.

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This proposal has the support of leaders across the early childhood development and education sectors, including:



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