



FET UPDATE - FEDERAL BUDGET 2015, FAMILIES PACKAGE & CHILDCARE FUNDING IN AUSTRALIA

Folkestone Investment Management Limited as Responsible Entity of the Folkestone Education Trust ("FET" or the "Trust") provides the following summary of the announced changes to the funding of childcare in Australia as proposed by the Federal Government's Families Package.

FET welcomes the new Families Package released on Sunday as a good outcome for families and the childcare industry through sensible reforms that acknowledge the importance of childcare to families and the economy by increasing the Government's commitment to the sector. The Government has announced various changes and refinements to the funding system clearly directed at making childcare more affordable and accessible, with a focus on providing measures that increase the workforce participation rate.

FET's Management has been involved in the consultation process with the Minister for Social Services, the Honourable Scott Morrison and his advisors over the past few months. FET has been able to present its case regarding what it believes is best for the childcare sector, utilising its industry knowledge gained from its position as the largest childcare centre property owner with the largest and most diverse operator base as its tenants.

It should be noted that only high level detail has been provided so far and that the Federal Budget to be formally announced on 12 May 2015 is expected to provide further detail.

Key Highlights

- Effective from 1 July 2017, an enhanced and simplified childcare funding regime will be implemented, with the existing system to remain largely unaltered in the interim.
- Increased funding commitment of \$3.5bn by the Government to the childcare industry over the next 4 years, with the majority of the increase to be available from July 2017.
- A simplified and new single means-tested Child Care subsidy, to be paid directly to operators, will replace the existing Child Care Benefit, Rebate and Jobs, Education and Training program and other Child Care assistance programs.
- The new system will see an increase in funding, particularly for lower income families earning up to \$65,000, who will receive funding support for 85% of the childcare cost per child, or a designated benchmark price, whichever is the lowest. This will reduce to 50% for families with incomes of \$170,000 and above.
- The new funding regime recognises the need for childcare fee growth, adding approximately 17.5% to existing fee levels over the next two years and is reflected in the designated benchmark price between now and 2017. The benchmark price in 2017 dollar terms is to be \$127 per day, significantly higher than the existing assessed cost, recognising fee growth in the short term. Indexation past 2017 to be reintroduced. The rate is substantially higher than that recommended by the Productivity Commission in 2014.



- Removal of the existing subsidy cap of \$7,500 per child per annum for the majority of parents. The existing funding cap provided by the existing Child Care Rebate will be removed for all families with an income below \$185,000, thereby allowing for an increased quantum of the financial assistance beyond the existing cap, determined by usage. For those who earn beyond \$185,000, a cap will remain however, it has been increased to \$10,000 per child per annum, thereby largely maintaining any existing entitlement.
- A new Activity Test will be introduced for up to 100 hours of subsidised care per child, per fortnight. The new test will increase the basic qualification for funding and also support parents who work longer hours with greater financial assistance than is currently available. Low income families may receive some relief from the test via exemptions and a new child safety net worth \$327m.
- Up to 24 hours of funded childcare per fortnight will be offered to families with incomes less than \$65,000 who do not meet the revised Activity Test requirements.
- An additional childcare subsidy of \$156m for children at risk, disadvantaged families and those deemed at risk of abuse.
- The introduction of a limited and non-competitive nanny funding program to provide childcare for workers whom the existing industry does not support such as shift workers who cannot currently access regular childcare services.
- The Government expects that the new package will encourage more than 240,000 families to increase their participation in paid employment.

General Overview

The proposed changes simplify the childcare rebate system and is further recognition as to the necessity of childcare for Australian families and the economy. The Families Package is a significant enhancement of the research completed by the Productivity Commission in 2014 where the Government refined or ignored those recommendations made by the Commission, that we believed had adverse operational and commercial implications. The package appears to be designed to deliver reform with a focus on placing downward pressure on childcare costs, increasing accessibility and workforce participation. This, and the Government's reaffirmed support of the National Quality Framework, is expected to further enhance industry viability and stability into the future.

Areas that we believe require further consideration before implementation, include ensuring relief is provided for parents that may not strictly meet the new Activity Test requirements. This may be due to unusual activity patterns, with a focus on children and the negative impact on them of not participating in childcare. This could be through a minimum mandatory funding period or number of days care, thereby providing flexibility for parents to manage their activities and not be excluded by a quirk in their arrangements or whilst they seek to enhance their employment, study or training activities. Further, the reintroduction of indexation to the rebate and childcare benefit income thresholds between now and 2017 will relieve pressure on families and deliver some of the benefits the Families Package proposes well in advance of 2017.

Expected Impact on FET Operators

Although the Government's announcement does not yet contain the fine detail or any quantitative data, we expect the impact on FET's operators to be positive from both an industry and centre operating perspective. We believe that the package will provide FET's operators with the potential to increase occupancy levels through increased demand created by greater accessibility and by limiting



pressure on fees from the vast majority of parents. This is particularly relevant in areas where childcare may not have been as accessible for lower to middle income earners and the disadvantaged.

For higher income earners and higher fee centres, we expect the package will be largely benign. It may increase the amount per day that parents will need to pay, although this could be offset to some degree by the 33% increase in the fee cap to \$10,000 per annum. The revised fee cap should encourage higher workforce participation rates (and a greater number of days utilised) by parents on a weekly basis. It is our expectation that for parents earning more than \$185,000, there may be some additional capacity to pay within their finances.

Generally, we expect that approximately 95% of FET's centres, including pipeline centres, will fall below the designated benchmark subsidy rate in 2017. It is the operations at these centres that are expected to be the major beneficiaries of the new package. We expect no material impact on the remainder.

FET expects the new package once implemented, to increase demand for childcare through increased accessibility resulting in higher participation rates. These expected outcomes are positive for the industry and FET's portfolio.

We anticipate that the Federal Budget, to be announced on 12th May, should provide further detail in addition to that contained herein. Management will keep FET's Unitholders up to date should further relevant details of the Families Package be released.

For further information contact:

NICK ANAGNOSTOU

Chief Executive Officer
Folkestone Education Trust

LULA LIOSI

Investor Relations Manager
Folkestone Education Trust
t: +61 3 8601 2668

About Folkestone Education Trust

The Folkestone Education Trust (FET) is a listed real estate investment trust (A-REIT) that invests in early learning properties. FET's website, www.educationtrust.folkestone.com.au provides information on FET, its Manager, announcements, current activities and historical information.

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