

<b>Key Policy in discussion</b>	<b>THE CARE ECONOMY – EARLY CHILDHOOD EDUCATION AND CARE</b>
<b>Portfolio and or agency</b>	<b>Department of Education</b>
<b>Date Issued</b>	<b>5 November 2022</b>
<b>Key author/s of this budget analysis:</b>	<b>Marie Coleman</b>
<b>Chair, Social Policy Committee NFAW:</b>	<b>Prof. Helen Hodgson: <a href="mailto:h.hodgson@tpg.com.au">h.hodgson@tpg.com.au</a></b>

---

### **Key Portfolio Issues**

The October 2022-23 Budget included measures for cheaper child care, more access to subsidised care for First Nations children and measures to reduce fraud and non-compliance in the early childhood education and care (ECEC) sector. Increases in the Child Care Subsidy will benefit working families and an allowance of 36 hours of subsidised care per fortnight will benefit First Nations families who do not meet the Activity Test.

These budget measures relate to Economic (employment rate) and Social (gender gap in hours worked) themes and indicators in the OECD Well-being Framework.

### **Budget Measures**

The main changes to child care funding resulting from the 2022-23 Budget measures include the Government's Plan for Cheaper Child Care and the Child Care Subsidy Reforms Integrity Package ([Budget Paper No.2](#), p.91, 93).

The Government will provide \$4.7 billion over four years from 2022-23 (and \$1.7 billion per year ongoing) to deliver cheaper child care for families. It will increase the maximum Child Care Subsidy (CCS) rate from 85 per cent to 90 per cent for eligible families for the first child in care and increase the CCS rate for all families earning less than \$530,000 in household income. It will also maintain the current higher CCS rates for families with multiple children aged 5 or under in child care (introduced by the Coalition Government), with higher CCS rates to cease 26 weeks after the older child's last session of care, or when the child turns 6 years old.

\$33.7 million will be provided over four years from 2022-23 to improve early childhood outcomes for First Nations children by introducing a base entitlement of 36 hours of subsidised care per fortnight, regardless of their families' activity hours or income level. \$10.2 million will also be provided over three years from 2022–23 to establish the Early Childhood Care and Development Policy Partnership with Coalition of Peaks partners and First Nations representatives to develop policies on First Nations ECEC.

The Government will task the Australian Competition and Consumer Commission (ACCC) to undertake a 12 month inquiry into the cost of child care and the Productivity Commission to conduct a comprehensive review of the child care sector. It will also allocate \$47.7 million over four years from 2022-23 to support a range of activities to help reduce fraud and non-compliance by early childhood education and care providers.

---

The National Foundation for Australian Women is a feminist organisation, independent of party politics and working in partnership with other women's organisations. NFAW is dedicated to promoting and protecting the interests of Australian women, including intellectual, cultural, political, social, economic, legal, industrial and domestic spheres.

This expenditure is spread over a number of portfolios.

### Plan for Cheaper Child Care

Payments (\$m)	2021-22	2022-23	2023-24	2024-25	2025-26
Services Australia	-	13.9	14.1	6.1	2.8
Department of Education	-	13.1	1,333.6	1,587.0	1,708.9
Australian Competition and Consumer Commission	-	7.8	3.0	-	-
Total – Payments	-	34.8	1,350.7	1,593.1	1,711.7

Source: 2022-23 Budget Paper No 2, Part 2: Payment Measures, p.93. Plan for Cheaper Child Care.

### Child Care Subsidy Reforms Integrity Package

Payments (\$m)	2021-22	2022-23	2023-24	2024-25	2025-26
Department of Education	-	-34.3	-42.2	-46.8	-49.7

Source: 2022-23 Budget Paper No 2, Part 2: Payment Measures, p.91. Child Care Subsidy Reform Integrity Package

The Government is also investing \$531.6 million over 4 years from 2022–23 to support more equitable distribution of work and care between parents through changes to Paid Parental Leave ([Budget Paper No.2](#), pp. 177).

It is unclear whether the ECEC sector will benefit much from the boost to training places announced in the Budget ([Budget Paper 2](#), pp. 104). The Government is delivering 480,000 fee-free TAFE and community-based vocational education places over four years. As a first step, the Government is entering a [\\$1 billion agreement](#) with the states and territories to provide 180,000 places in 2023. This agreement will prioritise training for students that traditionally face barriers to work and study, including women facing economic equality issues, and target industries with severe skill shortages.

It is also unclear whether the Government’s commitment \$310.4 million over nine years from 2022–23 (and \$7.9 million per year ongoing) to attract and retain high-quality teachers and improve student outcomes will extend to ECEC educators ([Budget Paper No.2](#), pp. 96-97).

\$20.2 million has been committed over four years from 2022–23 for the [Fair Work Commission](#) to establish the Pay Equity and Care and Community Sector expert panels (that includes a focus on ECEC) to explore wage related issues and a specialised research unit ([Budget Paper 2](#), pp. 103). ECEC educators could benefit from a new Bill introduced to the Parliament which aims to make it easier for the Fair Work Commission to order pay increases for workers in low-paid female dominated industries by putting in place a statutory Equal Remuneration Principle.

### Policy issues and indicators

- *Women’s workforce participation – barriers and incentives to work*

Key policy goals for the Government are to improve gender equity and advance women’s economic equality (eg. through reducing barriers to work, the gender pay gap, increasing access to child care and paid parental leave).

Australia ranks in the top seven OECD countries (and above the OECD average) for [financial disincentives to enter employment with child care costs](#). The cost of ECEC can also be a significant barrier for women and secondary earners taking on additional hours or days of work.

Submissions to the 2022 [Senate Select Committee on Work and Care](#) have emphasised that the design of Australia's tax and transfer system has a strong gendered impact on families, directly shaping household decision-making about who works and who cares, or how work and care are combined. Gendered patterns of care and workforce participation are a key feature of Australia's labour market, with long term implications for women's economic security.

- *ECEC workforce*

Key policy issues for the ECEC workforce are low pay and recruitment and retention challenges leading to chronic staff shortages. The 2022-23 Budget has not clarified the Government's position on these issues.

Low pay in the ECEC sector is an issue that largely affects women. The Government's 2021 National Workforce Census (NWC) for the early childhood sector indicates that the ECEC workforce was predominantly female (92.1 per cent) whereas males made up 7.7 per cent of the workforce. Indigenous educators were 2.9 per cent of the workforce, compared to 97.1 per cent non-Indigenous.

For the first time, the 2021 NWC asked how staff wages compared to the award. Services reported that more than half of all paid staff received the award wage, one in five staff was paid up to 10 per cent above the award, 5.4 per cent were paid between 10 per cent and 25 per cent above the award and 1.9 per cent were paid more than 25 per cent above the award.

Unlike many other low paid sectors, the ECEC sector has mandated workforce qualification requirements. Over four fifths (84.8 per cent) of paid contact staff in the ECEC workforce had an ECEC related qualification, including 11.9 per cent with a Bachelor degree and above and 14.1 per cent with a degree in a teaching field. Around one in four (23.0 per cent) paid contact staff were studying for a qualification during the NWC reference week (excluding professional development).

Low pay and difficult working conditions (especially those experienced during the pandemic) lead to high turnover and staff shortages. According to the 2021 NWC, average years of tenure for paid contact staff at their current child care service was 3.6 years. Paid contact staff with ECEC related qualifications averaged 4.0 years' tenure at their current service, compared to 1.4 years' tenure for paid contact staff not qualified.

### **Gender implications**

The NFAW welcomes the Government investments in the Budget to make ECEC more affordable for Australian families. The Government acknowledges the importance of cheaper child care to [cost of living relief](#) and the significant cost of early childhood education and care can prevent parents, particularly women, from working as much as they want. The Government estimates these reforms will benefit 1.26 million families and will increase the hours worked by women with young children by up to 1.4 million hours per week in 2023–24. This is equivalent to an extra 37,000 full-time workers.

Budget Paper No.2 is not clear on who is 'eligible' for the 90 per cent subsidy for the first child in care. This is clarified in the [Family Assistance Legislation Amendment \(Cheaper Child Care\) Bill 2022](#). Under the new rules families earning up to \$80,000 would be eligible for a 90 per cent CCS subsidy, while families earning over \$80,000 would receive a CCS rate that tapers down by one percentage point for each additional \$5,000 of family income until it reaches zero per cent for families earning \$530,000. Based on [The Sector's analysis](#) of the proposed new rates, a family earning \$150,000 will receive a 76 per cent subsidy, a family that earns \$250,000 will see their CCS subsidy set at 56 per cent and a family earning \$350,000 will get 36 per cent.

While the NFAW recognises the need for a progressive system of support for families accessing subsidised ECEC in the short and medium term (with more support provided to those who need it most), we also support the goal of universal, free ECEC for all children in the longer term. This commitment should be part of

a 10-15 year productivity agenda for long-term social and economic well-being across Australia, including measures to support child and family well-being.

The impacts of the Government's hourly rate cap and the activity test have not been considered in this Budget, other than through their commitment to provide 36 hours of subsidised care to First Nations children per fortnight, irrespective of whether their parents or carers meet the activity test. NFAW welcomes the commitment of \$33.7 million to implement this change over four years from 2022-23, though families still need to be able to afford the out-of-pocket fees they will be charged, unless they are eligible for the Additional Child Care Subsidy.

The NFAW is aware that the cost of child care is partly driven by the fee charging practices of child care services, including the hourly charge and the length of the 'session of care' charged by services (whether or not families use the whole session). Many services charge for an 11-12 hour session per day, although some have been offering shorter sessions since the introduction of the Child Care Package in 2018. The length of the session of care needs to be considered by the Productivity Commission, together with the 100 hours limit on allowable subsidised care per fortnight. For a family where both partners are working full-time and paying for a 12 hour session per day, the limit of 100 subsidised hours per fortnight leaves them paying for 20 hours of unsubsidised care (10 days of care x 12 hour sessions, totalling 120 hours), in addition to out-of-pocket fees for subsidised hours/sessions of care. The effectiveness of the hourly rate cap in applying 'downward pressure' on child care fees should also be considered by the ACCC.

Disincentives for women to work more hours/days need further consideration, including through an examination of the tax and transfer system. Child care costs are still the main financial barrier to going full-time, with many women losing more than they gain by working an extra day ([Wood et al., 2020](#)). As pointed out in several submissions to the 2022 [Senate Select Committee on Work and Care](#), for some second income earners (usually mothers) who return to work and use ECEC, the combination of a decrease in Family Tax Benefits, progressive income tax rates and reduced CCS at higher income levels, can result in high effective marginal tax rates (EMTR). The Work + Family Policy Roundtable submission noted that 'financial incentives baked into the system of tax and transfers embed the one (male)-and-a-half (female) household earner model so dominant in Australia'. The Productivity Commission's submission also noted that changes in the tax and transfer system and other policy areas are likely to have a far greater impact on workforce participation than any changes in ECEC policies (a finding of the Commission's 2015 Inquiry). A submission by Dr Leonora Risse advocates for innovative approaches such as designing subsidies that increase in accordance with the number of hours or days worked per week by the second-income earner, rather than decrease in accordance with household income.

- *ECEC workforce implications*

There does not appear to be any targeted funding in the Budget for ECEC workforce measures. Some free TAFE training places may be made available for ECEC educators under the free TAFE places fund in the Budget ([Budget Paper 2](#), pp.103-104). The overseas migration skills list now includes ECEC educators, along with aged care workers. Apart from these measures, it is not clear how the Government and ECEC providers will address current and future ECEC educator shortages. There was a record [7,300 job vacancies](#) in the sector in September 2022 and the [National Skills Commission](#) has predicted strong demand for ECEC educators in future.

The NFAW acknowledges that the tension between reducing the cost of care for families and increasing wages for women working in ECEC. However, expanded training opportunities, better remuneration and conditions are needed to meet workforce needs, for example, to fill staff shortages following the pandemic and provide early childhood teachers for [expanded preschool provision](#) for three year olds in Victoria and NSW announced in mid 2022, to be implemented by 2025 and 2030, respectively.

Investing in the care sector makes economic sense for families and Australia's productivity. Modelling undertaken by Associate Professor Janine Dixon for the [NFAW Gender Lens 2020 \(Appendix A\)](#) found that if sufficient care services could be provided to enable all women who want to join the workforce to do so, and the wage rates of care workers were increased sufficiently to attract the additional number of care workers required to fulfil this labour need, the net impact on the economy would be an increase in the GDP growth rate by 1.64 percentage points ten years onwards from when this initial investment is made.

## Recommendations

NFAW supports child care measures that increase child care subsidies to families to improve the affordability of child care; provide greater flexibility and accessibility of child care, particularly for vulnerable families and disadvantaged communities; better regulate child care providers' fee charging practices; and importantly, help fund wage increases and better conditions for early childhood educators. There have been [recent calls](#) for the Government to fund a 10 per cent wage rise for ECEC educators, which the NFAW supports. At the same time, mechanisms are needed to ensure that wage rises are not simply passed on to families in higher child care fees.

The 2022-23 Budget is a promising start in addressing the affordability of child care. Further measures to increase affordability and accessibility need to be considered in the Productivity Commission and ACCC reviews, including:

- changes to the Government's hourly fee cap, whether it is sufficient and operating as intended to place downward pressure on child care fees
- whether an hourly fee cap increase or wage subsidy would be needed to fund ECEC educator wage increases
- other methods to increase recruitment and retention of child care educators in the sector
- whether the activity test is an incentive for families to work, or work more hours/days
- whether the activity test is preventing vulnerable families (who may not be eligible for Additional Child Care Subsidy) from using child care
- whether the activity test should be abolished
- adequacy of the fortnightly limit of 100 hours of subsidised care
- services' fee charging practices and the length of the session families are charged.

The NFAW agrees with the [Business Council of Australia](#) that it would be timely to revisit the previous [Productivity Commission Inquiry into Child Care and Early Childhood Learning](#) (2015) recommendations, assess the impact of those that were implemented (including CCS) and reconsider whether those that have not yet been actioned should now be prioritised. The Productivity Commission review should also consider the findings of the independent [Child Care Package Evaluation](#) (AIFS, 2022) which evaluated the impact of the Child Care Package introduced in 2018, drawing on the recommendations of the earlier Productivity Commission Inquiry.

## References

Australian Institute of Family Studies. (2022). *Child care package evaluation*.

<https://aifs.gov.au/projects/child-care-package-evaluation>

Business Council of Australia. (2022). *Advancing women in the workforce*. Submission to the Senate Education and Employment Legislation Committee Inquiry into Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022.

[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Education\\_and\\_Employment/ChildCareBill2022/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/ChildCareBill2022/Submissions)

Commonwealth of Australia (2022). *Budget Paper No.2*. Canberra. [https://budget.gov.au/2022-23-october/content/bp2/download/bp2\\_2022-23.pdf](https://budget.gov.au/2022-23-october/content/bp2/download/bp2_2022-23.pdf)

Commonwealth of Australia (2022). *Women's budget statement*. Canberra. <https://budget.gov.au/2022-23-october/content/womens-statement/index.htm>

Department of Education. (2022). *2021 Early childhood education and care national workforce census*. Canberra. <https://www.education.gov.au/child-care-package/early-childhood-data-and-reports/national-workforce-census>

Dixon, J. (2020). Simulations of increased government expenditure in the care sectors: Appendix A. *Gender Lens on the Budget*. <https://nfaw.org/policy-papers/gender-lens-on-the-budget/gender-lens-on-the-budget-2020-2021/>

Lucas, F. (2022, October 20). Government signals changes to ECEC wages in Secure Jobs, Better Pay Bill. *The Sector*. <https://thesector.com.au/2022/10/20/government-signals-changes-to-ecec-wages-in-secure-jobs-better-pay-bill/>

National Skills Commission. (2021). *Australian jobs 2021*. [https://www.nationalskillscommission.gov.au/sites/default/files/2021-12/NSC21-0025\\_Australian%20Jobs%202021\\_ACC-FA2\\_0.pdf](https://www.nationalskillscommission.gov.au/sites/default/files/2021-12/NSC21-0025_Australian%20Jobs%202021_ACC-FA2_0.pdf)

OECD (2022). Financial disincentive to enter employment with childcare costs (indicator). [https://www.oecd-ilibrary.org/employment/financial-disincentive-to-enter-employment-with-childcare-costs/indicator/english\\_d44eb45b-en](https://www.oecd-ilibrary.org/employment/financial-disincentive-to-enter-employment-with-childcare-costs/indicator/english_d44eb45b-en)

Productivity Commission. (2015). Inquiry report into childcare and early childhood learning. <https://www.pc.gov.au/inquiries/completed/childcare/report>

Productivity Commission. (2022). Senate Select Committee on Work and Care, Submission 2. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Work\\_and\\_Care/workandcare/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Work_and_Care/workandcare/Submissions)

Risse, L. (2022). Select Senate Committee on Work and Care, Submission 95. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Work\\_and\\_Care/workandcare/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Work_and_Care/workandcare/Submissions)

Roberts, J. (2022, September 30). Unpacking the new Family Assistance Legislation – What are the key elements and how will they impact ECEC providers? *The Sector*. <https://thesector.com.au/2022/09/30/unpacking-the-new-family-assistance-legislation-what-are-the-key-elements-and-how-will-they-impact-ecec-providers/>

The Australian Work + Family Policy Roundtable. (2022). Select Senate Committee on Work and Care, Submission 22. [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Work\\_and\\_Care/workandcare/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Work_and_Care/workandcare/Submissions)

Thomson, A. (2022, 1 November). Childcare giant calls for urgent 10 per cent pay rise for workers. *Sydney Morning Herald*. <https://www.smh.com.au/politics/federal/childcare-giant-calls-for-urgent-10-per-cent-pay-rise-for-workers-20221031-p5bucu.html>

Wood, D., Griffiths, K. and Emslie, O. (2020). Cheaper child care: A practical plan to boost female workforce participation. Grattan Institute. <https://grattan.edu.au/wp-content/uploads/2020/08/Cheaper-Childcare-Grattan-Institute-Report.pdf>