Early Childhood Australia
A voice for young children

OUR VISION: EVERY YOUNG CHILD IS THRIVING AND LEARNING

Education and Employment Legislation Committee Inquiry into the *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014*

Submission from Early Childhood Australia

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About us

Early Childhood Australia (ECA) is the national peak early childhood advocacy organisation, acting in the interests of young children, their families and those in the early childhood field. ECA advocates for quality in education and care as well as social justice and equity for children from birth to eight years. We have a federated structure with Branches in each State and Territory. In 2013, ECA celebrated 75 years of continuous service to the Australian community since 1938.

Introduction

Early Childhood Australia (ECA) welcomes this opportunity to provide a submission to the Education and Employment Legislation Committee Inquiry into the *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014*.

Everyone benefits from early learning. Access to quality early childhood education and care amplifies children's development and supports women's workforce participation with benefits for our economy and society.

ECA has welcomed the Government's Budgt investment of $28.5 billion over four years in government child care assistance, despite a difficult fiscal environment.

While we welcome the Government's investment, we believe that significant reform is required to improve our early childhood education and care system for the future. ECA is taking an active role in the Productivity Commission's Inquiry into Child Care and Early Learning, established by the Government. We believe that the Productivity Commission's Inquiry is a unique and timely opportunity to improve access to quality early childhood education and care for Australian children.

The affordability of early childhood education and care (ECEC) will be an important consideration for the Commission and all measures regarding the affordability of ECEC should properly be considered within the Inquiry. Making reforms to the current subsidy system before the Productivity Commission has an opportunity to review the system would be ineffective and compromise the ability of the Inquiry to recommend positive solutions.

As outlined in ECA's submission to the Productivity Commission's Inquiry into Child Care and Early Learning and this submission, there has been a long term decline in the real value of child care payments.Without significant reform of the child care system, government subsidies will continue to lose real value over time. We are concerned that the proposed measures to freeze the Child Care Rebate cap and freeze the Child Care Benefit thresholds will exacerbate the decline in real value of the subsidies. This will affect the affordability of ECEC for families, and particularly low and middle income families.

Families may reduce the number of days they can access care for their children, or withdraw them from ECEC which will have a significant impact on the future development outcomes of these children and the Australian economy.

Early Childhood Australia therefore does not support the *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014.*

Background to early childhood education and care reform

Child care affordability

The relationship between child care affordability and women's workforce participation is well known. Gong and Bruenig suggest that a one per cent increase in the gross child care price on average, results in a decrease to mothers' employment rate of 0.07 per cent (Bruenig & Gong, 2011, p.27). Moreover, families on lower incomes are more responsive to increases in child care prices (Bruenig & Gong, 2012, p.39).

Affordability is also a major barrier to children's participation in early learning. Attendance at early childhood development programs has been found to have a significant beneficial effect on a child's readiness for future learning and their ability to make a successful transition to full-time schooling, particularly among disadvantaged children. Children who attend quality early childhood education programs show better performance and progress in their early school years in intellectual, cognitive and social domains (Barnett, 2008).

Government funding of child care assistance

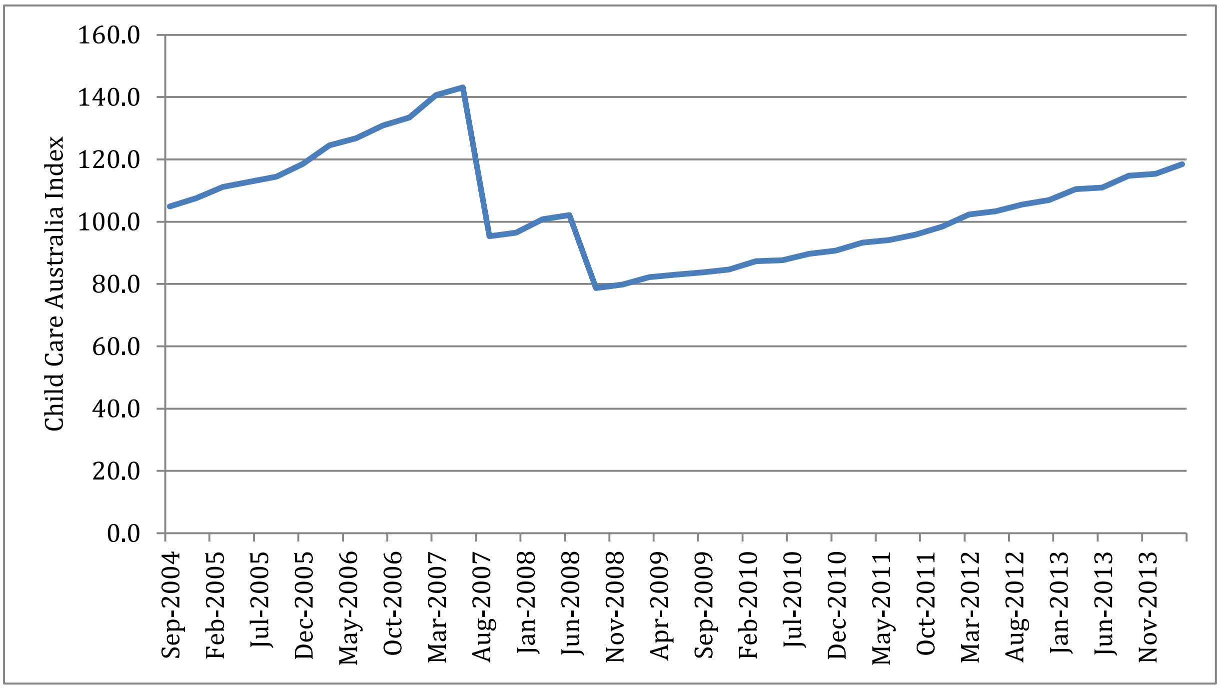
ECA welcomes the Government's investment in child care assistance announced in the 2014-15 Budget. This is projected to reach $28.5 billion over the forward estimates, an increase of over 29.4 per cent compared with $23 billion forecast over the forward estimates in the 2013-14 Budget.

However, despite a significant increase in government expenditure, parents continue to pay more for early childhood education and care services and ECA believes that a major re-think of government subsidies is required.

Measures to increase child care affordability introduced by successive governments have been successful at reducing the out-of-pocket costs for families. However, child care prices are rising over time and this has eroded the impact of affordability measures. There are a range of structural issues preventing growth in subsidies to meet these increases.

Since the Child Care Rebate was increased from 30 to 50%, and the cap increasing from $4354 to $7500 on 1 July, 2008, out-of-pocket expenses have increased significantly. The only experience of a most families using ECEC since has been increasing costs.

Figure 1: Net child care CPI



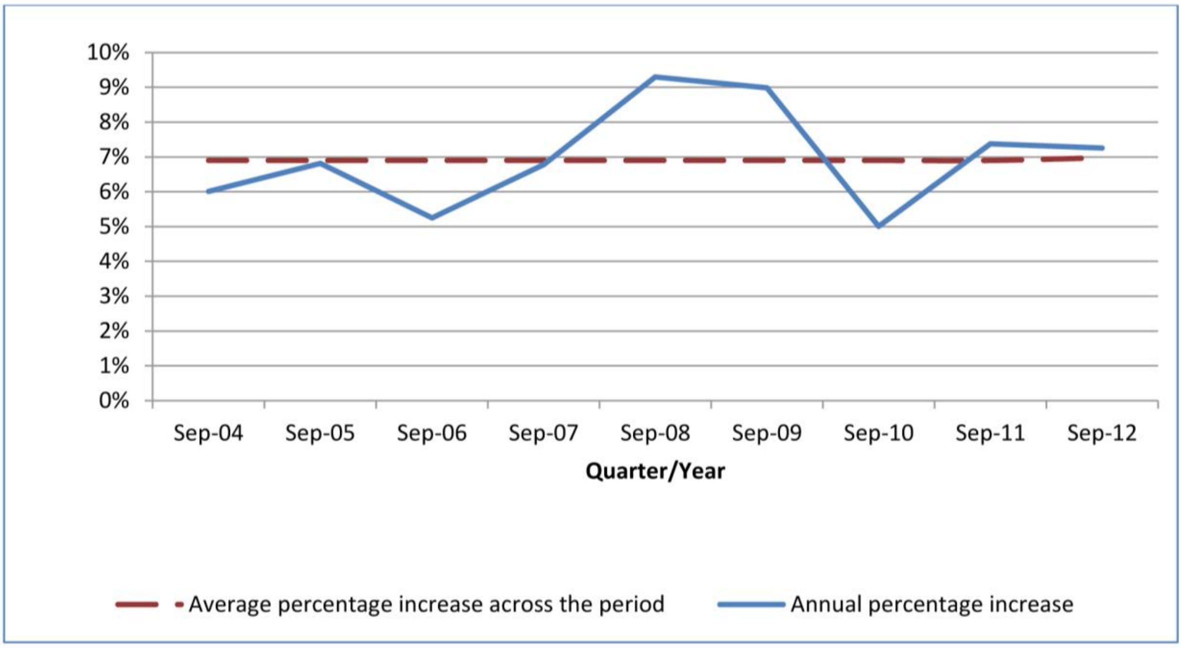
Structural issues with child care subsidies

Structural features of child care subsidies:

- The taper rate on the Child Care Benefit (CCB).
- The indexation of the CCB rate to the Consumer Price Index (CPI).
- The indexation of the CCB thresholds to the CPI.
- The Child Care Rebate (CCR) percentage.
- The interaction between the CCB amount and the CCR .
- The cap on the CCR.
- The indexation of the CCR cap.

The CCR cap, the CCB rate and income thresholds are indexed at CPI to adjust for increases in child care prices and incomes over time. However, long day care fees have been increasing by 7 per cent annually on average over the past decade (DEEWR, 2013, p.7; Productivity Commission, 2013, p.20). The main drivers of this price inflation are wage costs, utilities, and rent which continue to increase beyond general consumer prices.

Figure 2: Average and annual percentage change to long day care hourly fees, September quarter 20014 to September quarter 2012



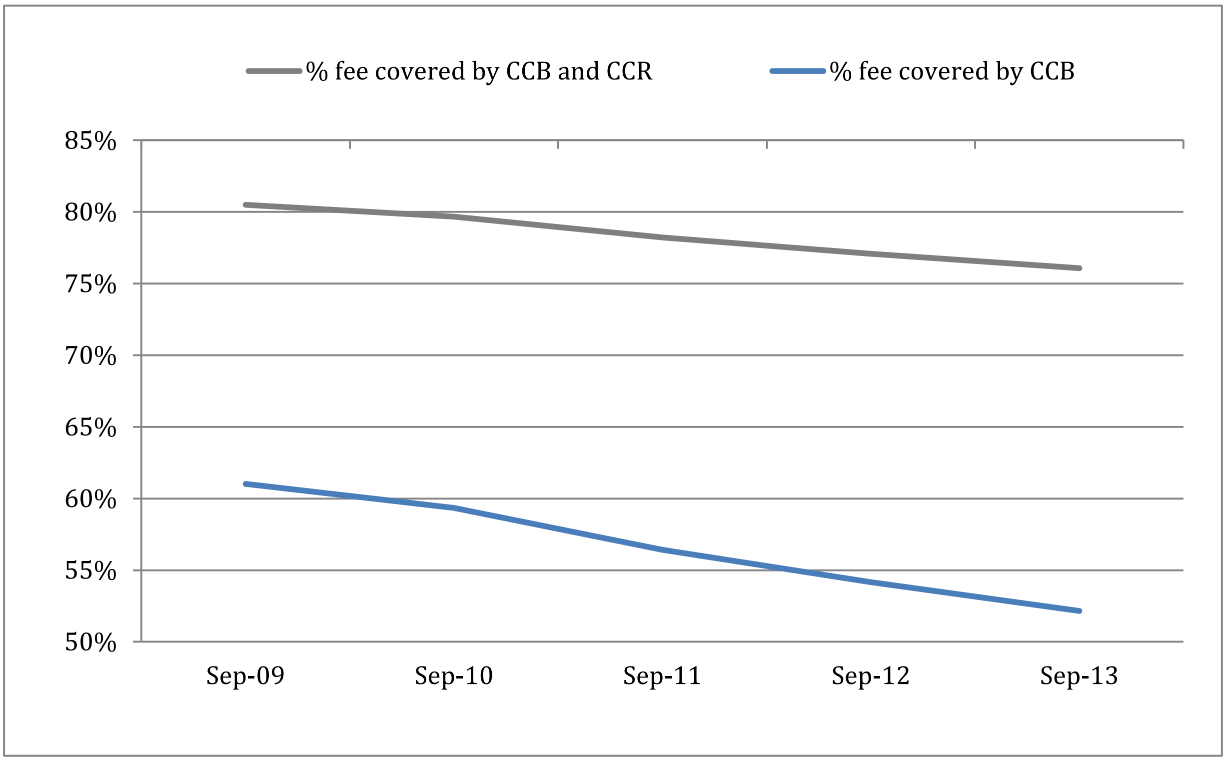
Source: (DEEWR, 2013, p.7; Productivity Commission, 2013, p.20)

As child care prices have increased well above the CPI, this has led to a significant erosion of the value of government child care assistance over time.

A positive feature of the CCR is that it covers a percentage of out of pocket costs which has substantially helped to mitigate these cost increases. However, as the Child Care Benefit has declined in real value, the CCR has only partially compensated for this loss.

The dramatic effect that the increase in child care prices has had is shown in the figure below over the past four years.

Figure 3: Percentage of long day care fees covered for a maximum CCB rate recipient with one child using 50 hours care per week - since September 2009



ECA expects prices will continue to rise above general inflation into the future, continuing the long term decline in the value of child care subsidies. This is confirmed by the Legislative Out-years Customisable Model of Child Care data from the 2013-14 Budget and evidence provided by the Department of Education in its recent appearance before Budget Estimates. The Deputy Secretary Department of Education stated that child care prices were forecast to increase annually by around seven per cent on average over the forward estimates.

The Legislative Out-years Customisable Model of Child Care (LOCMOCC) is a micro-simulation model that is based on unit record data of child care attendance records. LOCMOCC models expenditure for Child Care Benefit (CCB) and Child Care Rebate (CCR). Based on a range of inputs, the model forecasts expenditure for future years. The various model parameters, methodology and assumptions are agreed with the Department of Finance and the Treasury.

LOCMOCC is based on a unit record level dataset of family/child information, a set of policy parameters including the CCR limit, and growth parameters for the out years.

The Department of Education provided a table showing the parameters and estimated growth factors for all care types used at the 2013-14 Budget. [1]

Parameter/growth factor includes	2013-14	2014-15	2015-16	2016-
Growth in fees	8.6%	9.0%	7.5%	7.8%

It is not surprising that ECEC fee increases continue to exceed the CPI, as around 70–80 per cent of operational costs are wage related. Increasingly in programs funding community or human services, a different model is used to calculate appropriate indexation. For example, the ACT Government has a Community Sector Funding Rate = (Wage Price Index × 0.80) + (Consumer Price Index × 0.20)[2].

While ECA supports higher indexation, we would prefer to remove these structural problems altogether in a broader reform of early childhood services funding, by streamlining the payment mechanisms and adopting a broad based tapered rate which is determined by income testing.

Reform of the Early Childhood Education and Care system

ECA believes that the focus of Australia's ECEC system must be improving access to quality early education and care for all children. In our submission to the Productivity Commission's Inquiry into Child Care and Early Learning, ECA proposed that to address the affordability of ECEC, reform of government child care assistance should:

- provide more support to children from low income, disadvantaged families,
- provide a base level of universal support for all families, and
- address structural problems in the current system.

ECA proposed major reform of ECEC financing and the CCB/CCR subsidies to ensure these payments are better targeted and are better protected from erosion over time.

[1] Department of Education, answer to questions on notice, 9 December 2013 (received 10 December 2013)

[2] ACT Government, 2013–2014 Budget Paper No. 3, p.135.

We support the Government's review into the ECEC sector led by the Productivity Commission, which will provide a significant opportunity to reform the child care funding system to meet both workforce participation and early childhood development objectives.

Any savings measures implemented before the Productivity Commission has begun to undertake its review would make it difficult for the Commission to provide recommendations on reform 'within the existing funding parameters' outlined in the Commission's Terms of Reference.

ECA considers that this Bill will have significant impact on the affordability of early childhood education and care, and does not contribute to reform of the payments system.

Recommendations

1) **Support the Productivity Commission to continue its Inquiry into Child Care and Early Learning based on its terms of reference to provide recommendations on reforming government child care assistance.**

Child Care Benefit

The Child Care Benefit (CCB) is affected by the rising costs of early childhood education and care (ECEC). Unlike the Child Care Rebate (CCR), the rate of the CCB has a determined value which is linked to income, not fees. It is increased annually with the CPI, leaving the payment structurally exposed to increases in ECEC fees. As a result the CCB has declined in value substantially over the past few years and this will continue unless the structural problems are addressed.

The decline in the value of the CCB affects families earning below the CCB income limit. The income limit is determined by the CCB thresholds under Family Assistance Law. These thresholds are indexed with CPI annually, and are therefore also structurally exposed to increases in ECEC fees.

Figure 4: Child Care Benefit Income Limits 2013-14

Number of children in care	Income limits before your payment reduces to $0
1	$145,642
2	$150,914
3 or more	$170,404 plus $32,219 for each child after the third

This proposed Bill, which freezes the CCB thresholds will significantly affect the CCB amount a family receives over time. This is a 'bracket creep' effect ie as house hold income increases, and the thresholds are not increased commensurate with inflation, families will move along the CCB taper rate receiving less CCB every year.

While the CCR partially compensates for this loss by covering 50% of the CCB loss, this only applies up the Rebate cap. Families reaching the CCR cap will not be compensated beyond the CCR cap.

Families who do not receive CCR are not compensated for the loss in CCB at all.

CCB only families

The decline in the value of the CCB particularly affects families who do not meet the Work Training Study test for the CCR and therefore can only claim CCB.

The 2014-15 Budget estimates that there will be 97,000 families who will only receive CCB in 2014-15. These are families that may not be eligible for the CCR, because they do not meet the Work Training Study Test (WTS) currently applied to the Rebate.

However, families can get up to24 hours of CCB per child per week without having to meet the Work, Training, Study test.

Figure 5: Programme 1.2, Department of Education 2014-15 Portfolio Budget Statement

	2013–14 Revised budget	2014–15 Budget	2015–16	2016–17	2017–18
Child Care Benefit					
Number of families using approved child care services and receiving a child care payment (percentage of families who use care and receive a payment)	978,000 (98%)	1,069,000 (98%)	1,103,000 (98%)	1,138,000 (98%)	1,175,000 (98%)
Number of families receiving both CCB and CCR	686,000	750,000	774,000	799,000	824,000
Number of families receiving only CCB	89,000	97,000	100,000	104,000	107,000

There are some services, particularly in disadvantaged areas, which cater for a high number of families who are only receiving CCB. In fact, some services base their whole business model on targeting these families and only charging fees commensurate with the CCB rate. The purpose of this type of ECEC is not the workforce participation of parents, but to purely to provide their children with access to developmental opportunities.

Research shows that children from disadvantaged backgrounds have the most to gain from quality early childhood education and care. Attendance at high-quality ECEC services provides significant long-term benefits for disadvantaged children, including better school performance, school attendance and improved social skills at school and later in life (COAG, 2009a).

The decline in value of the CCB has undermined the model services are providing to give children from disadvantaged access to early childhood education and care, and the proposed CCB measure will exacerbate the existing structural problems. As these families do not have access to CCR, they are fully exposed to reductions in the CCB amount.

Analysis of the impact on families of the CCB measure is provided further in our submission.

2) Freezes to the Child Care Benefit thresholds will have a significant impact on low and middle income families accessing early childhood education and care services and should not be supported.

Child Care Rebate

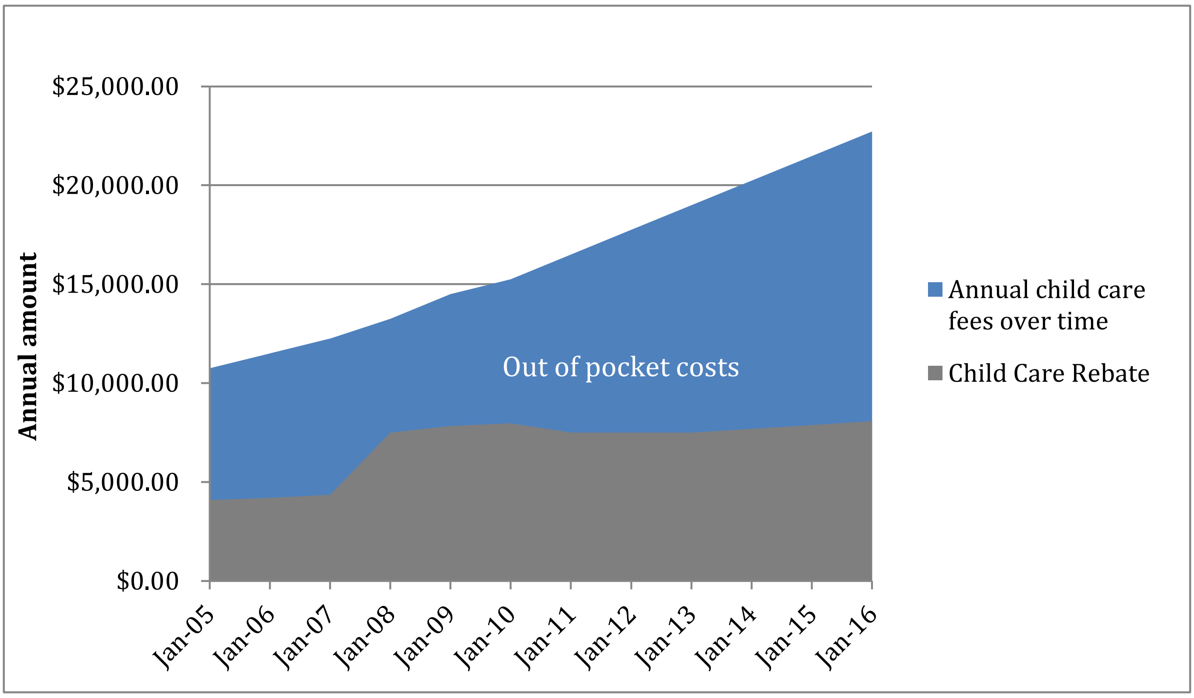
The Child Care Rebate is currently due to resume indexation on 1 July 2014. The indexation rate, which is tied to Consumer Price Index (CPI), is meant to adjust for increases in child care prices over time.

The *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014* freezes the Child Care Rebate (CCR) for a further three years until 2016-17.

Families who meet the CCR cap are affected by this as the Rebate only covers 50 per cent of out-of-pocket costs up to the cap of $7500 per child per year.

The cap was increased to $7500 per year at the same time that the rebate increased from 30 to 50 per cent of out-of-pocket costs. Indexation has since been frozen as a savings measure in the 2010–2011 Budget. As shown in the graph below, despite increases to CCR, out-of-pocket costs are increasing significantly above the subsidy. Indexation freezes on the CCR have exacerbated these cost increases over time, and a growing number of families are being affected.

Figure 6: Full-time costs and subsidy for a family earning over the CCB income limit, with proposed freeze of the CCR cap



This means that child care assistance provided to families that meet the cap is declining significantly in value. This Bill to extend the indexation pause on the Child Care Rebate will exacerbate these cost increases over time and will result in a growing and significant number of families being affected.

According to the Productivity Commission (Productivity Commission, 2014, Table 3A.30) median weekly long day care fees were $364 in 2013. Many Australian families using a long day care service, with median fees for just three days per week, will reach the Child Care Rebate cap of $7500 per child per year. As a result thousands of families in this position, or those using more hours, will have to meet the full cost of child care for the remainder of the financial year.

When the first cap and pause measure was introduced, the Government noted that 3 per cent of Australian families receiving CCR would reach the $7500 cap in 2010-2011. Government estimates now show that 15.5 per cent of all families receiving government child care assistance will meet the cap in 2016-17 if the freeze is extended until 2017 (Maiden, 2013). As a result, this measure will have a much larger effect on families than the previous cap and pause measure.

ECA also anticipates that by far the greatest numbers of families affected are middle income earners (those earning between $120,000 and $150,000 per year). Anecdotal feedback from ECA member services suggests that these families have dual incomes, and rely on the second income earner to return to work in order to meet living expenses. They require higher usage of child care, which is in excess of three days per week.

Effect on Services

This measure will also have a significant impact on early childhood education and care (ECEC) services. Feedback from early childhood services suggests that families who hit the CCR cap well before the end of the financial year often struggle to pay child care fees which are effectively doubled for the rest of the year.

This may result in significant debts owed to services when the cap is reached unexpectedly. These debts can accumulate quickly and add additional costs for services to reconcile, in the most extreme cases through debt collection.

Recent figures in the number of children and families accessing child care have shown lower growth trends in the years since the implementation of the cap and pause measure (DEEWR, 2013, p.10). There are a range of factors which may have contributed to lower growth, including the indexation on child care payments.

Income Testing

ECA believes that the current cap pause on the CCR is not an equitable way of determining the level of child care assistance provided to Australian families. We understand that the majority of families affected by this measure are middle income earners, not those on high incomes.

ECA also believes that there is merit in reviewing the targeting of child care assistance through an income test. For example, a means test of families earning over $300,000 would be a much more equitable and progressive means of achieving a similar quantum of savings as is sought by the Government.

However, we are strongly of the view that any savings must be reinvested to support better access to early childhood education and care for children, particularly those children from low income families. ECA has made recommendations to the Productivity Commission to look at a new funding model which reaches these objectives.

Analysis of the impact on families of the CCR measure is provided further in our submission.

Recommendations

3) **A freeze to the Child Care Rebate cap will have a significant impact on families reaching the cap and should not be supported.**

Further analysis of the impact of these measures

ECA has provided the analysis below on the impact of the proposed measures on families based on information publicly available, and against the assumptions outlined. These have not been confirmed with the Government. ECA has provided this analysis as an indication of the possible effect of these measures on families accessing services.

Scenario 1

Family with one child using long day care part time, by family income (2013-14)

		Current CCB/CCR policy				
Family Income	**Yearly Fee**	**CCB**	**CCR**	**CCB + CCR**	**Out-of-pocket cost**	**% of Fee From Gov't Assistance**
$55,000	$11,066	$5,400	$2,833	$8,233	$2,833	74%
$75,000	$11,066	$4,280	$3,393	$7,673	$3,393	69%
$95,000	$11,066	$3,160	$3,953	$7,113	$3,953	64%
$115,000	$11,066	$2,040	$4,513	$6,553	$4,513	59%
$135,000	$11,066	$920	$5,073	$5,993	$5,073	54%

Assumptions:

- CCB is based on the 2013-14 FY calculation rates.
- Assume 52 weeks child care per year
- Part time care is 28 hours per week. This is consistent with average hours for long day care of 27.7 hours per week (*Child Care and Early Learning in Summary September Quarter 2013*)
- Based on projected average hourly fee of $7.60 per hour

Scenario 2

Family with one child using long day care part time, by family income (2016-17)

		Proposed CCB/CCR policy (with feezes)				
Family Income	**Yearly Fee**	**CCB**	**CCR**	**CCB + CCR**	**Out-of-pocket cost**	**% of Fee From Gov't Assistance**
$59,954	$13,235	$5,123	$4,056	$9,179	$4,056	69%
$81,756	$13,235	$3,902	$4,667	$8,568	$4,667	65%
$103,557	$13,235	$2,681	$5,277	$7,958	$5,277	60%
$125,359	$13,235	$1,460	$5,888	$7,347	$5,888	56%
$147,160	$13,235	$239	$6,498	$6,737	$6,498	51%

Assumptions:

- These are the same families from 2013-14 taking into account projected wage price increases so the same families are comparable.
- CCB is based on the projected 2016-17 FY rates taking into account projected CPI increases.
- Assume 52 weeks child care per year
- Part time care is 28 hours per week. This is consistent with average hours for long day care of 27.7 hours per week (*Child Care and Early Learning in Summary September Quarter 2013*)
- WPI and CPI forecasts from 13/14 Budget Paper 1 - Economic Outlook
- Based on projected 16/17 average hourly fee of $9.09 per hour
- Assume child care fees increase according to historical average of 7% pa

Scenario 3

Family with one child using long day care part time, by family income (2016-17)

		Current CCB/CCR policy (ie without planned freezes)				
Family Income	**Yearly Fee**	**CCB**	**CCR**	**CCB + CCR**	**Out-of-pocket cost**	**% of Fee From Gov't Assistance**
$59,954	$13,235	$5,315	$3,960	$9,275	$3,960	70%
$81,756	$13,235	$4,094	$4,571	$8,665	$4,571	65%
$103,557	$13,235	$2,874	$5,181	$8,054	$5,181	61%
$125,359	$13,235	$1,653	$5,791	$7,444	$5,791	56%
$147,160	$13,235	$431	$6,402	$6,833	$6,402	52%

Assumptions:

- These are the same families from 2013-14 taking into account projected wage price increases so the same families are comparable.
- CCB is based on the projected 2016-17 FY rates taking into account projected CPI increases.
- Assume 52 weeks child care per year
- Part time care is 28 hours per week. This is consistent with average hours for long day care of 27.7 hours per week (*Child Care and Early Learning in Summary September Quarter 2013*)
- Assume CCR indexation recommences in 14/15
- WPI and CPI forecasts from 13/14 Budget Paper 1 - Economic Outlook
- Based on projected 16/17 average hourly fee of $9.09 per hour

- Assume child care fees increase according to historical average of 7% pa

Change – Family with one child using long day care part time, by family income

	Change compared with proposed measures in 16/17				Change compared with current policy in 13/14
Family Income	**Change CCB+CCR**	**Change CCB**	**Change CCR**	**Change out of pocket costs**	**Change out of pocket costs**
$59,954	-$96	-$192	-$96	-$96	-$1,223
$81,756	-$96	-$192	-$96	-$96	-$1,274
$103,557	-$96	-$193	-$96	-$96	-$1,324
$125,359	-$96	-$193	-$96	-$96	-$1,375
$147,160	-$96	-$193	-$96	-$96	-$1,425

Scenario 4

Family with one child using long day care full time, by family income (2013-14)

		Current CCB/CCR policy				
Family Income	**Yearly Fee**	**CCB**	**CCR**	**CCB + CCR**	**Out-of-pocket cost**	**% of Fee From Gov't Assistance**
$55,000	$19,760	$9,064	$5,348	$14,412	$5,348	73%
$75,000	$19,760	$7,064	$6,348	$13,412	$6,348	68%
$95,000	$19,760	$5,064	$7,348	$12,412	$7,348	63%
$115,000	$19,760	$3,064	$7,500	$10,564	$9,196	53%
$135,000	$19,760	$1,064	$7,500	$8,564	$11,196	43%

Assumptions:

- CCB is based on the 2013-14 FY calculation rates.
- Assume 52 weeks child care per year
- Full time care is 50 hours per week
- Based on projected average hourly fee of $7.60 per hour

Scenario 5

Family with one child using long day care full time, by family income (2016-17)

		Proposed CCB/CCR policy (with feezes)				
Family Income	Yearly Fee	CCB	CCR	CCB + CCR	Out-of-pocket cost	% of Fee From Gov't Assistance
$59,954	$23,634	$9,322	$7,156	$16,478	$7,156	70%
$81,756	$23,634	$7,205	$7,500	$14,705	$8,929	62%
$103,557	$23,634	$5,088	$7,500	$12,588	$11,046	53%
$125,359	$23,634	$2,972	$7,500	$10,472	$13,162	44%
$147,160	$23,634	$855	$7,500	$8,355	$15,279	35%

Assumptions:

- These are the same families from 2013-14 taking into account projected wage price increases so the same families are comparable.
- CCB is based on the projected 2016-17 FY rates taking into account projected CPI increases.
- Assume 52 weeks child care per year
- Full time care is 50 hours per week
- WPI and CPI forecasts from 13/14 Budget Paper 1 - Economic Outlook
- Based on projected 16/17 average hourly fee of $9.09 per hour
- Assume child care fees increase according to historical average of 7% pa

Scenario 6

Family with one child using long day care full time, by family income (2016-17)

		Current CCB/CCR policy (ie without planned freezes)				
Family Income	**Yearly Fee**	**CCB**	**CCR**	**CCB + CCR**	**Out-of-pocket cost**	**% of Fee From Gov't Assistance**
$59,954	$23,634	$9,555	$7,040	$16,595	$7,040	70%
$81,756	$23,634	$7,439	$8,098	$15,536	$8,098	66%
$103,557	$23,634	$5,322	$8,116	$13,438	$10,196	57%
$125,359	$23,634	$3,205	$8,116	$11,321	$12,313	48%
$147,160	$23,634	$1,088	$8,116	$9,204	$14,430	39%

Assumptions:

- These are the same families from 2013-14 taking into account projected wage price increases so the same families are comparable.
- CCB is based on the projected 2016-17 FY rates taking into account projected CPI increases.
- Assume 52 weeks child care per year
- Full time care is 50 hours per week
- Assume CCR indexation recommences in 14/15
- WPI and CPI forecasts from 13/14 Budget Paper 1 - Economic Outlook
- Based on projected 16/17 average hourly fee of $9.09 per hour
- Assume child care fees increase according to historical average of 7% pa

Change - Family with one child using long day care full time, by family income

	Change compared with proposed measures in 16/17				Change compared with current policy in 13/14
Family Income	**Change CCB+CCR**	**Change CCB**	**Change CCR**	**Change out of pocket costs**	**Change out of pocket costs**
$59,954	-$117	-$233	-$117	-$117	-$1,808
$81,756	-$831	-$233	$598	-$831	-$2,581
$103,557	-$849	-$233	$616	-$849	-$3,698
$125,359	-$849	-$233	$616	-$849	-$3,967
$147,160	-$849	-$233	$616	-$849	-$4,084

Conclusion

Access to quality early childhood education and care is vital for our nation's future because it amplifies children's development and supports workforce participation.

Improving the affordability of early childhood education and care is important to achieving this goal, and the Government is current reviewing the subsidy system through the Productivity Commission's Inquiry into Child Care and Early Childhood Learning.

ECA does not recommend that any savings measures be implemented pending the outcomes of the full review being undertaken by the Productivity Commission.

This amendment will exacerbate existing structural problems in child care payments which are having a significant effect on the affordability of early childhood education and care for families.

Summary of Recommendations

1. Support the Productivity Commission to continue its Inquiry into Child Care and Early Learning based on its terms of reference to provide recommendations on reforming government child care assistance.

2. Freezes to the Child Care Benefit thresholds will have a significant impact on low and middle income families accessing early childhood education and care services and should not be supported.

3. A freeze to the Child Care Rebate cap will have a significant impact on families reaching the cap and should not be supported.

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