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LHMU
Organising for the future

4 June 2010

Committee Secretary
Senate Education, Employment and Workplace Relations Committee
PO Box 6100
Parliament House
Canberra ACT 2600

By email: eewr.sen@aph.gov.au

Submission to the Senate Education, Employment and Workplace Relations Committee Inquiry on Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010

LHMU thanks the Committee for the opportunity to comment on the Bill. Please find enclosed our submission to the inquiry. For any questions or further comment, please contact Karol Florek on (02) 8204 3026.

Yours sincerely

LOUISE TARRANT
National Secretary
LHMU – The Childcare Union

LHMU Submission to Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010

LHMU understands that the Bill will reduce the Child Care Rebate (CCR) from $7,778 to $7,500 as of 1 July 2010, and will also remove indexation of the rebate for subsequent years until 2014. We note that Government funding to the early childhood education and care (ECEC) sector remains at historically high levels and that the Bill does not result in a net decrease of funding to the sector.

We also note that the immediate effects of the Bill on parental affordability of childcare will be negligible, only marginally affecting a small number of families. According to the government's administrative data, parental out-of-pocket expenses currently exceed the $7,500 mark in only 3% of cases. However, it must be recognised that without alternative allocation of funding, the proportion of affected families will certainly increase over the subsequent years. We draw attention to the fact that childcare fees have risen by 34.9% since June 2005 – more than 2.5 times the headline inflation rate over this period.[1] With the capping of the CCR and continuing fee inflation, the cost of future fee increases will be increasingly met by parents at all income levels, exacerbating the cost of childcare for many families.

Fee inflation is the product of current demand-side funding arrangements – this has been the primary means of financing childcare since 1994. Average childcare fees rose sharply particularly in the years preceding and following the introduction of Child Care Tax Rebate by the Coalition Government in 2004. The large expansion of demand-side funding over the past decade has served to ensure only short term relief to parents, while fuelling a long-term inflationary spiral. This is an unsustainable form of government spending. Fees will continue to rise unless significant reforms to the funding system are undertaken, the current cap on CCR notwithstanding.

LHMU supports the Bill on the basis that demand-side funding arrangements are not the most effective measure of financing childcare. LHMU takes the opportunity to draw to the Committee's attention recommendation six of the Senate Education, Employment and Workplace References Committee Inquiry into the Provision of Childcare,

> 'The committee recommends that funding of childcare services continue to be increased, and, following a review of the current funding models including economic modelling of alternative mechanisms, increases to funding be implemented in accordance with those funding mechanisms that are identified as most effective'.

Consumer subsidies, intended to encourage market principles to shape the ECEC sector, have attracted significant private investment into childcare and succeeded in driving an overall expansion in supply. Yet, they have also driven inflationary pressure. Subsequent increases to consumer subsidies have offered only a short-term fix to affordability, with these additional increases absorbed by continuous fee increases. At the same time, subsidising parents in an imperfect market has not incentivised a 'race to the top' in terms of quality of provision. The logic of the market is one of profit-maximisation and cost-minimisation, which in the labour-intensive ECEC industry often translates into minimising wages and conditions while raising fees as high as market demand allows. These structural funding issues impact on the quality of care, affordability and accessibility of ECEC.

[1] ABS, Consumer Price Index, September 2009, Appendix: Child Care Services in the CPI

There is strong evidence that the key to quality in early education and care is the workforce. Staffing shortfalls, a skills shortage, high turnover and low wages and conditions continue to face the sector. However, the current funding arrangements do little to encourage childcare operators to reinvest into the workforce, resulting in a high turnover of between 34% amongst qualified childcare professionals and 37% for childcare professionals without formal qualifications.[2] Action is urgently needed to address the poor wages and conditions of childcare professionals, in order to attract, train and retain staff in the sector.

We call on the Government to introduce alternative funding mechanisms to replace the need for future reliance on expensive and inflationary consumer subsidies. New streams of funding should be developed to adequately finance the Government's stated policy objectives of ensuring all Australian children receive high quality education and care through a qualified and professional childcare workforce while simultaneously ensuring affordability for parents. The LHMU advocates for a reformed funding system which rewards services committed to staff training, professional wages, career paths, as well as parental affordability. In order to ensure quality in the sector as a whole, it is necessary to adequately reward childcare professionals who work hard to provide both a high quality and affordable service to the community.

[2] Community Services Ministers' Advisory Council (2006), *National Children's Services Workforce Study*, p. 48