

Productivity Commission sceptical of value of Abbott's parental leave scheme ^[1]

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EXCERPTS:

A government-ordered inquiry has questioned the benefits of Tony Abbott's signature paid parental leave scheme and called for some of the funding to be diverted to early childhood education and care, saying it would have a greater impact on workforce participation.

The Productivity Commission has also suggested replacing Australia's complicated childcare benefits with a single means-tested subsidy that would result in an increase in support for lower income families.

This proposal, outlined in the commission's draft report, would see a decline in childcare support for families with gross income above \$160,000.

Despite the commission's sceptical approach to the government's full-replacement-wage paid parental leave scheme, the report has backed another policy favoured by the prime minister: the extension of funding to nannies, so long as they were appropriately qualified.

The Coalition had promised to launch an inquiry into childcare and early childhood learning to look for ways to improve the system and make it more flexible in a modern work environment.

The Productivity Commission's draft recommendations, published on Tuesday, would increase government spending on this area from \$7bn to \$8bn per year - a prospect the Coalition could find difficult to adopt in the current budget environment.

But the report found "there may be merit" in diverting some of the funding for the government's proposed \$5.5bn per year paid parental leave scheme into childcare.

The former Labor government legislated its minimum-wage paid parental leave scheme based on a design proposed by the Productivity Commission in a previous report.

In its latest report, the commission said the Coalition government's planned changes would make the scheme "more generous to many mothers" but it was "unclear that this would generate additional significant maternal and child health benefits".

The commission said a number of submissions and the government's national commission of audit had suggested that some of the funding be diverted to funding childcare on the basis that "childcare is a greater barrier to returning to work for mothers than the availability of PPL".

"The commission agrees with this widespread assessment that allocating additional funding to ECEC [early childhood education and care] is likely to have a greater impact on workforce participation than expanding the PPL scheme," it said.

The report found about 165,000 parents with children aged under 13 years could potentially be added to the workforce but were not able to be because they were "experiencing difficulties with the costs and accessibility of suitable childcare".

The interaction of tax and welfare policies provided disincentives for many second income earners to work more than part time, the report said.

People often struggled to understand their entitlements under the "complex" existing system which included two major subsidies: the Child Care Benefit and the Child Care Rebate.

Another problem was that the design of the measures was resulting in a declining proportion of assistance to lower income families who were least able to afford services, the report said.

The presiding commissioner, Dr Wendy Craik, said the commission favoured replacing the existing benefits with a "single subsidy that would be paid directly to the parents' choice of provider, and be means and activity tested".

This subsidy "would be based on a reasonable cost of care", Craik said.

"Means-testing the childcare rebate will mean that more families on very low incomes will pay less for their childcare than they do now. We expect low-income families would see around 90% of their reasonable childcare fees paid by government," Craik said.

The new subsidy would cover between 90% and 30% of the deemed cost of care for the hours of care for which the provider charged. The government would meet 90% of the deemed cost for families with incomes under \$60,000. The support would decrease in a linear way from 90% for those earning \$60,000 until falling to 30% for those earning \$300,000.

Modelling in the report indicated that any family with gross income under \$160,000 was likely to find mainstream services more affordable under the new scheme. The commission gave an example of a family earning \$80,000 to \$100,000 being entitled to assistance of about 76%, up from 62% provided under the current childcare subsidies.

The estimated its proposals could increase labour supply by 0.4%, or 47,000 workers.

The assistant minister for education, Sussan Ley, welcomed the draft report, saying the inquiry was a "once in a generation opportunity for reform".

Ley did not comment on the various recommendations, saying the commission "acknowledged there was still much work to be done between now and the final report being handed to government in October".

The report argued governments should allow approved nannies to become an eligible service for which families can receive assistance, conditional on those nannies meeting National Quality Standards. This should include a minimum qualification requirement of a relevant certificate III, or equivalent, "and the same staff ratios as are currently present for family day care services".

The report suggested random and targeted inspections by regulatory authorities to ensure compliance. It said the extension of child-based government assistance to enable greater access to home-based care services would improve accessibility for families with parents needing to work irregular or non-standard hours.

The commission did not recommended extending government subsidies to the use of au pairs, but suggested amending working holiday visa requirements to enable au pairs to remain with a family for the full 12 months of their visa, rather than the current limit of six months.

The report also found participation in a preschool program in the year before starting formal schooling provided benefits in terms of child development and a successful transition to school.

It suggested a portion of family tax benefit part A should be linked to the child's attendance in a preschool program where one was available.

The report recommended extension of the National Quality Framework to include all centre and home-based services that received federal government assistance, but also suggested changes to qualifications and staffing requirements.

Among the changes would be allowing services to temporarily operate with staffing levels below required ratios, freeing up centres to maintain staffing levels "on average" rather than at all times.

The commission is planning public hearings in August and is calling for submissions on its draft report by 5 September before it finishes its recommendations.

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