Early Childhood Australia
A voice for young children

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Social Services and Other Legislation Amendment Bill 2013

Submission from Early Childhood Australia

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About Early Childhood Australia

Early Childhood Australia (ECA) has been a voice for young children since 1938. We are the peak early childhood advocacy organisation, acting in the interests of young children, their families and those in the early childhood field. ECA advocates to ensure quality, social justice and equity in all issues relating to the education and care of children from birth to eight years.

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Introduction

The *Social Services and Other Legislation Amendment Bill 2013* implements the former Government's 2013-14 Budget measure to freeze the Child Care Rebate (CCR) for a further three years until 2016-17. The savings from the Rebate measure were announced as a partial offset to fund a $300 million commitment to professional wages to improve the quality of early childhood education and care (ECEC). Since then the Government has indicated that contracts under the Early Years Quality Fund may not be honoured. Early Childhood Australia therefore has concerns that this Bill would act as a straight cut to funding rather than form part of a broader reform of the Early Childhood Education and Care system.

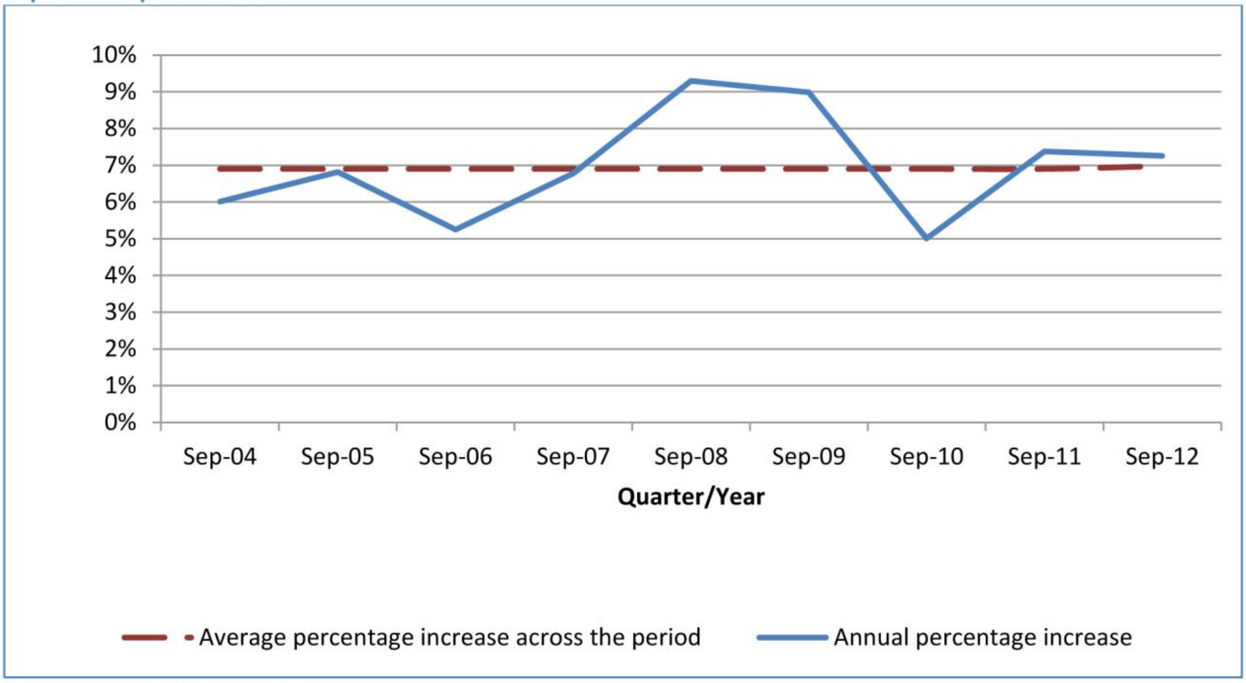
Early Childhood Australia is taking an active role in the Productivity Commission's Inquiry into Child Care and Early Learning. We believe that the Productivity Commission has a once in a decade opportunity to improve access to quality early childhood education and care for Australian children.

We are concerned about the about the effect of the pause on the Child Care Rebate for the affordability of ECEC for families, and particularly middle income families who are targeted by the measure. The affordability of early childhood education and care will be an important consideration for the Commission and all measures regarding the affordability of ECEC should properly be considered by their Inquiry. Early Childhood Australia therefore does not support Schedule 9 to the *Social Services and Other Legislation Amendment Bill 2013.*

Families affected by the Bill

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. However, child 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), well above the Consumer Price Index.

Figure 2: Average and annual percentage change to long day care hourly fees, September quarter 2004 to September quarter 2012



Source: DEEWR administrative data.

This means child care assistance provided to families who meet the cap is declining significantly in value, in real terms. 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, 2013, Table 3A.24) median weekly long day care fees were $341 in 2012. 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 were 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 anticipates also 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.

Due to the 15 per cent withholding applied to CCR, the effective cap is actually much less than $7500 per child per year, so the cap is reached much sooner. Families either have to pay the full fees upfront for the remainder of the financial year or withdraw their child from child care altogether, and then have to re-enrol at the start of the financial year.

Cost increases as a result of this measure also mean that parents may choose to withdraw from the workforce. 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).

Effect on Services

This measure will also have a significant impact on early childhood education and care services. We know from early childhood services 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 to 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 Child Care Rebate 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.

Early Childhood Australia 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 will be making recommendations to the Productivity Commission to look at a new funding model which reaches these objectives.

Rationale for the Bill

The rationale for the 2010-11 Budget 'cap and pause' measure was to partially offset the $273.7 million to be spent implementing the National Quality Framework for Early Childhood Education and Care.

The rationale provided by the previous Government for the savings measure implemented by this Bill was to partially offset $300 million to support better wages for early childhood educators through the Early Years Quality Fund (Garrett and Ellis, 2013).

We support the measures funded by these offsetting savings. However, there is still uncertainty regarding the future of the EYQF. ECA, while acknowledging the inequity with the EYQF, believes that it was a well-intentioned policy designed to address the significant inadequacy of wages paid to some early childhood educators.

If this savings measure is implemented, we are of the strong view funding should remain to support better wages for early childhood educators, because of the critical role they play in children's development. Alternatively the savings from this measure must be reinvested in other measures to support better access to affordable, quality early childhood education and care.

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Reform of the Early Childhood Education and Care system

ECA considers that this Bill will have significant impact on the ECEC sector, and should be reviewed as part of the Productivity Commission's Inquiry into Childcare and Early Learning. Early Childhood Australia supports the Government's review into the early childhood education and care system 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 advice to Government on meaningful and much needed reform in the Early Childhood Education and Care system, including any offsetting savings. Moreover, it may also have unintended consequences for families, services and the economy.

Conclusion

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 have significant effects on the affordability of early childhood education and care and needs to be considered in the context of wider reform of the ECEC sector.

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