

CHAPTER 2

Key issues

2.1 The Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2) 2014 (the bill) provides for the paused indexation of the Child Care Benefit (CCB) income thresholds for a further three years from 1 July 2014.¹ The bill sought to maintain the CCB income thresholds at the amounts applicable as at 30 June 2014. As the bill was not passed by the Parliament before 1 July 2014, the current figures reflect the CCB indexed from 7 July 2014.

2.2 Broadly speaking, concerns brought to the committee's attention centred on the bill's potential impact on the affordability and accessibility to child care for low to middle income families.² Some submitters also questioned the modelling used by the government with respect to the proposed measures and emphasised the need for the bill to be considered in the context of the Productivity Commission's (PC) *Inquiry into Child Care and Early Childhood Learning (Inquiry into Childcare)* Report.³ The PC released the draft report of the *Inquiry into Childcare* on 22 July 2014.⁴

2.3 While some concerns were raised about the proposed measures,⁵ others acknowledged the difficult fiscal environment and welcomed the government's investment of \$28.5 billion over four years in child care fee assistance.⁶

1 Department of Education, *Submission 6*, p. 1 and p. 4.

2 *Submission 2*, p. 3; *Submission 4*, p. 11; Australian Services Union, *Submission 7*, p. 3; Australian Council of Social Service, *Submission 9*, p. 2; Municipal Association of Victoria, *Submission 1*, former bill inquiry; National Welfare Rights Network, *Submission 2*, former bill inquiry; Police Federation of Australia, *Submission 7*, former bill inquiry.

3 *Submission 2*, p. 5; *Submission 4*, p. 3; *Submission 5*, p. 3; *Submission 9*, p. 2; Australian Community Children's Services, *Submission 3*, p. 1, former bill inquiry; SDN Children's Services, *Submission 8*, p. 6, former bill inquiry; United Voice, *Submission 10*, p. 2, former bill inquiry; Community Child Care Co-operative (NSW), *Submission 11*, p. 5, former bill inquiry; Early Learning Association Australia, *Submission 14*, p. 1, former bill inquiry.

4 Productivity Commission, *Childcare and Early Childhood Learning*, <http://pc.gov.au/projects/inquiry/childcare/draft> (accessed 28 July 2014).

5 Social Policy Research Centre (UNSW), *Submission 1*; SDN Children's Services, *Submission 2*; *Submission 4*; The Creche and Kindergarten Association Limited, *Submission 5*; Australian Community Children's Services, *Submission 3*, p. 1, former bill inquiry; Australian Childcare Alliance, *Submission 9*, p. 5, former bill inquiry.

6 Early Childhood Australia, *Submission 4*, p. 3; Department of Education, *Submission 6*; AiGroup, *Submission 8*, p. 2; Department of Education, *Submission 4*, former bill inquiry; Early Childhood Australia, *Submission 5*, p. 3, former bill inquiry; Ai Group, *Submission 16*, p. 2 former bill inquiry.

Affordability and accessibility of childcare

2.4 Under the proposed amendment the CCB income test threshold will remain the same.⁷ As such, CCB rates would be unaffected by the measures proposed in the bill as they would continue to be indexed annually in line with movement in the Consumer Price Index (CPI). However, under the proposed amendments the indexation of the CCB income test would remain the same for three income years.⁸

2.5 Some submitters questioned the ability of the proposed measures to keep pace with the cost of education and care, arguing that CCB thresholds should receive at least a CPI increase annually, so that CCB rates adjust in accordance with the cost of education and care.⁹

2.6 The Municipal Association of Victoria (MAV) expressed concerns about the proposed CCB amendment to the *A New Tax System (Family Assistance) Act 1999* (Cth) (New Tax Act), arguing that the budget reform will:

...dramatically affect Victoria's Family Day Care operators and could cause families to miss out on affordable accessible child care from next year.¹⁰

2.7 Further, Early Childhood Australia (ECA) submitted that:

[T]he proposed measures [that]... freeze Child Care Benefit thresholds will exacerbate the decline in real value of the subsidies. This will affect the affordability of ECEC [early childhood education and care] for families, and particularly low and middle income families.¹¹

2.8 ECA contended that the proposed changes to CCB will have a 'bracket creep' effect.¹² That is, '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.'¹³ In line with this argument, some submitters argued that unless the income thresholds increase in line with increases in income, those with lower

7 Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2), Explanatory Memorandum, p. 2.

8 Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2), subclause 3(5B) of Schedule 4.

9 *Submission 2; Submission 4; Submission 7; Submission 9*; Australian Community Children's Services, *Submission 3*, p. 2, former bill inquiry.

10 Municipal Association of Victoria, *Submission 1*, p. 1–2, former bill inquiry.

11 Early Childhood Australia, *Submission 4*, p. 3; Early Childhood Australia, *Submission 5*, p. 3, former bill inquiry.

12 Early Childhood Australia, *Submission 4*, p. 10; Early Childhood Australia, *Submission 5*, p. 10, former bill inquiry.

13 Early Childhood Australia, *Submission 4*, p. 10; Early Childhood Australia, *Submission 5*, p. 10, former bill inquiry.

incomes will receive less benefits making early education and care less affordable for those on low incomes.¹⁴ In support of this position, Goodstart Early Learning noted:

CPI is inadequate to keep up with both the cost of ECEC... or average wages... 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.¹⁵

2.9 The Australian Council of Social Services also submitted that '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.'¹⁶

2.10 National Welfare Rights Network (NWRN) also raised concerns consistent with other submissions received by the committee¹⁷ when it stated that:

Freezing the income thresholds for CCB until 30 June 2017 will mean that more families will receive less CCB or will lose it entirely. As their CCB payments reduce, their out of pocket costs increase and they will hit the \$7,500 cap far CCR sooner.¹⁸

2.11 In contrast to the above submissions, the committee also received evidence from submitters in support of the bill.¹⁹ These submitters argued that the proposed measures would have no impact on families with income below the lower income threshold for CCB, and minimal impact on those above the threshold.²⁰ The current lower and upper CCB income thresholds are \$42 997 and \$100 268.²¹

2.12 Ai Group argued that the proposed amendment would not have a significant impact on affordable accessible childcare.

The suspension of indexation of the eligibility threshold will reduce by a small amount the quantity of CCB that families with incomes above the threshold would receive relative to the amount they would have been eligible to receive were indexation not suspended.²²

2.13 The Department of Education (department) explained that:

14 *Submission 2; Submission 4; Submission 7; Submission 9; Community Child Care Co-operative (NSW), Submission 11*, p. 5, former bill inquiry; Goodstart Early Learning, *Submission 13*, p. 4, former bill inquiry.

15 Goodstart Early Learning, *Submission 13*, p. 4, former bill inquiry.

16 *Submission 9*, p. 3.

17 *Submission 7; Police Federation of Australia, Submission 7*, p. 1, former bill inquiry.

18 National Welfare Rights Network, *Submission 2*, p. 2, former bill inquiry.

19 *Submission 6; Submission 8; The Department of Education, Submission 4*, former bill inquiry; Ai Group, *Submission 16*, former bill inquiry.

20 *Submission 6; Submission 8; The Department of Education, Submission 4*, former bill inquiry; Ai Group, *Submission 16*, former bill inquiry.

21 *Submission 6*, p. 1.

22 *Submission 8; Ai Group, Submission 16*, p. 2, former bill inquiry.

Families that receive less Child Care Benefit as a result of this measure may be able to claim Child Care Rebate that covers up to fifty per cent of out-of-pocket child care costs for working families.²³

2.14 In evidence before the committee the department highlighted that as CCB hourly and weekly rates would continue to be indexed under the bill, 'some people because of... the possibility of offset for CCR, if they are eligible... can actually get more CCB, more childcare as a whole.'²⁴

Pausing indexation does not constitute a 'cut'

2.15 Upon introduction of the bill into Parliament, the Hon Sussan Ley MP, Deputy Assistant Minister for Employment (Minister), emphasised that the CCB, as with all means tested payments, changes according to your circumstances.²⁵ Further, the Minister explained that the proposed amendment to pause the CCB income threshold does not constitute a 'cut'.²⁶

If a family's income and circumstances do not change from one financial year to the next there should be no negative impact on their assistance. In fact, since the government is increasing the child care benefit hourly rate, many families will see an increase in their child care benefit payment. As with all means tested payments, a change to your circumstances – for example, a pay rise – can change what you are able to receive.²⁷

2.16 Early Childhood Australia (ECA), Social Policy Research Centre (NSW) and United Voice (UV) acknowledged that the costs of child care over the last decade have increased at rates above inflation and that a significant percentage of these costs have been borne by the government.²⁸

2.17 The government is committed to providing affordable and accessible child care options for Australian working families, through the provision of financial assistance under the CCB.

Child care subsidies are one of the fastest growing areas of Australian Government outlay, driven principally by increased numbers of children in care, increased hours in care and rises in fees. Overall the Government will increase child care fee assistance to \$28.5 billion over the next four years. This includes \$13.6 billion to reduce child care fees under the Child Care

23 *Submission 6*, p. 4; The Department of Education, *Submission 4*, p. 4, former bill inquiry.

24 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 6.

25 The Hon. Sussan Ley, Assistant Minister for Education, *House of Representatives Hansard*, 25 June 2014, p. 10.

26 The Hon. Sussan Ley, Assistant Minister for Education, *House of Representatives Hansard*, 25 June 2014, p. 10.

27 The Hon. Sussan Ley, Assistant Minister for Education, *House of Representatives Hansard*, 25 June 2014, p. 10.

28 *Submission 1*; *Submission 4*; United Voice, *Submission 10*, p. 2, former bill inquiry.

Benefit, and \$14.9 billion to assist working families with out-of-pocket child care expenses under the Child Care Rebate.²⁹

2.18 Further, when the former bill was introduced into the Senate on 19 June 2014, the Hon Simon Birmingham, Parliamentary Secretary to the Minister for the Environment, noted during the second reading speech that many families will not be affected by the proposed changes to the CCB.³⁰

Childcare modelling

2.19 Questions were raised at the hearing about the modelling used by the government with respect to the proposed measure. The department explained that 'the methodology and the modelling outcomes for budget measures are agreed with the Department of Finance to confirm that they are accurate.'³¹ With specific reference to the modelling used for this measure, the department stated:

The model is usually updated at least twice a year in relation to the factors that are put into it. The main ones that change... include the estimated growth in fees over the out years. If there is a history of changes and our data changes, that gets modified. The other one that move[s]... with an agreement between Finance and Treasury... is growth in children and families in care.³²

2.20 As the modelling is done as required and changes to the modelling parameters are usually implemented in conjunction with the Budget, the modelling for this measure 'is based on the data of 700,000-odd families and 1.1 million children that is provided by the child care management system.... from November 2012.'³³ The department indicated that they are looking to update the reference using data from 2013 but emphasised that modelling is used to extrapolate out 'conservative estimates' for future years.³⁴

2.21 The department also explained that the modelling undertaken has been the modelling in use for a number of years and that under the current government there have been no changes to the form of modelling used.

The modelling that we have done to date is a full-year effect; it has not broken it down by periods, although logically there will be people throughout the year who do or don't use or who drop off or drop on to CCB.

29 *Submission 6*, p. 3; Department of Education, *Submission 4*, p. 4, former bill inquiry.

30 Senator the Hon. Simon Birmingham, Parliamentary Secretary to the Minister for the Environment, *Senate Hansard*, 19 June 2014, p. 80.

31 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 5.

32 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 5.

33 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 5.

34 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 5.

The department has not done any modelling in relation to the measures since it was prepared for the budget.³⁵

2.22 The department provided evidence that this type of methodology and modelling had been conducted and utilised historically, including under the former government. Further, the department explained that the modelling used has been approved by Treasury.³⁶

2.23 In its submission to the committee, ECA provided six scenarios analysing the bill's impact on families based on ECA's analysis.³⁷ The department indicated that it had reviewed this modelling with ECA and explained that it was unable to replicate the ECA's findings.

We did have some discussions with ECA after they had released their modelling to discuss some of the methodology. In the simplest terms, it is probably fair to say that we think their estimates are overstated in a number of ways... Their modelling includes the freezes, and it was both CCR and CCB that they were modelling at that time, both of those freezes being in effect in 2017-18 as well—so it was a four-year freeze rather than a three-year one—so some of their total amounts were slightly overstated. We were talking to them about some of their growth factors for families and rates, and they did not align with the department's views of what those growth rates would be, so we think they were overstated as well...

We did not try to replicate their modelling. But, just in talking to them about, as I said, some of the factors and the underpinnings that they were using, we did not agree that they were appropriate and some them were overstated.³⁸

2.24 The committee notes the department took steps to understand the ECA's modelling, but did not try to replicate this modelling. The committee is satisfied that the department has undertaken appropriate modelling.

Retrospectivity

2.25 The explanatory memorandum,³⁹ Minister's second reading speech⁴⁰ and the submission received from the department⁴¹ are silent as to whether the CCB

35 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 7.

36 Mrs Margaret Pearce, Early Child Care Support Group, Department of Education, *Committee Hansard*, 25 August 2014, p.10.

37 *Submission 4*, pp. 14–21.

38 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 8.

39 Family Assistance Legislation Amendment (Child Care Measures) Bill (No. 2) 2014, *Explanatory Memorandum*.

40 The Hon. Sussan Ley, Assistant Minister for Education, *House of Representatives Hansard*, 25 June 2014, pp. 10–11.

41 *Submission 6*.

indexation pause will be applied retrospectively. As such, the committee sought clarification from the department on this issue. The department provided evidence before the committee that:

As the bill was not passed by the parliament before 1 July 2014, the childcare benefit income thresholds were indexed with effect from 7 July 2014, which is essentially the start date of the first full childcare week. Because the CCB income thresholds were indexed in July 2014, the government is now considering its options in relation to the bill. It would not be appropriate for the department to speculate on the government's possible options. When this measure is proposed to commence is subject to a decision by government.⁴²

2.26 In addressing the committee's concerns about the potential practical and financial impacts of the measures, the department explained that:

... if your income is below the minimum income threshold again there would not be a change. And for those people whose income was above the maximum limit, [\$]150,000 plus, who are not receiving anything at the moment, they would also still not receive anything. For people in between, it would mean that the income threshold rate would not increase by CPI and it may have an impact on what your entitlement may be. The best way to check that: we normally reference people back to the calculator that the HS [Human Services] use because it is hard to say, particularly in bulk emails and letters, what the impacts were. They need to double check with the Department of Human Services what their entitlements will be.⁴³

2.27 The department emphasised their commitment to communicating with families to ensure they do not experience confusion about their level of CCB entitlement. They provided evidence before the committee that in addition to taking steps such as updating the website, sending emails and letters, families in receipt of CCB would need to check online to ascertain their hourly and weekly CCB rates.⁴⁴

Committee view

2.28 The committee believes it is important to remember that the CCB, as with all means tested payments, changes according to individual circumstances and that the proposed amendment to pause the CCB income threshold does not constitute a 'cut'.⁴⁵ It is the view of the committee that this represents a fair and reasonable approach to providing CCB to families, and one that meets community expectation.

42 Ms Margaret Pearce, Early Child Care Support Group, Department of Education, *Committee Hansard*, p. 1.

43 Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 6.

44 Mrs Margaret Pearce, Early Child Care Support Group, Department of Education and Mr Jeff Willing, Branch Manager, Payments for Families and Services Branch, Department of Education, *Committee Hansard*, 25 August 2014, p. 6.

45 The Hon. Sussan Ley, Assistant Minister for Education, *House of Representatives Hansard*, 25 June 2014, p. 10.

2.29 The committee also notes that the form of modelling utilised by the department to develop the policy behind this bill has been used both historically and under the former government.

Productivity Commission Inquiry

2.30 On 22 November 2013, the Treasurer, the Hon Joe Hockey MP, directed the PC to undertake an *Inquiry into Childcare* with a specific focus on developing a system which would address children's learning and development needs whilst supporting workforce participation.⁴⁶ The PC has been asked to report and make recommendations on a number of issues affecting the childcare sector, including: 'options – within existing funding parameters – for improving the accessibility, flexibility and affordability of childcare for families with diverse circumstances.'⁴⁷ The government has asked the PC to provide its final report of the *Inquiry into Childcare* by 31 October 2014.⁴⁸

2.31 A number of submitters suggested that the proposed legislative changes to the CCB be postponed until the conclusion of the PC *Inquiry into Childcare*.⁴⁹

2.32 Other submitters raised concerns that the bill is independent of the draft recommendations of the PC⁵⁰ which propose that the CCR and CCB be combined into a single means-tested subsidy.⁵¹

2.33 In response to these concerns the department's submission explains the measure as a:

...limited and targeted savings measures to help address short term fiscal concerns. In particular, this measure does not pre-empt the outcomes of the Productivity Commission Inquiry into Child Care and Early Childhood Learning, which is a once in a generation opportunity to reform child care and early learning. The Government will use the Productivity Commission

46 Productivity Commission, *Childcare and Early Childhood Learning*, <http://pc.gov.au/projects/inquiry/childcare> (accessed 9 July 2014).

47 Productivity Commission, *Childcare and Early Childhood Learning*, <http://pc.gov.au/projects/inquiry/childcare> (accessed 9 July 2014).

48 Department of Education, *Productivity Commission Inquiry into Child Care and Early Childhood Learning*, <https://education.gov.au/productivity-commission-inquiry-child-care-and-early-childhood-learning> (accessed 15 July 2014).

49 *Submission 2*, pp. 2–3; *Submission 4*; *Submission 5*; *Submission 9*, p. 2; Australian Community Children's Services, *Submission 3*, p. 1, former bill inquiry; SDN Children's Services, *Submission 8*, p. 6, former bill inquiry; United Voice, *Submission 10*, p. 2, former bill inquiry; Community Child Care Co-operative (NSW), *Submission 11*, p. 5, former bill inquiry; Early Learning Association Australia, *Submission 14*, p. 1, former bill inquiry.

50 *Submission 2*, pp. 2–3.

51 Australian Government Productivity Commission Draft Report, *Childcare and Early Childhood Learning*, July 2014, p. 45.

Inquiry process and outcomes to ensure better child care policies into the future.⁵²

2.34 This explanation addresses concerns that the CCB measure should not be taken ahead of the PC's report on the *Inquiry into Childcare* because it is both limited and targeted and will not prevent the government taking on board any recommendations the PC may make about Australia's broader child care and early childhood learning needs in its final report.

Committee view

2.35 The committee acknowledges the government's ongoing commitment to providing affordable and accessible child care options for Australian working families through the provision of financial assistance under the CCB. In particular, the committee is persuaded that the provisions in the bill are a responsible legislative reform that will support sustainability in Australia's family payment system.

2.36 While the committee notes concerns about maintaining the current CCB income thresholds for three years, it is not persuaded that childcare will become unaffordable or inaccessible as a result of this measure. It also notes the PC *Inquiry into Childcare* will be given due consideration by the government in the development of future policy in this area.

2.37 The committee is persuaded that the proposed measure is limited, well targeted and for a finite period of time, and is a necessary part of the broader government agenda of repairing the budget and strengthening the economy. Further, the committee believes that the measure meets community expectations that CCB be paid according to a family's particular circumstances.

Recommendation 1

2.38 The committee recommends that the bill be passed.

Senator Bridget McKenzie
Chair

52 Department of Education, *Submission 6*, p. 3. See: Department of Education, *Submission 4*, p. 3, former bill inquiry.