



# RESEARCH NOTE

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## The New Child Care Benefit

The Commonwealth has announced that, from 1 July 2000, there will be a new Child Care Benefit (CCB) to replace the two existing forms of childcare subsidy—Childcare Assistance and the Childcare Cash Rebate. According to the Government, the new Benefit:

provides for significant increases in assistance for many families, particularly low income families, and greatly simplifies arrangements for claiming assistance.<sup>1</sup>

### Existing Arrangements

Childcare Assistance is a means tested payment, paid by the Commonwealth since 1984, that allows for fees to be reduced for parents that have their children cared for in long day care, family day care, occasional care, outside school hours care and some pre-schools. It is paid directly to the service provider who then reduces the fee by the appropriate amount.

The Childcare Cash Rebate introduced in 1994 is payable directly to the family and is only partially means tested. It is paid to help families meet the cost of work related care expenses for dependent children under the age of 13 years. Claims for the Rebate are made through Medicare offices.

### How the Child Care Benefit Will Work

The main features of the new Benefit can be summarised as follows:

- Childcare Assistance and the Cash Rebate will be merged into one payment and administered by a new Family Assistance Office (FAO)
- all families who utilise Commonwealth Government

approved childcare providers and/or registered informal carers will be able to access the CCB

- the new Benefit will begin on 1 July 2000 and families using approved service providers will have the choice of it being paid directly to that provider or to receive their payment at the end of the financial year.
- the maximum rate of payment for the CCB will be an hourly rate of \$2.40 multiplied by the hours of care used. This will generally mean a maximum rate of \$120 per week for 50 hours of care for one child. Part time family day care and non-standard family day care may attract a higher hourly rate.
- the maximum rate of CCB will be available for families with incomes up to \$28 200 per annum. Over the \$28 200 threshold a taper rate applies which varies according to the number of children in care and the level of family income. At the end of the taper (approximately \$80 000 per annum) a minimum rate of \$20.10 per week is paid for one child not at school utilising 50 hours of care, irrespective of family income.

### Will The New CCB Be More Generous Than The Existing Arrangements?

According to the Government the new CCB is expected to provide an increase of approximately \$7.50 per week for low income families with one child in full-time centre based care. There will also be additional benefits available for families with two or more children in care. The exact amounts will depend on factors such as indexation between now and the start up date of 1 July 2000.<sup>2</sup>

However, one study argues that the gains to low income families will not be as great as the Government is suggesting and that childcare affordability is only likely to be improved by a very small amount.

If the trend in childcare fees of the three years to 1997 has continued, then average fees for a long day care centre will be around \$165 a week. If this is so, then despite the Government's efforts, affordability will probably be just as difficult for lower income families in July 2000 as three years before.<sup>3</sup>

The study compared childcare affordability for lower income families (in long day care centres) in mid-1997 with that estimated for mid 2000 when the new CCB comes into operation. When factors such as the rate of inflation, average fees, the estimated cost savings associated with the abolition of indirect taxes and the estimated effect of the new CCB subsidy arrangements were taken into account the study found that the low income family would be one dollar a week better off.

### Commonwealth Funding for Childcare

Commonwealth expenditure on childcare over the period 1992–93 to 1999–00 is shown in the accompanying Table.

The Table shows funding for the main forms of Commonwealth assistance for childcare over the period 1992–93 to 1999–00. It can be seen that funding for childcare has generally been on the increase over the period as the size of the sector grows due to a growing number of children being placed in care—for example, the number of operational places has grown from

208 000 in June 1993 to 399 400 in June 1998.<sup>4</sup> However, the exception to this general trend was the 1997–98 and 1998–99 financial years where there were significant reductions in Commonwealth childcare outlays. These reductions would appear to be due to a lessening of the level of subsidies to services (and particularly the withdrawal of operational subsidies to community based long day care centres in July 1997) and a lower take up rate for Childcare Assistance. According to the Australian Institute of Health and Welfare the decline in expenditure in 1997–98 was:

mainly because of the fall in expenditure on operational subsidies and Childcare Assistance ...[and that]...the fall in expenditure on Childcare Assistance probably reflects 'changed patterns of demand and changed eligibility conditions' (SCARC 1999:38), for instance parents eligible for Childcare

Assistance may have reduced the hours in which their children are in care.<sup>5</sup>

It should be noted however, that the extent to which families use childcare services is influenced by a wide range of factors, including the general state of the economy, the quality of the childcare service, affordability, proximity of services and general choice considerations. Thus, it is difficult to precisely determine what causes changes in childcare demand over time. The Table also shows that the 1999–00 financial year will, in all likelihood, see Commonwealth expenditure go to a new high of \$1123m, largely as a result of higher estimated outlays on Childcare Assistance and the Cash Rebate. The Minister for Family and Community Services (Senator Newman) says that in the first three years of the operation of the new Child Care Benefit an additional \$600m will be provided for childcare.<sup>6</sup>

**Greg McIntosh  
Social Policy Group  
Information and Research  
Services**

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*Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.*

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**Commonwealth Expenditure on Childcare**

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00*
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Childcare Assistance	384	497	592	657	711	640	651	764
Childcare Rebate	-	-	88	121	127	123	117	147**
Subsidy to Services	105	116	124	141	155	108	89	113
Other	57	63	70	71	72	128	79	99
<b>Total</b>	<b>546</b>	<b>676</b>	<b>874</b>	<b>990</b>	<b>1,065</b>	<b>999</b>	<b>936</b>	<b>1,123</b>

Source: Figures Provided by the Department of Family and Community Services

Subsidy to Services – Includes Operational Subsidies for Community Based Long Day Care, Family Day Care, Outside School Hours Care, Year Round Care, Occasional Day Care and capital.

Other – Includes Supplementary Services, Special Services, Program Support, Accreditation, Innovative Service Strategy, Special Needs Scheme, Reform of School Age, etc.

\*Projected expenditure for 1999–2000 includes additional estimates.

\*\* The allocation for Childcare Rebate for 1999–2000 is to be revised by \$12 million to \$135 million, which will also reduce the total by \$12 million.

1. Department of Health and Family Services, *Government Response to the Senate Community Affairs References Committee Report on Child Care Funding*, December 1999, p. 1.
2. *ibid*: p. 9.
3. Don Siemon and Greg Ford, 'Improving Child Care Subsidies', *Brotherhood Comment*, September 1999.
4. Department of Family and Community Services, *Child Care In Australia*, July 1999, p. 3.
5. Australian Institute of Health and Welfare, *Australia's Welfare*, 1999, p. 107.
6. Press Release, 7 March 2000.