Australian Council of Social Service

25 July 2014

Senator McKenzie
Chair
Senate Education and Employment Committees
PO Box 6100
Parliament House
Canberra ACT 2600

Re: Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2) 2014

Dear Senator,

I write to present this brief submission to your Committee's inquiry into the above legislation.

Key provisions of the Bill:

The Bill proposes amendments to the *A New Tax System (Family Assistance) Act 1999* to maintain the Child Care Benefit (CCB) income thresholds at the amounts applicable as at 30 June 2014, for a further three years. These thresholds are usually indexed to CPI.

The Explanatory Memorandum explains that this is a budget savings measure.

Impact:

The measure will have the effect of further tightening eligibility for the maximum rate of the CCB which will adversely affect some low and moderate income households.
The current threshold for the maximum rate of CCB is $42,997 (the lower income threshold) which tapers out to zero for those households with two children on $155,013 per annum. The maximum rate income threshold is only about $5,000 above a fulltime minimum wage. It is therefore already targeted to low-income households, with few middle to high-income households eligible for the maximum rate.[1] The majority of families receiving the maximum rate of CCB are sole parent families (72.6%), so the measure will have a disproportionately adverse effect on these families, who will also be affected by income losses from a number

[1] AMP. NATSEM, Income and Wealth Report Issue 35 – Childcare affordability in Australia, June 2014 at 17.

other budget measures.[2] The Child Care Rebate (CCR) will offset only part of the losses from this budget measure, leaving many families worse off, including those who do not meet the activity requirements for the Rebate.

The CCB maximum rate threshold was originally aligned with the free area of the maximum rate of Family Tax Benefit Part A. The free area should be set at the same level for both payments, ideally at or higher than the point at which Parenting Payment Single (PPS) cuts out ($51,800) - otherwise a sole parent faces an effective marginal tax rate of more than 70% due to the combination of income tests for CCB and Family Tax Benefit Part A.

The proposed freezing of CCB rates should be considered in the context of the current Productivity Commission inquiry into Child Care and Early Childhood Learning. Decisions about the future of the child care system should be informed by this report, rather than made in a budgetary context without a sound policy rationale. ACOSS' submission to that Inquiry is attached. In that submission we noted that access to affordable, quality early childhood education and care is poor in Australia, particularly for low-income and single parent families. The current system of child care payments is particularly complex and inequitable. We also argued that the level of subsidy available for low-income families is generally not sufficient to finance quality care.

This measure should also be considered in the context of other budget changes which are likely to impact on the affordability of child care, including for disadvantaged and vulnerable families. This includes reduced assistance to families through changes to the family payments system, and particularly to sole parents who will also be impacted by changes to indexation of pensions (see ACOSS Budget Analysis for further information).[3] Other childcare measures include changes to Jobs, Education and Training Child Care Fee Assistance (JETCCFA) which are likely to particularly affect low-income households, especially sole parent households, where a parent is engaged in work, training or study. Under the current system parents are required to pay only $1 per hour, with the Government covering the gap between CCB (and any CCR) and fees. Under the changes proposed in the budget, parents will be required to pay most of the gap between CCB (and any CCR) and fees, with the Government Jobs, Education and Training (JET) contribution capped at $8 per hour. The budget also introduces a weekly cap (36 hours per week, down from 50 hours a week for those engaged in approved activities).

[2] Ibid at 17. Other budget measures which will affect sole parent families include changes to family payments and pension indexation as well as proposed co-payments.

The budget also effects significant changes to family day care services, removing $65.2 million from the sector over the next 4 years. This could result in higher fees for families if providers pass on the burden of cuts to parents.

The current bill will make child care less affordable for some low to moderate income households, including many sole parent families, by further tightening eligibility for the payment. Affected families will receive reduced assistance and face higher out of pocket costs as family incomes increase despite the likelihood that child care fees will continue to rise. This will create additional financial pressures, reduce access to quality early childhood education and care and reduce female workforce participation in affected families.

Recommendation:

We therefore recommend that the Bill be *opposed*.

Please contact ACOSS Director of Policy, Jacqueline Phillips, at this office should you have further inquiries about this submission.

Yours sincerely,

Dr Cassandra Goldie
Chief Executive Officer, ACOSS