goodstart early learning

Committee Secretary
Senate Education and Employment Committees
Parliament House, Canberra ACT 2600

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

Dear Committee Secretary,

Goodstart Early Learning is pleased to provide the following short submission to the Senate Inquiry into the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014.

Yours sincerely

Heather Finlayson
General Manager, Strategy, Planning and Development
Goodstart Early Learning

Submission to Senate Education and Employment Committees

Family Assistance Legislation Amendment (Child Care Measures) Bill 2014

1. The first five years are the most critical in setting up a child for a successful future. Investing in the first five years of a child's life is the one of the most effective and important investments that a government, or a family, can make. Affordability can be a major barrier to participation in quality early learning and child care. Government should be maintaining investment in CCB and CCR to ensure child care is affordable, particularly for low and middle income families.

2. Goodstart Early Learning is pleased to make the following key points to the Committee with detailed analysis outlined below.

Key Points

Goodstart Early Learning does not support either of the child care savings measures. Taken together these measures will have a compounding impact making child care less affordable for children and families, particularly for low and middle income families that use full-time or close to full-time child care.

Goodstart Early Learning does not support the measure to maintain the current Child Care Rebate (CCR) limit at $7500 per child, per financial year by continuing to pause the indexation of the CCR limit for a further three income years to 30 June 2017.

- This measure will have a serious negative impact on children and families by making child care less affordable for working families. Families will continue to hit the cap earlier in the financial year and their child care fees will effectively double when they hit the cap. Direct results will include higher out of pocket costs for families, families incurring substantial debts, families withdrawing from work and children being withdrawn from quality early learning programs. Middle income families with multiple children will be particularly impacted.

- This measure will also have a serious negative impact on the sustainability of the sector as families incur debts and reduce their attendances.

Goodstart Early Learning does not support the measure to maintain the Child Care Benefit (CCB) income thresholds at the amount applicable as at 30 June 2014, for three years to 30 June 2017.

- This measure will compound the structural problems with CCB which has been losing value and making child care less affordable for more than 500,000 low and middle income families due to insufficient indexation of the rate and the income thresholds.

Context

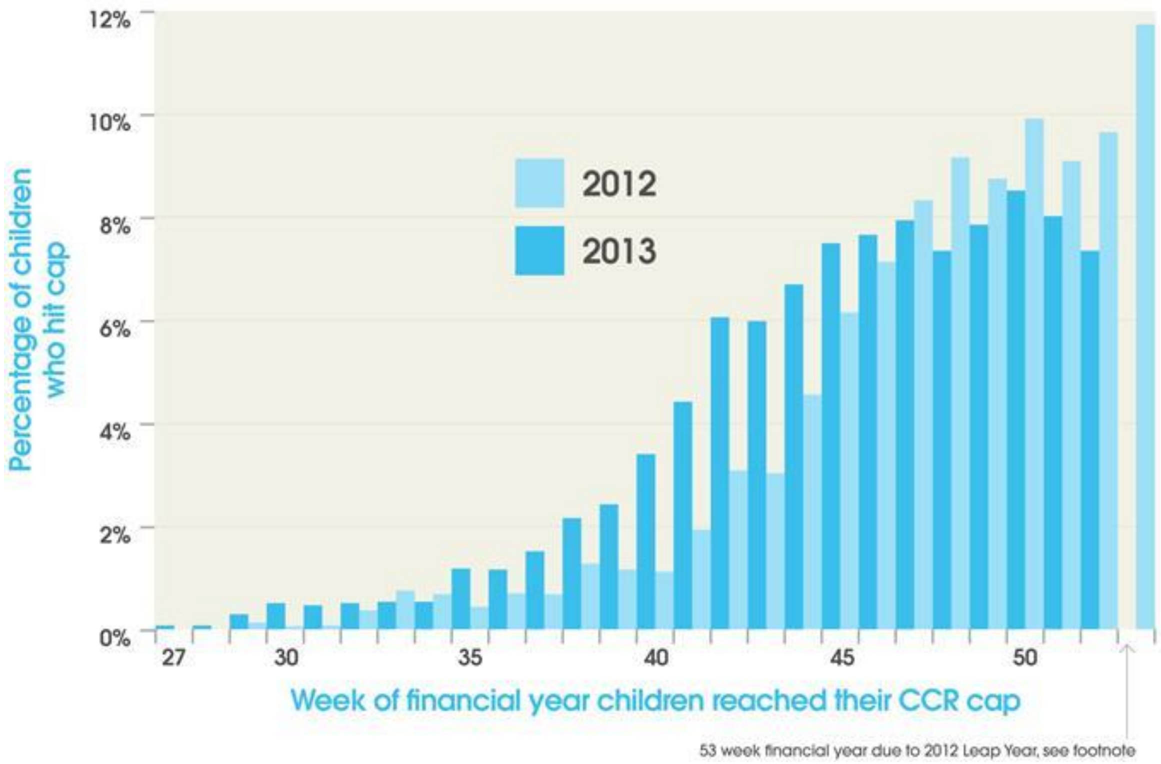
3. Goodstart Early Learning (Goodstart) is Australia’s largest and only national provider of early childhood education and care, with 13,000 staff caring for 73,000 children from 61,000 families across 641 centres. Goodstart is a not-for-profit, for-purpose social enterprise.
4. Goodstart supports the current regulatory framework as a way to achieve nationally consistent minimum standards, particularly for staff ratios and qualifications and to support continuous improvement in the sector.
5. Goodstart has been an active participant in the current Productivity Commission Inquiry into child care and early childhood learning. The 2015 Budget and response to the PC Inquiry presents an excellent opportunity to reform the child care and early learning sector to build human capital by supporting children’s learning and development and ensure quality child care is affordable in the long term to support workforce participation.
    a. We note the Minister’s comments that the proposed budget measures do no pre-empt the PC inquiry and we look forward to the draft report being released in early July 2014.
    b. Goodstart believes that while the inquiry is underway, current policy settings and indexation should be maintained to ensure affordability for families.
    c. We also note that unlike other family payments, CCB and CCR are directly linked to the services and out-of-pocket child care costs for families and these costs have been increasing above CPI for several years.

Child Care Rebate (CCR)

6. The fee-based approach for CCR (covering 50 per cent of out-of-pocket costs up to $7,500) has many advantages. It accommodates differences in costs and fees across different child care markets, is administratively simple, and is easy for parents and families to understand. This approach is also responsive and flexible as payments hold their value to families in response to changing costs and fees.

7. The primary problem with CCR is that indexation of the cap has been frozen at $7,500 since 2011 and the proposed measure will exacerbate this problem by extending the freeze for a further three years. This will impact many more families.
    a. The original freeze in 2011 impacted 5 per cent of families using child care. At the time, the Government indicated these were primarily high-income families using expensive child care. This no longer the case, as the costs of delivering child care and subsequently the fees for child care have increased, more families are hitting the CCR cap and the cap is having negative impacts on many working families using average-cost child care.
    b. The 15 per cent withholding applied to CCR means that the effective cap is actually much less than $7,500 per child per year, so the cap is reached much sooner. This is complex to administer and is confusing for families.
8. By 2013-4, the cap affected 72,000 families, or 7.8 per cent of all families. By 2016-17 this number will double, with 147,000 families, or 15.8 per cent of families, exceeding the cap by 2016-17[1].
9. At Goodstart, more and more of our families are hitting the cap and they are hitting it earlier in the year as outlined in Figure 1 below. In FY13, 3.3% (n=3,563) of CCR eligible children hit their cap, compared to 2.3% (n=2,600) in FY12. The increase in proportion of children who hit their cap in FY13 compared to FY12 is statistically significant (p<0.001). FY12 had 53 weeks in the financial year, allowing more children to hit their cap (there were 256 children who hit their cap during FY12, week 53). If week 53 were excluded you would expect to see a lower percentage of children hitting their cap in FY12, and thus a bigger increase between years.

Figure 1: More families are hitting the CCR cap and are hitting it earlier in the year



Source: Goodstart, 2014

[1] [1] "Families childcare pain" Sunday Telegraph 19/5/2013

10. Families suffer negative impacts after they hit the CCR cap and Goodstart Early Learning offers the following analysis of the consequences of the $7500 cap.

    a. Family debts to centres increase, children maintain attendances: Families are incurring debts and getting behind on their accounts more frequently and this is very expensive to manage. Maintaining positive relationships with the family and continuity of the child's early learning is of primary importance. In one instance over 50 hours of Goodstart personnel's time was dedicated to successfully resolving a family's debt issues.

    b. Family debts to financial institutions increase, children maintain attendances: Some families set up direct debit arrangements and arrange for their CCR and a portion of family income to be deposited into an account to cover fees. These accounts become overdrawn or have a nil balance as a result of the family not realising their regular CCR payment won't be made by the Family Assistance Office as they have hit the cap.

    c. Family reduces attendances and parents work less hours to stay home with their children: Feedback from the Goodstart network suggests this is also occurring more frequently. This is disruptive to the families, the child's access to early learning, and for the employer.

    d. Family pay non-subsidised fees, children maintain attendances: In this instance families experience up to a 50 per cent increase in out-of-pocket costs each week leaving a significant hole in the family budget. This particularly impacts low-income, dual-income families using full-time care, and in outer suburban areas many of these families are also servicing a large mortgage and have high transport costs. A family with two children using full-time care will have to find an additional $360 per week or $1,440 per month.

11. For these reasons Goodstart Early Learning does not support the measure to continue the indexation pause on the CCR cap.

Child Care Benefit

12. Families on low incomes are most likely to be sensitive to child care fees and the progressive nature of CCB is good policy. The key problems with the design of CCB are:

    a. The rate of CCB has a determined value (the rate), which is linked to income, not child care fees.

    b. The value of CCB has been eroding because the income thresholds and the rates have both been indexed to CPI.

13. CPI is inadequate to keep up with both the cost of ECEC (which has been rising by around 4 per cent more than CPI) or average wages (which have been rising by around 1.9 per cent more than CPI). This impacts both the income thresholds and the rates for CCB. This means fewer and fewer families are eligible for CCB, and those that are eligible are receiving proportionally less assistance, leading to higher out-of-pocket costs.

14. With the income thresholds moving with CPI rather than movement in wages, eligibility for CCB has been moving further away from average earnings each year. In 2004-5, a family on 70 per cent of average full-time weekly earnings received full CCB. By 2013-14, the income cut off for CCB had fallen to just 55 per cent of average full-time weekly earnings, and by 2019 will fall below 50 per cent. Pausing the indexation of the income thresholds will further exacerbate this problem.

15. The decline in the value of the CCB affects families with a combined income less of than $150,000 and particularly those on low incomes who do not meet the Work/Training/Study test for the CCR, and therefore can only claim CCB.

16. For these reasons Goodstart Early Learning does not support the measure to pause the Child Care Benefit (CCB) income thresholds.

Conclusion

17. The current child care payments system has much to recommend it, providing broad universal support and some targeted assistance. However, the rising costs of delivering services and the shrinking relative value of government subsidies are reducing the availability and affordability of early learning and care. The cost of delivering child care has been rising by more than inflation for many years, and will continue to do so due to the impact of underlying cost drivers including the rising cost of labour, rents, and utilities. The proposed budget measures will make these problems worse.
18. Goodstart supports a child care subsidy system that is simpler and more effective. While assistance should continue to be universally available to all families, assistance to lower income families needs to be urgently increased. The level of assistance and any caps or income tests that affect it, must be regularly indexed in line with the rising cost of care so that the benefit of assistance is not lost over time, including over the next three years.