



Brotherhood
of St Laurence

Working for an Australia free of poverty

Response to Child Care Inquiry draft findings and recommendations

Australian Competition and Consumer Commission

October 2023

Draft Findings - Price regulation mechanisms

15. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.

Agree Do Not Agree Unsure / No View

Please provide further comment if relevant:

Many families accessing BSL services report that it is hard to access the Child Care Subsidy, and do not know about the Additional Child Care Subsidy. Families do not understand why they need to apply for the subsidy through a separate system or channel when they have already gone through the process of signing up for Centrelink/myGov. Language challenges exacerbate this barrier to access for many families from culturally and linguistically diverse backgrounds. Families who are experiencing hardship often do not know that they are eligible for the Additional Child Care Subsidy and instead pull their children out of care when they can no longer afford the fees.

A 2020 BSL study, *Trampolines, not traps*, examined the barriers to economic security experienced by low-income single mothers in Victoria. It found that while the Child Care Subsidy improved child care affordability, many women who participated did not understand their entitlements or how the subsidy worked.

The calculation of the subsidy and fee payable is complex and unclear, yet if parents miscalculate their income or activity requirements, the responsibility for additional fees sits with parents and exposes them to financial risk and debt.

Parents already juggling the challenges of combining work, care and other commitments are burdened with the extra complexities of navigating the Child Care Subsidy.

Draft Recommendations – Existing regulatory arrangements

Draft recommendation 2 – The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and existing hourly rate cap mechanism, to simplify their operation and address unintended consequences, including on incentives and outcomes.

Support Do Not Support Unsure / No View

Please provide further comment if relevant:

The availability and operation of the Child Care Subsidy needs to be substantively reconsidered to meet the needs of Australian families and remove barriers to workforce participation and economic security for parents, especially mothers. Low-income single mothers in precarious circumstances require the most assistance with child care, yet are one of the groups that receive the least financial support for child care. To meet the educational needs of children and enable women's labour force participation, BSL supports the provision of free early education and care, including child care, to low-income families instead of a partial subsidy.

The Child Care Subsidy has unintended consequences in the way that it interacts with Family Tax Benefit payments, income support payments and income taxes to produce high effective marginal tax rates (EMTRs) on earned income for secondary earners in many families. These high EMTRs create disincentives to work that have a negative impact on women's workforce participation, as women remain mostly responsible for the care of children.

Changes are also needed to support the availability of child care. Waiting lists are long and where available, the hours offered tend to be inflexible, restricting the types of jobs and hours parents can take on. Research has found that women often 'trade down', taking on jobs based on the care they can access rather than their capabilities.

It is essential that these unintended consequences are addressed.

Draft recommendation 2 (c) - Consideration be given to removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.

Support Do Not Support Unsure / No View

Please provide further comment if relevant:

BSL supports removal of the activity test. The test restricts the number of hours of Child Care Subsidy to which a family is entitled, based on the parents 'recognised activity', such as working, studying or looking for work. This acts as a barrier to children accessing care. Recent research by Impact Economics and Policy found the current activity test for the Child Care Subsidy is

contributing to at least 126,000 children from the poorest households missing critical early childhood education and care.

While the activity test aims to encourage participation in the workforce, in effect it does the opposite. The activity test creates uncertainty about whether parents will be able to access the amount of subsidised child care necessary for them to work. The challenge is even greater for parents in casual employment and variable work arrangements who face the additional financial risk of generating a debt if they are overpaid due to mistakes in reporting their irregular work hours.

Draft Recommendations - Broader policy considerations for more significant change

Draft recommendation 5 - The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.

Support Do Not Support Unsure / No View

Please provide further comment if relevant:

BSL welcomes the recommendation to expand support for Aboriginal Community Controlled Organisations (ACCOs). ACCOs are best placed to identify and respond to needs in their communities and deliver better outcomes for Aboriginal children and caregivers. Increased and sustained investment in ACCOs will advance self-determination and the availability of culturally safe care for children.

A link to the consultation page can be found here: <https://www.acc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/submissions-in-response-to-the-september-interim-report>

Note: These responses were provided via an online survey form