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ASSOCIATION
AUSTRALIA

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Submission: Re *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014*

Thank you for the opportunity to submit regarding proposed changes to Child Care Rebate (CCR) and Child Care Benefit (CCB) as outlined in the *Family Assistance Legislation Amendment (Child Care Measures) Bill 2014* [the Bill].

ELAA is a peak membership body representing over 1200 early childhood services, including stand-alone kindergartens, cluster managers, integrated services, long day care centres, local government, and before and after-school care providers. We support our members with advice, training, resources and advocacy to enable the realisation of our vision of "excellence in early learning for every child."

The Bill proposes amendments to the *A New Tax System (Family Assistance) Act 1999* (New Tax Act) to implement 2014-2015 Budget savings measures. In particular, the Bill proposes to amend the New Tax Act to:

- Maintain the current CCR limit at $7,500 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; and
- Maintain the CCB income thresholds at the amount applicable as at 30 June 2014, for three income years to 30 June 2017.

ELAA is concerned that if introduced, these legislative amendments to pause the indexation of CCR and maintain current CCB thresholds until June 2017 will directly increase the costs of childcare for Australian families. This may make childcare an unaffordable option for many families, particularly those on low incomes.

At a time when the Australian Government has tasked the Productivity Commission with inquiring into child care and early childhood education – with a particular focus on identifying policy levers to increase workforce participation rates for women – ELAA believes the proposed measures are counterintuitive and likely to have detrimental public policy outcomes.

Recent research by the National Centre for Social and Economic Modelling (NATSEM) has demonstrated the link between labour supply and the cost of child care and concludes that a lack of affordable, quality child care does prevent parents (and in particular women) from returning to work (Breunig et. al, 2011[1]).

Child care assistance in the form of the CCB and the CCR has been designed to facilitate the participation of parents in the workforce - and to support children's social and intellectual development. This is particularly important for children from disadvantaged families. But CCB and the CCR do not currently make childcare affordable for all families, and this is likely to be exacerbated if indexation is removed and threshold levels remain the same for the next three income years.

Families that are currently struggling to afford childcare include those on low incomes that do not qualify for the maximum amount of CCB and are ineligible for Jobs, Education and Training (JET) Child Care Fee Assistance to cover some of the `gap fee'. These families – sometimes described as the "working poor" – struggle to afford child care. Other families are unaware of their entitlement to CCB and/or CCR or have difficulty navigating a complex assistance system.

Although Special Child Care Benefit (SCCB) is available to help a child at risk of serious abuse/neglect or families facing financial hardship, it is time-limited to 13 weeks and requires reapplication to the Family Assistance Office beyond this time. JET funding is also a time-limited payment. But for many vulnerable families there is no `quick fix' solution and they may only be able to afford child care while in receipt of special benefits. When these benefits are withdrawn, such families may need to significantly reduce their child care hours or relinquish places altogether. In many cases, the children impacted are the very children who would most benefit from extra time in a high quality early childhood education and care service.

The CCB scheme also contains an anomaly in that the benefit is spread across a 24 hour period but not over more than 2 days. In practice, this means that families can claim the full benefit only if children are in care for two 10-12 hour sessions. For example, if the child undertakes 3 x 6 or 4 x6 hour sessions, the family can only claim for the first 2 x 6 hour sessions. In cases where families are hard-pressed financially, this can lead either to reduced continuity of attendance at the service or to drop-out. This is at odds with good service practise and detrimental to the outcomes for children.

The 2009 Henry Tax Review made a number of recommendations for reform relating to child care that are still relevant in the current context. In particular, this review recommended that CCB and CCR be combined into a single payment to parents or to early childhood education and care centres, and that low-income families should receive a higher rate of subsidy. Vulnerable children - including those at risk of abuse, neglect, with significant developmental delay or experiencing 'multiple disadvantage'- would have the full cost of their care covered. The Henry Tax Review also suggested reforms to make CCB and CCR better targeted and simpler.

[1] Breunig, Robert. Gong, Xiaodong. Mercante, Joseph. Weiss, Andrew & Yamauchi, Chikako (2011) *Child Care Availability, Quality and Affordability: Are Local Problems Related to Labour Supply?* NATSEM, July 2011. Viewed at: http://www.natsem.canberra.edu.au/publications/?publication=child-care-availability-quality-and-affordability-are-local-problems-related-to-labour-supply-1

Many ELAA members have expressed the view that paying these benefits directly to services would help streamline the existing complex assistance system. From a management perspective, this would enable services to undertake longer term planning, help reduce bad debt, and provide a buffer to enable families to maintain their child care place when struggling financially.

Services report that many parents would also be happy for the funds to go directly to the service as the current process is perceived to be too complicated. This would also mean parents are not in the position of having to pay bills upfront for which they receive partial and retrospective reimbursement. It would be essential to ensure a commensurate fee reduction for parents where this money is paid directly to services or demand for places may reduce.

Funding for early learning services and/or families using these services currently comes from a number of different sources. For services, this can come via State education department funding; and for families as a reimbursement via Centrelink. ELAA members have suggested that if services were funded directly this would reduce the administrative burden for them and the upfront costs for families. Reimbursing families after fee payment can significantly disadvantage those who are already struggling financially and act as a disincentive to the use of early childhood education and care programs. Funding services directly can also provide a measure of security for service providers in terms of future viability and planning.

While ELAA advocates measures to streamline CCB and CCR as outlined above, and has outlined its recommendations in a formal submission to the Productivity Commission, ELAA does not support the measures outlined in the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014.

We believe that removing the indexation provisions of CCR and keeping CCB thresholds at June 2014 levels would have an adverse effect on the affordability of childcare for Australian families, particularly families on a low income, and a consequent reduction in the participation of parents in the workforce may be the result.

Once again, thank you for the opportunity to make this submission. If you have any queries or would like further information, please contact me directly on 03 9489 3500.

Yours sincerely

Shane Lucas
Chief Executive Officer