

The Senate

Education and Employment
Legislation Committee

Family Assistance Legislation Amendment
(Child Care Measures) Bill 2014 [Provisions]

June 2014

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CHAPTER 1

Introduction

1.1 The provisions of the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 (the bill) were referred to the Senate Education and Employment Legislation Committee pursuant to a resolution of the Senate on 15 May 2014.¹

Conduct of the inquiry

1.2 Details of the inquiry were made available on the committee's website. The committee also contacted a number of organisations inviting submissions to the inquiry. Submissions were received from 15 organisations, as detailed in Appendix 1.

Purpose and key provisions of the bill

1.3 The bill seeks to amend the *A New Tax System (Family Assistance) Act 1999* (Cth) (the New Tax Act) to:

- maintain the Child Care Rebate (CCR) limit at \$7500 for three income years starting from 1 July 2014; and
- maintain the Child Care Benefit (CCB) income thresholds at the amounts applicable as at 30 June 2014 for three income years starting on 1 July 2014 and ending on 30 June 2017.²

1.4 The CCB standard hourly rate, the minimum hourly amount and the multiple child loadings related to the CCB will continue to be indexed by the Consumer Price Index (CPI) on 1 July each year. These amounts are not affected by either of these measures.³

Background and context

1.5 Maintaining the Child Care Rebate (CCR) limit at \$7500 per child per financial year was originally a 2013-14 Budget savings measure expected to deliver net savings of \$105.8 million over three years. The required legislative amendments

1 *Journals of the Senate*, 15 May 2014, p. 821. The Senate resolution pertained to all time critical bills introduced between 15 May and 5 June 2014. The bill was introduced into the House of Representatives on 5 June 2014, *Votes and Proceedings*, No. 45, 5 June 2014, p. 541, and as such captured by the Senate resolution.

2 Family Assistance Legislation Amendment (Child Care Measures) Bill 2014, Explanatory Memorandum, p. 2.

3 Family Assistance Legislation Amendment (Child Care Measures) Bill 2014, Explanatory Memorandum, p. 2.

were proposed in the Social Services and Other Legislation Amendment Bill 2013, but the CCR measure was removed from that bill prior to its passage and consequently not introduced during the 43rd Parliament.⁴

1.6 Maintaining the Child Care Benefit (CCB) income thresholds is a 2014-15 Budget savings measure and is one element of the government's broader measures designed to maintain eligibility thresholds for government payments for three years. It is expected to deliver net savings of \$230.4 million over four years.⁵

1.7 On 5 June 2014, the Assistant Minister for Education, the Honourable Sussan Ley MP, introduced the bill into the House of Representatives, and emphasised:

Overall, this government is increasing childcare assistance to \$28.5 billion over the next four years to assist around a million families each year through the childcare benefit and childcare rebate.⁶

Acknowledgements

1.8 The committee thanks those organisations and individuals who made submissions to the inquiry.

4 Family Assistance Legislation Amendment (Child Care Measures) Bill 2014, Explanatory Memorandum, p. 2.

5 Family Assistance Legislation Amendment (Child Care Measures) Bill 2014, Explanatory Memorandum, p. 2.

6 House of Representatives Hansard, 5 June 2014, p. 3.

CHAPTER 2

Key issues

2.1 The committee received submissions from organisations expressing a range of views, including welcoming the government's investment of \$28.5 billion over four years in child care fee assistance, despite a 'difficult fiscal environment'.¹

2.2 Submitters voiced concerns that the bill would not achieve the aims of the policy behind the Child Care Benefit (CCB) and Child Care Rebate (CCR) to provide financial assistance to families to help support access to child care and to increase workforce participation, and social and educational development for children.

2.3 Specifically, submitters expressed concerns that the bill would affect affordability and therefore accessibility for some families, and that some families would be hit with unexpected fees once the threshold for CCR had been reached. Some submitters also expressed a view that these changes should not be made ahead of the release of the Productivity Commission Inquiry into Child Care and Early Childhood Learning. Further, submitters argued the changes are merely cost-cutting measures without consideration of the broader issues.

Affordability and accessibility

2.4 Some submitters expressed concern that the measures proposed by the bill will mean that more families receive less, and that some may lose the CCB altogether. In particular, that as the benefits reduce, out of pocket costs rise and families will reach the \$7500 CCR cap earlier.² This may reduce accessibility to quality child care for some families.

2.5 In its submission, the Department of Education (the department) emphasised that the CCR is a non means-tested payment, and in relation to the CCB it explained:

The Child Care Benefit is a means-tested payment that provides financial assistance to help families with child care costs. The Child Care Benefit upper and lower income thresholds are used to calculate the rate of a family's Child Care Benefit. The lower and upper Child Care Benefit income thresholds are currently \$41,902 and \$97,632 respectively and are indexed each year on 1 July in line with Consumer Price Index (CPI) increases...

The Child Care Benefit standard hourly rate, the minimum hourly amount and the multiple child loadings related to the Child Care Benefit will

1 Early Childhood Australia, *Submission 5*, p. 3.

2 Police Federation of Australia, *Submission 7*, p. 1; National Welfare Rights Network *Submission 2*, p. 2.

continue to be indexed by the CPI on 1 July each year. These amounts are not affected by either of the measures in the Bill.³

2.6 Submitters welcomed the government's commitment to continuing Consumer Price Indexing of the CCB standard hourly rate, the minimum hourly amount and the multiple child loadings.⁴ Further, the AI Group argued the bill would not have significant impact on productivity or workforce participation.⁵

Productivity Commission inquiry and cost cutting measures

2.7 In respect of concerns about the measures being purely cost cutting measures that should be postponed until after the Productivity Commission's inquiry has finished, the committee notes the Department's submission that explains the measures are:

...limited and targeted savings measures that will achieve savings to help address short term fiscal concerns. In particular these measures do not preempt 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 Inquiry process and outcomes to ensure better child care policies into the future.⁶

2.8 This explanation addresses concerns that the measures should not be taken ahead of the Productivity Commission's report, because they are both limited and targeted and will not prevent the Government taking on board any recommendations the Productivity Commission may make about Australia's broader child care and early childhood learning needs.

Committee view

2.9 The committee notes the Australian Government's ongoing commitment to providing affordable and accessible child care options for Australian working families, through the provision of financial assistance under the CCR and CCB. In particular, the committee is persuaded of this commitment by the Department's submission that:

Child care fee 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

3 Department of Education, *Submission 4*, p. 1.

4 National In-Home Childcare Association, *Submission 6*, p. 2.

5 Ai Group, *Submission 16*, p. 2.

6 *Submission 4*, p. 3.

Benefit, and \$14.9 billion to assist working families with out-of-pocket child care expenses under the Child Care Rebate.⁷

2.10 While the committee notes concerns about maintaining the current CCR limit and CCB income thresholds, it is not persuaded that childcare will become unaffordable or inaccessible as a result of these measures. Further, it notes the Productivity Commission is conducting an in depth inquiry into child care and early childhood learning that is likely to influence future government policy in this area.

2.11 Finally, the committee is persuaded that these measures are limited, well targeted and for a finite period of time, and are a necessary part of the broader government agenda of repairing the budget and strengthening the economy.

Recommendation 1

2.12 The committee recommends that the bill be passed.

Senator Chris Back
Chair, Legislation

⁷ Department of Education, *Submission 4*, p. 3.

LABOR SENATORS' ADDITIONAL COMMENTS

Key issues

The bill does not fulfil Coalition pre-election policy statements

1.1 Submitters voiced concerns that the bill would not achieve the aims of the policy behind the Child Care Benefit (CCB) and Child Care Rebate (CCR) to provide financial assistance to families to help support access to child care and to increase workforce participation, and social and educational development for children. Labor Senators support these concerns.

1.2 The Coalition's pre-election policy document, *The Coalition's Policy for Better Child Care and Early Learning*, published in September 2013, states the Coalition's commitment "to help ensure child care can be more accessible and affordable". This bill completely goes against that policy statement by forcing up costs for families already facing rising fees.

The bill will exacerbate already rising pressures on costs

1.3 While the committee majority noted concerns about maintaining the current CCR limit and CCB income thresholds, it was not persuaded that childcare will become unaffordable or inaccessible as a result of these measures. Labor Senators do not support this view.

1.4 Evidence submitted demonstrated that prices are likely to continue to rise above general inflation into the future, continuing the long term decline in the value of child care subsidies.¹ The value of CCB has been eroding because the income thresholds and the rates have both been indexed to CPI, resulting in costs continuing to exceed any indexation into the future following the freeze.

1.5 The Department of Education gave evidence pertaining to this in its recent appearance before Budget Estimates. The Deputy Secretary of the Department of Education stated that child care prices were forecast to increase annually by around seven per cent on average over the forward estimates.

1.6 Submitters expressed concern that the measures proposed by the bill will mean that more families receive less, and that some may lose the CCB altogether. In particular, that as the benefits reduce, out of pocket costs rise and families will reach the \$7,500 CCR cap earlier.

1.7 The three year temporary freeze implemented by the former Labor Government in 2011 impacted only 5 per cent of families using child care. These were primarily high-income families using expensive child care. This no longer the case. 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 *Legislative Out-years Customisable Model of Child Care: 2013-14 Budget*, as cited in Early Childhood Australia, *Submission 5*, p. 7.

1.8 Eligibility for CCB has also been moving further away from average earnings. 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.

1.9 During the latest round of Budget Estimates, the department also confirmed that the child care and early learning space is a market, and not bound by pricing guidelines from the government, resulting in a total inability of the Coalition to be able to deliver on a promise around fees.

Ms Wilson: The market is the market; we do not intervene in the market.

Senator LINES: That is right.

Ms Wilson: People make assessments for themselves based on business viability about the demand, the need, the CCB and CCR they will get, the fees they charge.²

The Bill negatively impacts women's workforce participation

1.10 AI Group argued the bill would not have significant impact on productivity or workforce participation.³ Although the majority report relies on this submission, other submitters did not reflect this evidence.

1.11 Early Childhood Australia presented evidence about the well-known correlation between child care affordability and women's workforce participation, presenting academic works demonstrating 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,⁴ and that families on lower incomes are more responsive to increases in child care prices.⁵

1.12 Affordability is a major barrier to children's participation in early learning, and therefore a contributing factor in their ability to access the inarguable benefits gained from early learning, particularly among already disadvantaged children.

Productivity Commission inquiry

1.13 The Labor Senators of the committee echo the concerns of some submitters about the measures being purely cost cutting measures that should be postponed until after the Productivity Commission's inquiry handed down its final report.

1.14 The Coalition made an election commitment to inject \$2M into the Productivity Commission Inquiry into Child Care, and to implement any decisions on the matter prior to the final report demonstrates a disregard for the results and makes it difficult for the Commission to provide accurate recommendations, as these

2 *Proof Senate Estimates Hansard*, 4 June 2014, p. 25.

3 Ai Group, *Submission 16*, p. 2.

4 Bruenig, R., & Gong, X., *Treasury Working Paper 2012-01: Estimating net child care price elasticity of partnered women with preschool children using discrete structural labour supply - child care model*, Canberra: Department of Treasury, 2011, p. 27. As cited in Early Childhood Australia, *Submission 5*, p. 4.

5 Bruenig, R., & Gong, X., *Treasury working paper 2010-02: Child care availability, quality and affordability: Are local problems related to maternal labour supply?*, Canberra: Department of Treasury. 2010, p. 39. As cited in Early Childhood Australia, *Submission 5*, p. 4.

recommendations are to be based on existing funding parameters, as per the terms of reference.

Recommendation 1

1.15 The Labor Senators recommend that the Senate consider the issues outlined when deliberating the bill.

**Senator Sue Lines
Deputy Chair, Legislation**

AUSTRALIAN GREENS' DISSENTING REPORT

1.1 The Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 seeks to continue the freeze on the Child Care Rebate at a limit of \$7500 per child per year and freeze the Child Care Benefit income thresholds for three years which will make it harder for Australian families to afford quality early childhood education and care.

1.2 Overwhelmingly the majority of submissions made to the committee were not supportive of the proposed changes and concluded that the bill should not proceed.

1.3 We know that parents are already being forced to pay more for child care, with fees skyrocketing to over \$100 a day, while waiting lists are continuing to grow across the country. Under these changes families with a household income of \$150 000 will be \$6 000 out of pocket, but evidence provided to the committee shows that these changes will hit low income families the hardest. Families with a household income of \$60 000 are set to lose \$3 000 a year if this bill proceeds.¹ The direct results of this change will be higher out of pocket costs for families, families incurring substantial debts with the child care providers, parents potentially withdrawing from work and children being withdrawn from care.²

1.4 The Australian Greens do not support the bill as it is just another step by the government to target everyday Australians who are already struggling to make ends meet. The proposed changes will have a significant impact on families by making child care less affordable and accessible. Over half a million families are already struggling to meet the rising costs of child care and these changes will only make it harder for them.

1.5 The Australian Greens depart from the recommendation of the majority report and conclude that the bill should not proceed.

Recommendation 1

1.6 The Australian Greens recommend the Senate reject the bill.

Senator Lee Rhiannon

Senator Sarah Hanson-Young

1 Early Childhood Australia, *Media Release*, 23 May 2014.

2 Goodstart Early Learning, *Submission 13*, pp 1–2.

APPENDIX 1

Submissions received

- 1** Municipal Association of Victoria (MAV)
- 2** National Welfare Rights Network
- 3** Australian Community Children's Services (ACCS)
- 4** Department of Education
- 5** Early Childhood Australia
- 6** National In Home Childcare Association Inc.
- 7** Police Federation of Australia
- 8** SDN Children's Services
- 9** Australian Childcare Alliance
- 10** United Voice
- 11** Community Child Care Co-operative (NSW)
- 12** KU Children's Services
- 13** Goodstart Early Learning
- 14** Early Learning Association Australia (ELAA)
- 15** FamilyVoice Australia
- 16** Australia Industry Group