

CHILD CARE SUBSIDY ACTIVITY TEST: UNDERMINING CHILD DEVELOPMENT AND PARENTAL PARTICIPATION

IMPACT ECONOMICS AND POLICY

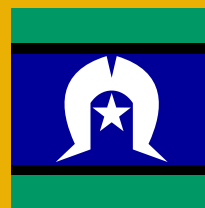
AUGUST 2022

**IMPACT
ECONOMICS
AND POLICY**

About Impact Economics and Policy

Impact Economics and Policy brings together a group of expert economists and policy specialists with experience working for government, non-for-profits and big four consulting.

Established at the start of 2022, our mission is to partner with clients for impact through providing robust evidence, fresh analysis and strategic communication to tackle Australia's biggest public policy challenges.



Acknowledgement of Country

We acknowledge Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Country Throughout Australia and their continuing connection to both their lands and seas. We also pay our respects to Elders – past and present – and generations of Aboriginal and Torres Strait Islander peoples now and into the future.

We accept the invitation of the Uluru Statement of the Heart and support the campaign to for a First Nations Voice to Parliament to be protected by the Australian Constitution.

This report was prepared with support of Thrive by Five, an initiative of Minderoo Foundation

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OVERVIEW

The Government's \$5.4 billion reform package will reduce the cost of care for 96 per cent of families, but the continued imposition of the activity test undermines the broader reform objectives of lifting access for children and workforce participation of parents.

The current activity test for the Child Care Subsidy limits access to subsidised child care and is contributing to at least 126,000 children from the poorest households missing out on critical early childhood education and care. As a result, these children are more likely to start school behind their peers, with many never catching up.

The activity test aims to encourage participation in the workforce, but does the opposite by creating significant uncertainty for parents in casual employment due to the ongoing risk that they will fail to meet the test and generate over-payment debts.

While the activity test has been a long-term feature of the child care system, the 2018 Child Care Package cut the minimum amount of care that low-income

families are entitled to from two to one day a week, and has resulted in a 42,000 fall in the number of families receiving the minimum entitlement.

A number of vulnerable family groups, when compared to families earning over \$200,000 per year, are more likely to be subject to the activity test that limits access to subsidised care:

- Single parent families are over three times more likely to be limited to one day of subsidised child care per week;
- Aboriginal and Torres Strait Islander families are over five times more likely to be limited to one day of subsidised child care per week;

126,000 children from the poorest households missing out on critical early childhood education and care



- Non-English Speaking families are over six times more likely to be limited to one day of subsidised child care per week; and
- Low-income families earning between \$50,000 and \$100,000 are over six times more likely to be limited to one day of subsidised child care per week.

Families earning \$80,000 per year and eligible for one day of subsidised child care per week under the activity test face higher out of pocket costs than families eligible for three or more days of subsidised child care:

- \$134 per week higher out of pocket costs for families using two days of care.
- \$268 per week higher out of pocket costs for families using three days of care.

The activity test for access to the Child Care Subsidy currently stands in the way of universal access to childcare, and its removal would deliver significant benefits:

- Greater access for children from low-income families to early education and care
- Improved participation for low-income parents that are currently dissuaded from work due to the uncertainty created by the activity test and risk of incurring debts with Centrelink
- Reduced red tape for Government and providers, improving the efficiency of the system.

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.

Aboriginal and Torres Strait Islander families are over five times more likely to be limited to one day of subsidised child care per week



WHAT IS THE ACTIVITY TEST?

The activity test restricts the number of hours of Child Care Subsidy a family is entitled to based on the ‘recognised activity’ parents are engaged in. The fewer the hours of activity, the less the amount of subsidised child care.

Recognised activity includes: paid work; self-employment; unpaid work in a family business; looking for work; volunteering; and studying. The test is based on the hours of activity of the family member with the fewest hours. So, if one parent works full time and the other part time, it is based on the activity of the parent working part time.

Low-income families that fall below the first step of the activity test and meet means test requirements (family income

<\$72,466), are entitled to 24 hours a care a fortnight or 12 hours a week, which due to the standard session times of child care equates to only one day a week of care.

Families have to update their activity fortnightly to ensure they are not overpaid, creating significant compliance burden and risk of overpayment for impacted families.

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CURRENT ACTIVITY TEST REQUIREMENTS

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 (or 12 hours per week)
1a	Exemptions for preschool	36 hours (or 18 hours per week)
2	8 hours to 16 hours	36 hours (or 18 hours per week)
3	More than 16 hours to 48 hours	72 hours (or 36 hours per week)
4	More than 48 hours	100 hours (or 50 hours per week)

Source: AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>





HOW DID THE ACTIVITY TEST CHANGE IN THE 2018 REFORMS?

In 2018, the previous Government implemented the Jobs for Families Package, which halved the minimum Child Care Subsidy entitlement for families that do not meet the minimum threshold for the activity test.¹

The tightening of the activity test was on recommendation of the Productivity Commission, however it also acknowledged that doing so may deter some parents from taking a job with very low hours per week.² It made the overall recommenda-

tion on the basis that the test could provide an incentive for parents to increase hours of work to meet the minimum threshold. There is a lack of empirical evidence that this is the case, and in fact Quebec and Sweden which provide universal child care subsidies with no activity test have some of the highest rates of female participation and hours worked in the world.³

WHAT WAS THE IMPACT OF THE CHANGES TO THE 2018 REFORMS?

The Australian Institute of Family Studies evaluation of the Child Care Package found that the reduction in the minimum hours of subsidised early childhood education and care from 24 hours per week to 12 hours per week ‘disproportionately impacted on children in more disadvantaged circumstances’ and recommended that it be reviewed.⁴

In addition, data provided to Senate Estimates show 54,300 families were estimated to be entitled to the minimum hours of care a week in July 2018 before the new activity test was implemented, which by June 2021 had dropped to just 12,110 families –an overall reduction of 42,000 families since July 2018.⁵

Since the 2018 Child Care Package was introduced there has been an overall reduction of 42,200 families receiving minimum of 24 hours of care

1. AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>
2. Productivity Commission (2015), Inquiry Report: Childcare and Early Childhood Learning.
3. OECD (2022), Part-time employment, Regional Labour Statistics and Employment Statistics: <https://data.oecd.org/emp/labour-force.htm>
4. AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>
5. Commonwealth of Australia (2022), Education and Employment Legislation Committee – 2021-22 Additional Estimates - Question on Notice no.61

WHY HAVE AN ACTIVITY TEST?



Only a very small percentage of women (3 per cent) indicate that they return to work only because they prefer working to staying at home with children

The activity test is designed to ensure only parents that are working, studying or looking for work are able to access government subsidised child care in Australia. It responds to concerns that if parents could access this care without working, studying or looking for work it would reduce incentives to undertake these activities.⁶

However, for this to be a genuine issue parents would need to be only working to reduce the amount of time they care for their children. Child care subsidies should not be considered the same as other forms of welfare assistance, as they act to increase the benefits from working. In contrast, welfare payments and associated means tests act to reduce the benefits from working. As such, there is no theoretical basis that subsidies reduce participation. Nor is their empirical evidence that such a relationship exists.

Because the activity test applies to the parent with the lower level of work related of activity, it is more likely to be based on the mother's activity. Mothers return to

work for a number of reasons as shown in Figure 1, and previous Australian research indicates that for over two thirds of women the main reason to return to work after having children is financial.⁷

Other factors are also important including a need to maintain qualifications and fear that a longer break will harm their career. Only a very small percentage of women (3 per cent) indicate that they return to work only because they prefer working to staying at home with children.⁸

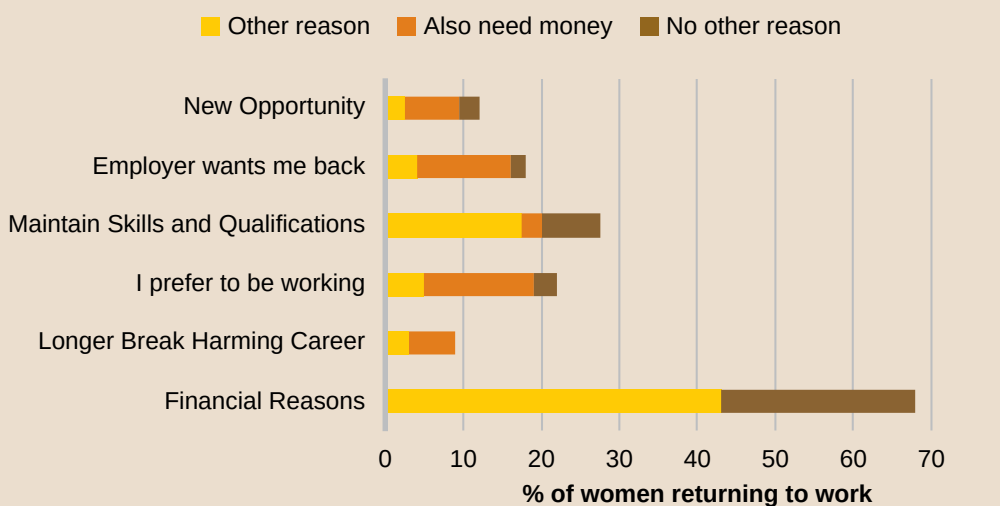
Even in cases where parents are only using child care because they prefer to be working, there can be mental health benefits for parents.

6. Productivity Commission (2015), Inquiry Report: Childcare and Early Childhood Learning.
7. Baxter, J. Is money the main reason mothers return to work after childbearing?. *Journal of Population Research* 25, 141–160 (2008). <https://doi.org/10.1007/BF03031946>
8. Baxter, J. Is money the main reason mothers return to work after childbearing?. *Journal of Population Research* 25, 141–160 (2008). <https://doi.org/10.1007/BF03031946>

I needed to get out of the house for my mental health

(previously not employed, commenced work when child aged 9 months).⁹

FIGURE 1: REASONS FOR RETURN TO WORK, MOTHERS WHO HAD RETURNED TO WORK



Source: Baxter, J. Is money the main reason mothers return to work after childbearing?. *Journal of Population Research* 25, 141–160 (2008). <https://doi.org/10.1007/BF03031946>

The provision of free or subsidised child care influences decisions around work and study. Importantly it makes the financial incentives stronger by reducing the cost of working, which as the main driver for women working is likely to increase participation.

The extent to which the activity test limits access to subsidised child care, it is likely to reduce the participation of women in the workforce. And it is likely to restrict the benefits of early education for children’s development.

The extent to which the activity test limits access to subsidised child care, it is likely to reduce the participation of women in the workforce

9. Baxter, J. Is money the main reason mothers return to work after childbearing?. *Journal of Population Research* 25, 141–160 (2008). <https://doi.org/10.1007/BF03031946>

HOW DOES THE ACTIVITY TEST IMPACT CHILD CARE USE?

LOWER HOURS OF EARLY CHILDHOOD EDUCATION AND CARE

The activity test is negatively impacting low-income families, Aboriginal and Torres Strait Islander families, single parent families and families from non-English speaking backgrounds significantly more than other groups who use child care.¹⁰

Compared to families earning over \$200,000 per year, low-income families are more likely to be subject to the activity test that limits access to care:

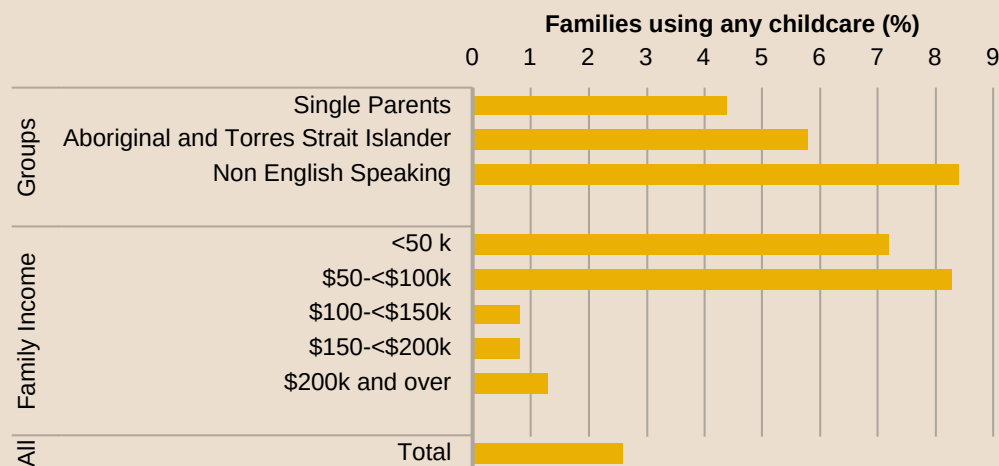
- Single parent families are over three times more likely to be limited to one day of subsidised child care per week;
- Aboriginal and Torres Strait Islander families are over five times more

likely to be limited to one day of subsidised child care per week;

- Non-English Speaking families are over six times more likely to be limited to one day of subsidised child care per week; and
- Low-income families earning between \$50,000 and \$100,000 are over six times more likely to be limited to one day of subsidised child care per week.

For children limited to 12 hours a week of subsidised care, the activity test generally means they only have one day of subsidised care per week.

FIGURE 2: PER CENT OF FAMILIES USING CHILDCARE WITH 12 HOURS OR LESS PER WEEK OF APPROVED CARE DUE TO ACTIVITY TEST



Source: AIFS (2022), Child Care Package Evaluation: Final report.

For children limited to 12 hours a week of care, the activity test generally means they only have one day of subsidised care per week. This is because most day care centres have standard 10 to 12 hour days.

These children limited to one day of child care a week receive significantly less than the three days recommended by experts, and are also at a higher risk of dropping out of care altogether.¹¹

10. AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>

11. Centre for Policy Development (2021), Starting Better – A Guarantee for Young Children and Families: <https://cpd.org.au/wp-content/uploads/2021/11/CPD-Starting-Better-Report.pdf>

Mary single parent with two girls aged 3 and 6 living in a remote community.

There is no regular work for Mary close to her home, although there is sometimes work available during peak tourism season at the local hotel which is an hour away.

Her 3 year old is eligible for only 12 hours of subsidised child care per week. Because the local child care centre only offers 11 hour sessions at \$110 a day this means only one day a week.

Her little girl was attending a single day a week but she found it really hard to establish a routine and was often crying and distressed. Her educators suggested trying to attend at least two days of pre-kindy a week to better establish her routine, but then Mary would face an out of pocket cost of \$118 a week which she could not afford.

As a result Mary stopped sending her three year old to care, as one day of care was not working and she could not afford two days of care. This makes it hard to pick up work at the hotel when it is offered, and means her daughter is missing out on the benefit of early childhood education and care.



NOT ATTENDING EARLY CHILDHOOD EDUCATION AND CARE

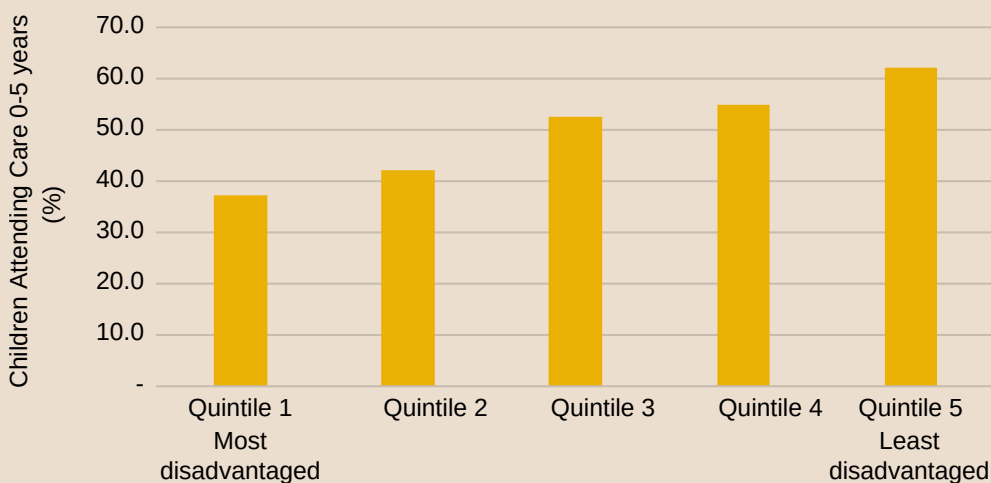
Not only are children from lower socio-economic families receiving less care, but a higher percentage are also receiving no care at all – with many parents that don't meet the minimum threshold for the activity test not engaging with the system.

Data from a large non-profit provider also shows that families eligible for either 12 or 18 hours of subsidised care per week under the activity test are 29 per cent more likely than families receiving 72 or 100 hours of care to cease their enrolment.

As a result, as shown in Figure 3, children from lower socio-economic backgrounds are less likely to attend early childhood education and care in Australia. Over 340,000 children in the two lowest income quintiles not of school age are not attending early childhood education and care. If these children accessed early childhood education and care at the same rate as the wealthiest children, an additional 126,000 children would be engaged with the system.¹²

Over 340,000 children in the two lowest income quintiles not of school age are not attending early childhood education and care.

FIGURE 3: PERCENTAGE OF CHILDREN USING FORMAL EARLY CHILDHOOD EDUCATION AND CARE BY INCOME QUINTILE



Source: Impact Economics and Policy Calculations based on Australian Bureau of Statistics (2017).

12. See Appendix for methodology

REDUCED ATTENDANCE AND INCREASED COSTS AT PRESCHOOL

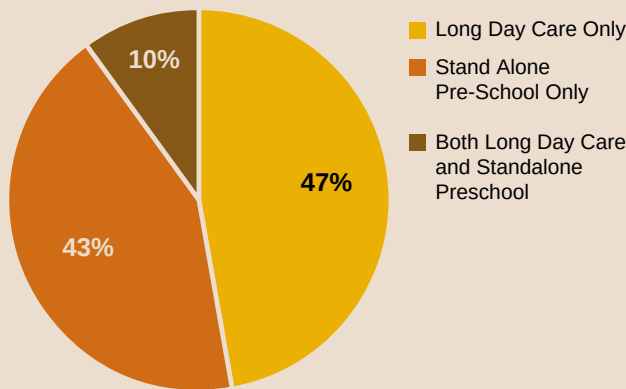
All Australian Governments have signed a Preschool Reform Agreement with the objective to ‘facilitate children’s early learning and development and transition to school’ by:¹³

- Maintaining universal access to affordable, quality preschool programs for all children;
- Improving participation in preschool programs; and
- Maximising the benefit of the preschool year by improving outcomes for children.

Almost half of children attend preschool program exclusively in long day care centres, and another ten per cent attend programs in both long day care and standalone preschools.

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FIGURE 4: ATTENDANCE AT PRESCHOOL PROGRAMS



Source: PC (2022) Report on Government Services table 3A.17

Families that do not meet the activity test are entitled to 36 hours of child care subsidy for pre-school, which only allows them to regularly attend one full day of pre-school each week in most long day care settings. This is impacting cost to families and attendance for children in states with a higher reliance on long day care to deliver preschool programs.

Where parents are only entitled to 36 hours of child care subsidy attending even three days of preschool will incur out of pocket costs of \$193 per week, which families on low incomes is unaffordable.

In Queensland and New South Wales over two thirds of children attend preschool in a long day care setting. These states are also failing to meet the benchmark under the preschool agreement of at least 95 per cent of the most disadvantaged children attending preschool.¹⁴

In 2020, only 88 per cent of vulnerable and disadvantaged children in New South Wales and 84 per cent in Queensland were enrolled in preschool. The activity test, by pushing up the out-of-pocket cost of preschool programs for children with a non-working family, is contributing to this result.¹⁵

In 2020, only 88 per cent of vulnerable and disadvantaged children in New South Wales and 84 per cent in Queensland were enrolled in preschool. The activity test, by pushing up the out-of-pocket cost of preschool programs for children with a non-working family, is contributing to this result.

13. Preschool Reform Agreement 2022-25

14. Preschool Senate Additional Estimates 2021-22 question 67

15. Productivity Commission (2022) Report on Government Services table 3A.17)

HOW DOES THE ACTIVITY TEST IMPACT THE COST OF CHILDCARE?

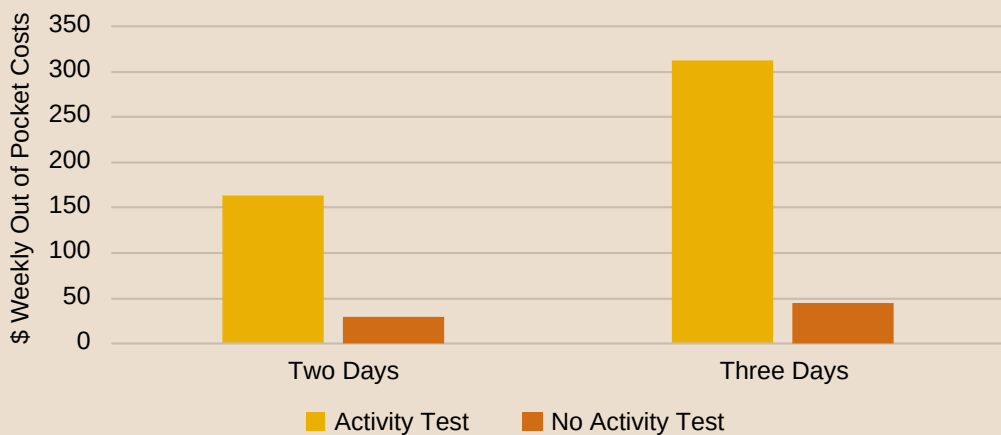
The Australian Institute of Family Studies evaluation of the 2018 Child Care package found that it was leading to higher out of pocket costs for low-income families only entitled to one full day of subsidised child care per week. Close to a third of families limited to one full day of care per week use more than their entitlement, leaving them with significant out of pocket costs.¹⁶

Parents that are only eligible for one full day of subsidised childcare per week due to the activity test face higher out of pocket costs than families entitled to three or more days of care per week:

- \$134.10 per week for families earning \$80,000 per year and using two days of care.
- \$268.20 per week for families earning \$80,000 per year and using three days of care.

Parents that are only eligible for one day of subsidised childcare per week due to the activity test face higher out of pocket costs.

FIGURE 5: OUT OF POCKET COSTS FOR FAMILIES EARNING UNDER \$80,000 PER YEAR



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

16. AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>

Patrick, full-time carer and parent to Ava (2 years) and Jack (4 years)

Patrick and his husband have two children, Ava and Jack. Patrick's husband is a paramedic, earning \$64,000 per annum and Patrick provides full-time care to Ava who has complex needs including cerebral palsy.

They would like to enrol Jack in preschool at the local day care centre for four days per week so he is ready for school and to help facilitate Ava's access to medical and therapy appointments. At the moment, Jack has to come along these appointments and he gets a bit bored or watches shows on the iPad while he waits.

In booking Jack's enrolment, as Patrick is on the carer's allowance, he is eligible for 72 hours per fortnight, so their out of pocket costs will be \$142.20 per week. If Patrick wasn't on carer's allowance, they would be out of pocket \$313 per week to send Jack to preschool.



WHAT ARE THE CONSEQUENCES FOR CHILDREN?

UNDERMINES CHILDHOOD DEVELOPMENT

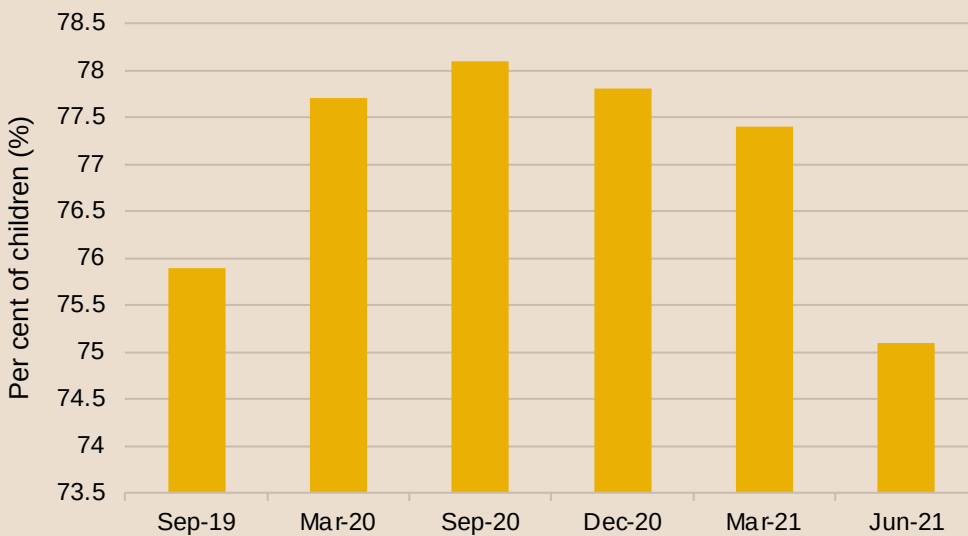
Access to early childhood education and care is an important determinant of school readiness. Four in five children that attend early childhood education are developmentally on track at the start of school, but only three in five who did not attend early childhood education are on track.¹⁷

Children from low socio-economic backgrounds are less likely to be developmentally on track than their more affluent classmates, a relationship partly attribut-

able to their lower rates of attendance at early childhood education and care.¹⁸

While four in five children that attend early childhood education are developmentally on track at the start of school, only three in five that did not attend early childhood education are on track.

FIGURE 6: CHILDREN DEVELOPMENTALLY VULNERABLE AT START OF SCHOOL



Source: Australian Early Development Census (2022)

17. Australian Early Development Census (2022), 2021 AEDC National Report,

18. Centre for Policy Development (2021), Starting Better – A Guarantee for Young Children and Families: <https://cpd.org.au/wp-content/uploads/2021/11/CPD-Starting-Better-Report.pdf>

IMPACTS GREATER FOR CHILDREN FROM LOW-SOCIO ECONOMIC BACKGROUNDS

International studies have highlighted that greater benefits accrue to children from low-socio economic backgrounds, from access to quality early learning and childcare.^{19, 20} In Australia, the Early Years Education Program has demonstrated the large benefits from access to quality care for disadvantage children and their carers:²¹

- Significant cognitive improvements with average increase in children's IQ scores of 5 points;
- Substantial reduction of 31.6 per cent in number of children with social and emotional scores in the clinical range; and
- A 1.5 point reduction in psychological distress scores of primary caregivers.

Where the activity test limits access to early childhood education and care, it is further entrenching disadvantage experienced by low socio-economic children who are more likely to be excluded.

Substantial reduction of 31.6 per cent in number of children with social and emotional scores in the clinical range

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19. Vandell, D. L et al & NICHD Early Child Care Research Network (2010). 'Do Effects of Early Child Care Extend to Age 15 Years? Results from the NICHD Study of Early Child Care and Youth Development' *Child development*, 81(3), 737–756
 20. Adema, W., C. Clarke and V. Frey (2015), "Paid Parental Leave: Lessons from OECD Countries and Selected U.S. States", *OECD Social, Employment and Migration Working Papers*, No. 172, OECD Publishing, Paris
 21. Tseng Y et al, '24 months in the Early Years Education Program: Assessment of the impact on children and their primary caregivers', *Changing the Trajectories of Australia's Most Vulnerable Children*, Report No. 4 (May 2019).

ADDITIONAL BARRIERS FOR PARENTS LOOKING TO TRANSITION BACK INTO WORK OR STUDY

The activity test limits the amount of childcare a parent that is working or studying less than 24 hours per week can access. As a result, these parents are limited in their ability to respond to opportunities and pursue work, study and job search activities. This is particularly important for casual employees, that often do not have certainty over their hours of work.

As the Productivity Commission noted ‘setting an activity test that is simple to implement and enhances rather than detracts from work incentives is challenging.’²²

Around half the parents surveyed on the impact of the activity test for the review of the 2018 Child Care Package indicated

they were worried that they would end up with a reconciliation debt if they did not get their details right.²³ Alongside the inability to respond to new work opportunities, this uncertainty creates an additional barrier to employment especially for women working in casual roles.

.....for many families and particularly for women at the bottom end of the labour market ... circumstances would be constantly changing ... women who are on casual rosters and on short term contracts and highly variable work arrangements, and for them to navigate the complexity of the activity test ... It was much more likely that women would think, ‘Oh no, I’m not going to be able to access that subsidy because I don’t have stable work. And I can’t be sure that I’m always going to meet the activity test and I don’t want to take the risk that one fortnight I’m going to lose it.’ And so that they would rule themselves out

[Child care stakeholder, November 2018]²⁴

Around half the parents surveyed indicated they were worried that they would end up with a reconciliation debt if they did not get their details right.

The Productivity Commission noted ‘setting an activity test that is simple to implement and enhances rather than detracts from work incentives is challenging.’

It was much more likely that women would think, ‘Oh no, I’m not going to be able to access that subsidy because I don’t have stable work.’

22. Productivity Commission (2015), Inquiry Report: Childcare and Early Childhood Learning.

23. Centre for Policy Development (2021), Starting Better – A Guarantee for Young Children and Families: <https://cpd.org.au/wp-content/uploads/2021/11/CPD-Starting-Better-Report.pdf>

24. AIFS (2022), Child Care Package Evaluation: Final report: <https://aifs.gov.au/research/research-reports/child-care-package-evaluation-final-report>



If Chen wasn't limited to 24hrs/fortnight of care, Eric could attend Little Lane more frequently and she could take more shifts.

Chen single mother to Eric, 2 years old

Chen works as a casual retail assistant at a local IGA; she is offered shifts at short notice and often has to turn them down when she does not have care for Eric.

Eric attends Little Lane long day care centre one day a week - usually on Tuesdays. The daily fee at Little Lane is \$126.50; Chen pays \$25.30 and claims \$101.20 Child Care Subsidy.

The team at Little Lane try to be flexible but they cannot always offer a spot for Eric on other days and Chen cannot afford to send Eric 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 Eric wasn't limited to 12 hours per week of subsidised care, he could attend Little Lane more frequently and Chen could take more shifts.

Even if Chen estimated her highest possible hours at 8 per week and became eligible for 18 hours of care per week, she would be out of pocket \$85.85 per week for two days of care and would risk not being able to get the additional shifts to cover the fees, and incurring debts due to failing to meet the activity test..

CAMEO

WHAT WOULD REMOVING THE ACTIVITY TEST MEAN?

GREATER ACCESS TO EARLY EDUCATION AND CHILDCARE

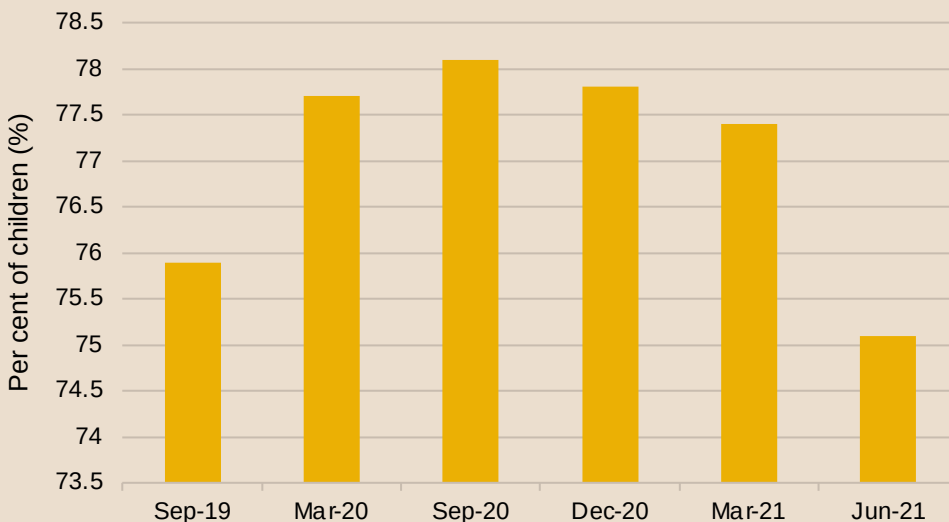
Removing the activity test would ensure every Australian child benefits from a quality early childhood education regardless of their parents activity. This would be particularly beneficial to the 126,000 children from low-income families that are currently missing out on care, improving their development, school performance and life outcomes.

While the benefits to the Australian economy would be far into the future, without investment today we will not be able to realise the productivity benefits of the future.

The experience during the COVID-19 pandemic, where the activity test was suspended for all families and then for

families whose employment had been impacted by the pandemic, indicates that disadvantaged groups will benefit from the abolition of the change. Child care usage amongst Aboriginal and Torres Strait Islander children increased during the pandemic, with the number of children in care increasing by 12 per cent in the 9 months to June 2021.²⁵

FIGURE 7: PERCENTAGE OF ABORIGINAL AND TORRES STRAIT ISLANDER CHILDREN ATTENDING CHILDCARE



Source: Department of Employment and Workplace Relations, *Child Care in Australia Report September Quarter 2019-June Quarter 2021*.

Child care usage amongst Aboriginal and Torres Strait Islander children increased during the pandemic, with the number of children in care increasing by 12 per cent in the 9 months to June 2021

25. Commonwealth of Australia (2022), Education and Employment Legislation Committee - Official Committee Hansard, 7 April 2022, page 6

GREATER FLEXIBILITY TO WORK

An increasing number of Australians rely on casual work to make ends meet, and yet the operation of the Child Care Subsidy acts to limit the ability of parents to engage in work.

By removing the risk and uncertainty of not meeting the activity test, it would provide parents with greater certainty around childcare access and flexibility to engage in paid work, lifting participation and hours worked.

REDUCED COMPLEXITY AND IMPROVED EFFICIENCY

The activity test creates additional complexity in the administration of the Child Care Subsidy, adding to the administrative cost of the scheme to Government and Child Care providers. It would mean

families no longer have to report activity changes to Centrelink fortnightly.

Removing the activity test will simplify the scheme and reduce these costs, improving efficiency and delivery savings to Government and Child Care providers.

SIMPLIFYING ACTIVITY TEST RATHER THAN ABOLISHING

An alternative to abolishing the activity test would be to simplify the test, and increase the minimum available hours to 36 hours per week.

This would ensure all children from low-income families had access to a minimum of three days of early childhood education and care per week, and has been estimated to benefit up to 80,000 families including 30,000 families currently locked out of the system completely.

This would still represent added complexity in the system, and would limit access to some children but would be an important step to implementing a three day a week early childhood education and care guarantee for all Australian children.²⁶

Simplified Activity Test Requirements

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

By removing the risk and uncertainty of not meeting the activity test, it would provide parents with greater certainty around childcare access and flexibility to engage in paid work, lifting participation and hours worked.

Removing the activity test will simplify the scheme and reduce these costs, improving efficiency and delivery savings to Government and Child Care providers.

26. Centre for Policy Development (2021), Starting Better – A Guarantee for Young Children and Families: <https://cpd.org.au/wp-content/uploads/2021/11/CPD-Starting-Better-Report.pdf>

CONCLUSION

Universal access to early childhood education and care will deliver significant improvements in childhood development, parental participation and productivity and future productivity of the children that will benefit from greater access.

The Government's reforms to the Child Care Subsidy are an important first step. The reforms will benefit 1.26 million families through lifting the rebate for the first child in care to 90 per cent for families earning less than \$80,000 and increase rates for all families earning up to \$530,000. However, the reforms will not improve access for families subject to the current activity test.

Abolishing or simplifying the activity test would ensure that all children in Australia have greater access to early childhood education and care. This is an important step toward universal early childhood education and care and help increase the number of children developmentally on track when they start school.

In addition, abolition or simplification of the activity test will reduce the complexity of the system and the risk of over-payments, removing barriers faced by low-income casual employees seeking to increase their hours of work.

Universal access to early childhood education and care will deliver significant improvements in childhood development, parental participation and productivity and future productivity of the children that will benefit from greater access.



APPENDIX

Methodology for Children Missing from Childcare

Statistics were sourced from data from the Childhood Education and Care Survey, collected June 2017.²⁷ This data was accessed using ABS TableBuilder. Statistics on participation in childcare or early childhood education were calculated from ABS population estimates for children using formal care services, extrapolated from the survey data. The analysis was limited to children aged 0 to 5 years who were not currently attending school, as of June 2017.

Income quintiles were calculated directly from the Childhood Education and Care Survey data. The children in Quintile 1 (Q1) are from the 20 per cent of households with the lowest parent incomes - summed for a couple household, and an individual income for a single-parent household.

Adjustments for population used ABS yearly Australian population estimates for single-year age groups from June 2017 to June 2021.²⁸ Values for the number of children of each age not enrolled in formal care were multiplied by the 4-year age-specific growth rate (negative for age groups 0-4) to calculate an estimate for 2021. This relies on the assumption, supported by Australian Institute of Family Studies Child Care Package Evaluation findings that little changed in the uptake of childcare following the policy package change introduced in July 2018.

27. Australian Bureau of Statistics (2017), TableBuilder: Childhood Education and Care, Australia. Accessed August 2022. <https://www.abs.gov.au/statistics/microdata-table-builder/available-microdata-table-builder/childhood-education-and-care-australia>

28. Australian Bureau of Statistics (June 2022), 'Population - Australia' [time series spreadsheet], National, state and territory population, Accessed August 2022 <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/dec-2021>



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