

**ATTACHMENT: INFORMATION PAPER**

# **AUSTRALIAN GOVERNMENT “JOBS FOR FAMILIES” CHILD CARE PACKAGE**

## **Impact on Wheatbelt Early Childhood Services**

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This information has been compiled by the General Manager and Project Team for the Board of Regional Early Education and Development Inc. (REED). The information is drawn from Australian Government and other websites which are referenced in the endnotes.

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# INTRODUCTION

Like many providers of ECEC services, the Regional Early Education and Development (REED) Board has recently increased daily fees for child care. This has been done to ensure the ongoing viability of services in a way which maximises the funding by the Commonwealth Government under the new Child Care package and minimises the cost to parents.

These goals have been achieved with the new fee structure.

- The new fee structure will provide services with the funds they need to pay their staff and pay their bills,
- overall the proportion of the cost paid by parents has been reduced substantially, and,
- the funding provided by Commonwealth government has increased.

However, for many parents there has been little or no change in their actual payment and for some parents costs have increased, which has led to concerns being expressed. These different impacts on parents' fees are related to the new Commonwealth Child Care Subsidy (CCS) arrangements.

This paper outlines how the new Federal system works and why it has different outcomes for some parents using REED services than others.

## BACKGROUND

### PRODUCTIVITY COMMISSION

On 2 July 2018 the Commonwealth Government Child Care Subsidy replaced the Child Care Benefit and Child Care Rebate (Refer pp.2-3, 3.2 i & iii). A major driver of the change was a Productivity Commission Inquiry<sup>i</sup> into future options for child care and early childhood learning, with a focus on developing a system that supports modern families' working circumstances and children's learning and development needs. The inquiry, commissioned by then Federal Treasurer Hon Joe Hockey included extensive research, consultation, submissions, on-line comments and public hearings.

The inquiry commenced in November 2013 and the final report, the Productivity Commission Inquiry into Childcare and Early Childhood Learning (2014)<sup>i</sup>, was publicly released by then Minister for Social Services Hon Scott Morrison on 20 February 2015.

## FINDINGS

The Productivity Commission found the system to be complex and unwieldy. The report confirmed the need for changes to the system to make it more affordable, simple and streamlined, while better targeting child care fee assistance policies and programmes to encourage greater workforce participation by parents.

The Productivity Commission recommended a single child-based subsidy that is means- and- activity-tested, paid directly to the family's choice of approved services, for up to 100 hours per fortnight, and based on a benchmark price for quality ECEC. In regional, rural and remote areas with fluctuating child populations, viability assistance should be provided on a limited time basis.

## COMMUNITY CONSULTATION

The Australian government undertook extensive further consultation following the release of the report and announced the Jobs for Families Child Care Package in response to the report as part of the 2015-16 Budget. In addition the Senate also conducted an Inquiry into the 2015 Jobs for Families Child Care Package Bill<sup>ii</sup>.

A Regulation Impact Statement – Jobs for Families Child Care Package, November 2015<sup>iii</sup> followed further extensive community consultation.

Between the assent of the Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017<sup>iv</sup> on 4 April 2017 and the date the new Child Care Subsidy system came into effect on 2nd July 2018, the Commonwealth Department of Education and Training provided information sessions for ECEC services nationally and the Australian Government provided information for parents through television advertising and social media.

A key message in the Government's communication strategy was that the new child care subsidy system would make child care more affordable. While this would be true for a majority of families accessing ECEC services from 2nd July 2018, this was not true for all families, including some higher income families.

Feedback from consultations indicated broad support for a single subsidy and an hourly cap<sup>v</sup>. There was general agreement that greater assistance should be provided to low to middle income earners.

## WHAT CHANGED?

While changes to Commonwealth funding has been a feature of the ECEC/childcare system over the past 40 years, the Jobs for Families Child Care Package represented a significant change to the architecture of the child care funding system.

## BEFORE 2 JULY 2018:

Under the previous system there were two subsidies to support parents using early childhood services – the Child Care Benefit and the Child Care Rebate. These subsidies were available to parents using long day care programs that met certain conditions. Long day care services were required to operate on all normal working days in at least 48 weeks of the year and be available to provide care for any particular child for at least 8 continuous hours on each normal working day on which it operated.

### CHILD CARE BENEFIT

Child Care Benefit (CCB) was an income-tested payment targeted towards low to middle income families which could be received as a lump sum payment or paid direct to a service to reduce child care fees. Different loadings were applied to the standard CCB rate depending on the circumstances of the family, such the number of children in the family, and the type of care they used.

To be eligible for CCB, an individual or their partner was required to meet residency requirements, be liable for the child care costs and have an eligible child in their care attending approved child care in Australia. All eligible families could receive CCB for up to 24 hours per child per week. To receive more than 24 hours CCB in a week, both parents were required to be undertaking a minimum of 15 hours per week (or 30 hours in a fortnight), of work, training or study, or satisfy an exemption. The amount of assistance was based on a family's income.

### CHILD CARE REBATE

The Child Care Rebate was available to all parents regardless of their income. It was designed to fund the gap between the fee charged by the service and the amount of subsidy provided through the Child Care Benefit

To be eligible for Child Care Rebate (CCR), families were required to be eligible for CCB (even if they did not qualify for assistance because their family income was too high). CCR paid up to 50% of a family's out-of-pocket child care costs after any CCB was deducted, up to a maximum of \$7,500 per child per annum. Parents had to participate in work related commitments at some time during a week or satisfy an exemption to receive CCR.

Families on higher incomes tended to receive relatively more CCR as they were eligible for less income-tested CCB. Parents could choose to receive CCR on a fortnightly, quarterly or annual basis, or have it paid direct to services on their behalf to reduce fees.

## FROM 2ND JULY 2018:

Under the new Child Care Subsidy, the two previous subsidies have been combined into a single, means tested subsidy, which is paid directly to services, not to parents; and which is capped in different ways to provide some limits on the Commonwealth expenditure in this program.

At the same time the Commonwealth has sought to build a subsidy system to make services affordable for parents who meet the activity test, and which provides sufficient funding to enable services to offer programs which meet the national standards of staffing ratios and qualifications.

CCS is paid directly to a child care service fortnightly, based on the attendance records (session reports) the service submits. Parents pay any difference between the actual fee they are charged and the Child Care Subsidy that is paid on the parent's behalf.

Under the new arrangements the Commonwealth applies three tests to determine the amount of Child Care Subsidy (CCS) that will be paid for each child :-

- A family's annual adjusted taxable income determines the percentage of the fee charged by the child care service that will be paid by the Commonwealth government. The Commonwealth will fund up to 85% of the fee that the service charges depending on family income.
- The Commonwealth will fund up to an hourly rate of \$11.77 per hour for pre-school aged children and \$10.29 for school aged children. The hourly rate caps will be increased by the CPI at the commencement of each financial year. The hourly rate caps place an upper limit on the amount of CCS the Australian Government will provide for sessions of care delivered by each type of approved child care service.

The amount of CCS is a combination the percentage of the hourly fee for which the family is eligible, the hourly rate charged by the service and the hours that a child attends the service.

- The third factor is the total amount a family can receive each year. There are no limits on the amount that can be funded to eligible families who earn less than \$186,958. However the Commonwealth will only fund up to \$10,190 per annum for families earning between \$186,958 and \$351,248. CCS is not available for families earning more than \$351,248 except in special circumstances.

Centre-based day care<sup>vi</sup> services are still required to operate for 48 weeks of a year, but the hours and days of opening are not prescribed. This is a significant change for services in the Wheatbelt as previously parents of services that only opened for several days a week were not eligible for any fee subsidy.

## ELIGIBILITY FOR CHILD CARE SUBSIDY

Some basic requirements must be satisfied for an individual to be eligible to receive Child Care Subsidy for a child. These include:

- the age of the child (must be 13 or under and not attending secondary school);
- the child meeting immunisation requirements;
- the individual, or their partner, meeting the residency requirements.

The amount of subsidised child care a parent can access per fortnight applies to each child. A family's Child Care Subsidy percentage is the amount that is subsidised. It applies to either the hourly fee or the relevant hourly rate cap, whichever is lower.

Eligibility is based on the parent who is working least, so if one parent works and the other stays at home, the subsidy is zero. In a sole parent family, the sole parent must meet the activity test.

Hours of "activity"	Hours of subsidised care
8–16 per fortnight	36 per fortnight
16–48 per fortnight	72 per fortnight
48+ per fortnight	100 per fortnight

Family income	Child Care Subsidy percentage
\$0 to \$66,958	85%
More than \$66,958 to below \$171,958	Between 85% and 50% The percentage goes down by 1% for every \$3,000 of income a family earns
\$171,958 to below \$251,248	50%
\$251,248 to below \$341,248	Between 50% and 20% The percentage goes down by 1% for every \$3,000 of income a family earns
\$341,248 to below \$351,248	20%
\$351,248 or more	0%

## THE CHANGE IN PRACTICE

### PARENTS ARE BETTER OFF

The reforms introduced from 2 July 2018 involve a significant change to the architecture to the subsidy system that makes it difficult to make direct comparisons pre and post the introduction of the new system which can be difficult for parents to understand.



Overall, more assistance will go to low and middle income families and their use of childcare is expected to rise. Families earning more than \$351,248 will get no subsidy, households earning less than \$67,000 will receive 85% of the childcare fee, and middle-income earners will get 50%.

The annual cap or limit on Government support will be abolished for most families. Under the pre-2 July 2018 system, families using child care five days a week reached the annual cap on the Child Care Rebate of \$7,500 only halfway through the year, meaning their child care fees doubled overnight for the remainder of the financial year. This caused financial strain for hundreds of thousands of families. And as child care costs increased, each year the cap of \$7,500 ran out earlier and earlier. In the new system, this cap is removed entirely for families earning less than \$186,000 a year and lifted from around \$7,500 to \$10,000 for families earning between \$186,000 and \$351,000.

The Department of Education and Training estimated that nationally, close to 1 million families will be better off under the new system while about 280,000 will be worse off. Low-income and middle-income families, where two parents work, or with a single working parent will be better off.

#### **WHERE PARENTS ARE NOT BETTER OFF**

Whilst the new Child Care Subsidy system was widely advertised as providing more affordable child care, the advertisements understandably could not reflect the full range of family circumstances that might affect the level of eligible subsidy and out of pocket cost for parents, resulting in some misunderstanding.

For a majority of parents the new system results in a reduction or minimal change to their out of pocket cost. However, where a family's income increases, their out of pocket expense will also increase, as it would have done under the previous system.

Families that don't meet the activity test required to qualify for the new subsidy (ie those where one or both parents don't work) will not be eligible for child care subsidy.

Families with one parent who works part time will qualify for fewer hours of subsidised care than before, because these hours will be based on the parent or guardian with the lowest number of working hours.

#### **FEE INCREASES**

The impact of fee increases is complex. The actual fee paid by parents is usually different from the advertised fee for the service. This is because the Federal Government subsidises the fee charged by the service, by paying up to 85% of the fee up to \$11.77 per hour.

The introduction of the new funding system has given REED the opportunity to increase fees to the appropriate level without significant cost increases to parents. By adopting the benchmark fee, the REED Board aimed to increase the viability of services, maximise the contribution of Government and minimise the cost to parents.

### **Services Need to meet their Costs**

Fee charging practices are commercial or business decisions made by child care service providers and are not a matter regulated by the Family Assistance Law. Responsible budgeting is critical for the viability and sustainability of services over time. Services need to set fees that take account of the 2 July 2018 changes and maximise income from the new child care subsidy. Fees also need to reflect the variations in attendance patterns within a year and from year to year.

For the Wheatbelt services this is a particularly important issue. The Wheatbelt Early Childhood Education and Care (ECEC) Sustainability Project is being undertaken to ensure the ongoing viability of services in the Wheatbelt. The Project's initial analysis of service budgets showed that most services were not generating enough income to pay their staff and were relying on "Sustainability Grants" from Commonwealth Government to meet their obligations.

Given that these grants are now both time limited and competitive, it is imperative that services increase income to match their expenditure, either through increased utilisation or fee increases or both.

### **Parents Pay Less Because Government Subsidies have Increased – But Not Everyone Benefits**

While fees have increased so has the subsidy paid by Government so that the proportion of the cost of Early Childhood Services which has been provided by parents has gone down. But this has not applied to all parents. The new child care package makes significant changes to the previous income-tested subsidy arrangements; it introduces new work and study ("activity") tests, and it completely removes the Child Care Rebate that was previously available to high income families.

This has led to some families questioning why their out of pocket expenses are higher than under the previous system. In some instances this is because family income has increased whereas if family income had remained the same, the family's out of pocket expense would have been lower under the new system than was previously the case.

In other instances the increased cost is due to the increase in fees, particularly where the parents are in higher income brackets and are not eligible for Child Care Subsidy. In these situations the parents will be negatively affected by fee increases.

Unfortunately the solution is not to be found in reducing fees. In fact this could do substantial harm to a service with little value to the parents. This is especially true for services with substantial populations of clients who are of lower incomes.

For example, if a service with a fee of \$115 per day reduced its fee to \$100 per day, the cost for a parent receiving the full Government Child Care Subsidy would drop from \$17.25/day to \$15/day – a saving for the parent of \$2.25 but a loss to the service of the difference between the two headline fees – that is  $\$115 - \$100 = \$15$ .

## CONCLUSION

The new Commonwealth Child Care funding overall reduces costs to parents and establishes a benchmark fee to support the viability of services. For parents on higher incomes the loss of non-means tested subsidies imposes higher costs on them and may be a disincentive for their participation in the workforce.

The higher headline fee will enable REED to provide quality Professional Development and mentoring for Educators which will in turn contribute to provision of high quality education and care that children in the Wheatbelt deserve.

# APPENDIX 1

## DETAILED ISSUES IN THE CHILD CARE SUBSIDY

### ESTIMATING FAMILY INCOME

The amount fees are subsidised is based on a family income estimate.

Families can still claim the subsidy even if their family income estimate is \$351,248 or more. If the family actually earns less than this, they will be paid the subsidy they're entitled to when the balance of payments is assessed at the end of the financial year.

At the end of the financial year, a family's actual adjusted taxable income will be provided to the Department of Human Services from the Australian Taxation Office to be compared with the family income estimate previously provided. The actual subsidy entitlement will be worked out at end of year reconciliation when a family's actual adjusted taxable income is known (that is, after they have lodged their tax return). It's suggested that the estimate of income be based on the previous year's tax return as well as any expected pay rises. Where a parent has a partner, the partner's salary should be included as the calculation is based on combined annual family income.

Because some families are unable to estimate their income accurately, 5% of a family's weekly Child Care Subsidy entitlement is withheld. Following reconciliation, if income is underestimated, a family may end up with an overpayment which will need to be paid back. If a family overestimates, they may not get enough subsidy and any outstanding amount will be paid directly to the family.

The new system will only subsidise parents who work, study or volunteer, and each family will have to keep proof in case of a Centrelink spot audit like those conducted on Newstart recipients.

A parent needs to inform the Department of Human Services if their circumstances change while they're getting Child Care Subsidy. For example, if any of the following things happen:

- their child begins primary or secondary school for the first time,
- the parent or their partner's activity details change,
- the parent or their partner's income changes,
- the care arrangements change,
- personal circumstances change,
- a parent changes address,
- a parent leaves Australia.

Changes may take up to 2 weeks to take effect because eligibility and payment of Child Care Subsidy is undertaken fortnightly. Parents can make most changes using their Centrelink online account through myGov or the Express Plus Centrelink mobile app.

## A CHILD CARE SAFETY NET<sup>viii</sup>:

**ADDITIONAL CHILD CARE SUBSIDY**, a top up payment in addition to the Child Care Subsidy which provides targeted additional fee assistance to families and children facing barriers in accessing affordable child care. Additional Child Care Subsidy (child wellbeing) is equal to 100% of actual fees up to 120% of the relevant hourly rate cap.

'**CHILD WELLBEING**', for families who require practical help to support their children's safety and wellbeing. As part of Additional Child Care Subsidy (child wellbeing), children in foster care may be eligible to receive additional child care fee assistance, depending on their circumstances.

Eligible families do not have to meet the Child Care Subsidy activity test, and are able to access a subsidy that is equal to the actual fee charged by providers, up to 120% of the Child Care Subsidy hourly rate cap, for a maximum of 100 hours per fortnight. To be eligible for an Additional Child Care Subsidy payment, the foster parent must also meet the general Child Care Subsidy eligibility requirements in relation to the child. In circumstances where foster carers are not liable for the child care fees (i.e. the state covers the child care fee costs), they are not eligible for Child Care Subsidy.

'**GRANDPARENTS**' : Grandparents in receipt of income support who are the principal carer of their grandchildren. Additional Child Care Subsidy (grandparent) provides ongoing increased child care fee assistance to grandparents on income support who are the principal carers of their grandchild. A grandparent or a great-grandparent includes a natural, adoptive or step grandparent (or great-grandparent) of the grandchild, or the grandparent's (or great-grandparent's) current or former partner.

Being the principal carer of grandchildren means that the grandparent looks after them for at least 65% of the time and has substantial autonomy for the day-to-day decisions about the child's care, welfare and development. Eligible grandparents receive a subsidy equal to the actual fee charged by the child care service, up to 120% of the Child Care Subsidy hourly rate cap for up to 100 hours per fortnight. These grandparents do not have to meet the activity test requirements.

'**TEMPORARY FINANCIAL HARDSHIP**': Short-term increased child care fee assistance for families who are experiencing significant financial stress due to exceptional circumstances.

'**TRANSITION TO WORK**': Parents transitioning to work from income support. Additional Child Care Subsidy (transition to work) covers 95% of actual fees, up to 95% of the relevant hourly rate cap. Families who are transitioning from income support to work by engaging in work, study or training activities and have a Job Plan in effect are supported by Additional Child Care Subsidy (transition to work).

**SUBSIDISED CARE FOR LOW INCOME FAMILIES.** From July 2018, low income families on \$66,958 or less a year who do not meet the activity test are able to access 24 hours of subsidised care per child per fortnight without having to meet the activity test, as part of the Child Care Safety Net.

A range of activities meet the activity test: paid work (including leave), study and training, unpaid work in a family business, looking for work, volunteering, self-employment, and other activities on a case by case basis. Reasonable travel time to and from the place of activity to a child care centre may be included as part of the activity.

Parents self-declare their activity to the Department of Human Services (DHS) and no evidence is required at the time of the self-declaration. This will generally be done just prior to a new financial year, when the income estimate is provided for the coming financial year. DHS might ask some parents to provide evidence as part of their normal random spot checks. Evidence could include, for example, a copy of a payslip or a letter from the organisation where a parent volunteers. Parents can change or update their activity test details whenever they need to. This is done via their myGov account online or on a smartphone app.

Intermittently employed parents who fail to lodge updates when their hours change could face a debt at the end of the financial year. If paid work hours vary unpredictably from fortnight to fortnight, a parent should estimate the highest number of hours they expect to work in a fortnight over the next three months. This estimate determines how many hours of subsidised care the parent will be entitled to per fortnight. Parents should have access to enough hours of subsidised child care to support them to work as much as they need to, including having the flexibility to accept additional shifts at short notice. This approach can only be used to report irregular hours of paid work, and not when reporting hours of the other recognised activities. Centrelink needs to be notified of any changes to a parent's level of activity, estimated over three months, that would cause the parent to move to another step of the activity test. Changes can be reported through the Centrelink online account via myGov. There is no limit to the number of times a parent can update their circumstances.

The family income estimate can also be updated at any time during the year, and the Child Care Subsidy percentage will be adjusted accordingly. If an updated estimate to the family income occurs after the change, the Child Care Subsidy percentage will be applied following the advice. However, the previous entitlement will not be reviewed until Centrelink balances their payments once the actual income is known.

While there is no limit to the number of children at a service accessing Additional Child Care Subsidy (child wellbeing), the approval process changes once a service reaches 50%. If a service reaches or exceeds the 50% limit, additional certificates given do not take effect and services need to apply to Centrelink to make a determination for additional children to be eligible for Additional Child Care Subsidy (child wellbeing). Centrelink will make a decision within 28 days from the date of application. Determinations, once made, apply at any service of any provider the child is attending. In certain circumstances, providers can ask for a particular service's percentage of children with certificates to be changed. Requests must be made in writing using the form available on the Department of Education and Training's website and must outline the reasons for the request. The Department of Education and Training assesses these requests and adjusts the percentage limit (if deemed appropriate) on a case-by-case basis.

Generally, providers can give an Additional Child Care Subsidy (child wellbeing) certificate for up to six weeks for a child. This gives immediate access to the Additional Child Care Subsidy (child wellbeing) for the child at the particular service. For further periods of Additional Child Care Subsidy (child wellbeing), the provider must apply to Centrelink for a determination for up to 13 weeks at a time. There is no limit to how many determinations can be made for a child as long as supporting evidence is provided that the child continues to be at risk. When a provider gives a certificate for an Additional Child Care Subsidy (child wellbeing) to Centrelink, the provider will need to 'give notice' to an appropriate state or territory body within six weeks.

A certificate can only be given for a particular child in a particular service. If a child is enrolled in multiple services from the same provider, a certificate will need to be given for each service.

**ABSENCES:** Families are entitled to 42 absence days per child, per financial year, and may be entitled to additional absence days in certain circumstances (including illness of the child, a parent or sibling). In shared care arrangements, the allocation of 42 absences per financial year relates to the child, not each individual claimant. Under the Child Care Subsidy, when a child does not attend care on a day they are scheduled to attend, providers are able to claim an absence for the child up to 42 times in a financial year, so long as on the day the absence is claimed, Child Care Subsidy would have been claimed (i.e. the child would have otherwise been in care, and the family hasn't already reached their fortnightly entitlement of subsidised hours based on their activity test result).

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<sup>i</sup> Ibid

<sup>ii</sup> [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Education\\_and\\_Employment/jobs\\_for\\_families](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/jobs_for_families)

<sup>iii</sup> <https://ris.pmc.gov.au/.../Jobs-for-Families-Child-Care-Package-RIS-Deputy-Secretary-C...>

<sup>iv</sup> <https://www.legislation.gov.au/Details/C2017A00022>

<sup>v</sup> <http://guides.dss.gov.au/family-assistance-guide/1/1/h/20>

<sup>vi</sup> NOTE: Services previously known as Long Day Care Centres have been renamed Centre Based Day Care

<sup>vii</sup> <https://www.abc.net.au/news/2018-07-01/child-care-subsidy-changes-what-you-need-to-know/9924950>

<sup>viii</sup> <https://www.education.gov.au/child-care-safety-net-1>