



Australian Government
Department of Education

**Submission to the
Senate Inquiry into the
Family Assistance Legislation Amendment
(Child Care Measures) Bill 2014**

11 June 2014

Overview of the Bill

1. On 5 June 2014 the Hon Sussan Ley MP, Assistant Minister for Education, introduced the Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 (the Bill) into the House of Representatives.
2. On 5 June 2014 the Senate referred the provisions of the Bill for inquiry and report by 16 June 2014. The committee agreed that submissions should be received by 11 June 2014. On 6 June 2014 the Committee Secretary wrote to the Secretary of the Department of Education inviting the Department to make a submission to the inquiry.
3. The Family Assistance Legislation Amendment (Child Care Measures) Bill 2014 proposes amendments to the *A New Tax System (Family Assistance) Act 1999* (the Family Assistance Act) to implement Budget savings measures.
4. Specifically, the Bill proposes to amend the Family Assistance Act to:
 - a. maintain the Child Care Benefit income thresholds for three income years to 30 June 2017; and
 - b. continue to pause the Child Care Rebate limit at \$7,500 per child, per financial year, for a further three income years to 30 June 2017.

Child Care Benefit measure

5. The Child Care Benefit measure in this Bill is a 2014-15 Budget measure and is one element of the Government's broader measure to 'Maintain eligibility thresholds for Australian Government payments for three years' which is estimated to achieve savings of \$1.5 billion over four years. Further details of this measure, including the Departments with affected programmes, are provided in *Budget Measure Budget Paper No.2 2014-15* at page 204.
6. 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 summary of rate changes from July 2013 at [Attachment A](#) outlines the current Child Care Benefit rates, the income thresholds and the income limits.
7. Specifically, the Bill amends Schedule 4 of the Family Assistance Act to maintain the Child Care Benefit income thresholds at the amounts applicable at 30 June 2014 for three income years, starting from 1 July 2014, with the first indexation of this amount recommencing on 1 July 2017.
8. The Child Care Benefit standard hourly rate, the minimum hourly amount and the multiple child loadings related to the Child Care Benefit will 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.

Child Care Rebate measure

9. The Child Care Rebate is a non means-tested payment that provides assistance for working families who use approved child care by covering half of their out-of-pocket fees (after Child Care Benefit), up to a maximum limit per child per income year. The Child Care Rebate limit is currently capped at \$7,500 per child, per year until 30 June 2014.
10. To be eligible for the Child Care Rebate, families must be eligible for Child Care Benefit, have used approved child care and met the Child Care Rebate work/training/study test. The Child Care Rebate is not income tested and eligibility includes families who are entitled to Child Care Benefit at the 'zero rate' due to their income.
11. This Bill amends paragraph 84F(ea) of, and clause 3 of Schedule 4 to the Family Assistance Act to continue to maintain the Child Care Rebate limit at \$7,500 for a further three income years, starting from 1 July 2014.

Background on the Child Care Rebate measure

12. In 2011 legislative amendments were made to paragraph 84F of the Family Assistance Act by the *Family Assistance Legislation Amendment (Child Care Budget Measures) Act 2011* (the Budget Measures Act) to set the Child Care Rebate limit at \$7,500 per child and to pause the indexation of the Child Care Rebate limit with effect from 1 July 2011.
13. Maintaining the Child Care Rebate limit at \$7,500 per child, per financial year for a further three years, was a 2013-14 Budget savings measure. The savings were included in that Budget, but the required legislative amendments were not introduced to the 43rd Parliament.
14. In late 2013, the Child Care Rebate measure was included at Schedule 9 of the Social Services and Other Legislation Amendment Bill 2013 (the SSOLA Bill).
15. On 5 December 2013 the Senate referred Schedules 6 and 9 of the SSOLA Bill to the Senate Education and Employment Legislation Committee for inquiry and report by 12 December 2013. The Committee received submissions and conducted hearings in the course of its inquiry. The Department of Education appeared before the Committee on 9 December 2013 and subsequently provided written responses to questions on notice from the Committee.
16. The Committee's December 2013 report recommended:
"Recommendation 1
2.29 The Committee recommends that the Senate pass the measures contained in Schedules 6 and 9 of the Bill."

The Labor Senators and Australian Greens members of the Committee provided separate dissenting reports and recommendations.

17. The SSOLA Bill was passed by Parliament on 25 March 2014. However, the Australian Labor Party and the Australian Greens combined in the Senate to pass an amendment that removed the Child Care Rebate measure prior to the passage of the Bill.

Rationale and timing for the Bill

18. The Australian Government is committed to a broad agenda to repair the Budget and strengthen the economy and the measures contained in this Bill are a necessary part of this.

19. The measures in the Bill are limited and targeted savings measures that will achieve savings to help address short term fiscal concerns. In particular these measures do not pre-empt the outcomes of the Productivity Commission Inquiry into Child Care and Early Childhood Learning (the Productivity Commission Inquiry) 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.

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

21. The Bill has been introduced early in the winter sittings of Parliament to allow for the necessary administrative and information technology changes to be implemented before the Child Care Benefit and Child Care Rebate measures commence on 1 July 2014. Implementation of these measures before 1 July 2014 will also provide clarity to families about their entitlements to the Child Care Benefit and Child Care Rebate before the financial year commences.

Financial impact of the child care measures

Child Care Benefit

22. The amount of Child Care Benefit a family receives depends on the family's income, the number of children in care, the hours and type of care used as well as parent's work, training or study commitments. 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. The Child Care Benefit measure is estimated to deliver net savings of \$230.4 million over four years as outlined in Table 1 below:

Table 1: Child Care Benefit savings (\$m)

	2014-15	2015-16	2016-17	2017-18	Total
Net annual change	\$32.9	\$49.2	\$71.4	\$76.9	\$230.40

Source: 2014-15 Budget papers

24. Of the approximately 1 million families expected to use approved child care in 2014-15, around 500,000 families will receive less Child Care Benefit than they would have if the income thresholds continued to be indexed. However, almost the same number of families will receive an increase in the amount of Child Care Rebate they will receive.

25. Families with incomes below \$41,902 (the lower income threshold for Child Care Benefit) will not be impacted by the Child Care Benefit measure. These families will continue to receive the maximum rate of Child Care Benefit.

26. The upper income threshold of \$97,632 referred to in the legislation is a mechanism for the complex way in which Child Care Benefit is calculated and tapered, depending on a family's income, the number of children in care, the type of care and hours used.

27. The amount of Child Care Benefit a family receives tapers to zero as their income increases to the relevant maximum income limit. For example, a working family with three children in child care for 50 hours per week with an income of up to \$170,404 is currently eligible to receive some Child Care Benefit, as well as up to \$7,500 Child Care Rebate per child per year.

Child Care Rebate

28. The Child Care Rebate measure is estimated to deliver savings of \$105.8 million over three years, as outlined in Table 2 below:

Table 2: Indicative savings (\$m) of maintaining the Child Care Rebate limit by financial year:

2014-15	2015-16	2016-17	Total
\$13.9	\$32.5	\$59.4	\$105.8

Source: 2013-14 Budget Papers

29. Under this measure it is estimated that around 74,000 families will reach the \$7,500 Child Care Rebate limit in 2014-15.

30. Families that will be affected by this measure are characterised by high out-of-pocket child care costs and high hours of use of approved child care, and/or paying above average fees.

31. Low income families will be less affected by this measure as they are eligible for higher levels of Child Care Benefit. This includes families on Newstart Allowance, Parenting Payment or other income support.

Other inquiries into child care and fee assistance

32. As mentioned above (refer paragraphs 15-17) the Child Care Rebate measure was previously considered by the Senate Education and Employment References Committee in December 2013 in the context of the Social Services and Other Legislation Amendment Bill 2013 (Schedule 9).

33. There are also a number of inquiries currently underway into the child care sector and fee assistance to families. The Child Care Benefit and Child Care Rebate measures in this Bill do not pre-empt the outcomes of these inquiries.

The Productivity Commission Inquiry into Child Care and Early Childhood Learning

34. The comprehensive Productivity Commission Inquiry is due to provide a consultation draft report in July 2014 and a final report to the Government, in October 2014. The Australian Government's objectives in commissioning the Productivity Commission Inquiry are to examine and identify future options for a child care and early childhood learning system that:

- supports workforce participation, particularly for women;
- addresses children's learning and development needs, including the transition to schooling;
- is more flexible to suit the needs of families, including families with non-standard work hours, disadvantaged children, and regional families;
- is based on appropriate and fiscally sustainable funding arrangements; and
- that better support flexible, affordable and accessible quality child care and early childhood learning.

35. The child care sector in Australia is also being considered by the Education and Employment References Committee through two inquiries that were referred by the Senate to the Committee in December 2013.

The Education and Employment References Committee inquiry into 'The immediate future of the childcare sector in Australia'

36. The Terms of Reference for this Inquiry are the immediate future of childcare services in Australia, with particular reference to:

- cost and availability for parents over the short term, including the effectiveness of the current government rebates;
- administrative burden, including the impact of the introduction of the National Quality Framework;
- the current regulatory environment and the impact on children, educators and service operators;
- how the childcare sector can be strengthened in the short term to boost Australia's productivity and workplace participation for parents; and
- any related matters.

37. This Inquiry is due to report on 17 June 2014

The Education and Employment References Committee inquiry into 'The delivery of quality and affordable early childhood education and care services'

38. The Terms of Reference for this Inquiry are the delivery of quality and affordable early childhood education and care services, including:

- outcomes for children in early childhood education and care services, including:
 - o workforce factors such as stability, qualifications and wage rates,
 - o quality regulation (including staff-to-child ratios),
 - o participation and access to services, and
 - o environments for learning;
- a progress report into the implementation of the National Quality Framework (NQF), including targets met and those working toward;
- parents' experiences of the outcomes of the NQF;
- impacts of the announced government amendments to the NQF, and the outcomes for children and early childhood education and care services; and
- any other related matters.

39. This Inquiry is due to report on 17 June 2014.

40. The Committee received submissions and conducted joint hearings in the course of the above inquiries. The Department of Education appeared before the Committee on 22 May 2014 and answered a number of questions in relation to both the Child Care Benefit measure, and the continuation of the Child Care Rebate limit.

41. The Department of Education has provided submissions to each of the above inquiries and these are available at the following links:

- Productivity Commission Inquiry:
http://pc.gov.au/data/assets/pdf_file/0005/133466/sub147-childcare.pdf
- The Education and Employment References Committee inquiry into 'The immediate future of the childcare sector in Australia':
<http://www.aph.gov.au/DocumentStore.ashx?id=56fbf374-5d50-4e28-a381-4ae99744e871&subId=206482>
- The Education and Employment References Committee inquiry into 'The delivery of quality and affordable early childhood education and care services':
<http://www.aph.gov.au/DocumentStore.ashx?id=e84c6ebb-8d59-4f3b-8d0b-68231b6fdf07&subId=206412>

Attachment A



Australian Government
Department of Education, Employment
and Workplace Relations



Child Care Benefit—summary of rate changes from July 2013

Child Care Benefit (effective from the first Monday in July 2013)	Old Amount	July 2013	Increase	Unit
Hourly Maximum Rates				
1 Child	\$ 3.90	\$ 3.99	\$ 0.09	ph
2 Children	\$ 4.07	\$ 4.16	\$ 0.09	ph
3 Children	\$ 4.23	\$ 4.33	\$ 0.10	ph
4 Children	\$ 4.23	\$ 4.33	\$ 0.10	ph
add for each additional child in care	\$ 4.23	\$ 4.33	\$ 0.10	ph
Weekly Maximum Rates				
1 Child	\$ 195.00	\$ 199.50	\$ 4.50	pw
2 Children	\$ 407.53	\$ 416.92	\$ 9.39	pw
3 Children	\$ 635.95	\$ 650.57	\$ 14.62	pw
4 Children	\$ 847.93	\$ 867.42	\$ 19.49	pw
add for each additional child in care	\$ 211.98	\$ 216.85	\$ 4.87	pw
Registered Care Rate				
Hourly	\$ 0.652	\$ 0.666	\$ 0.014	ph
Weekly (based on 50 hours pw)	\$ 32.60	\$ 33.30	\$ 0.700	pw
Income Thresholds				
Lower Income Threshold	\$ 41,026	\$ 41,902	\$ 876	pa
Upper Income Threshold	\$ 95,530	\$ 97,632	\$ 2,102	pa
Multiple Child Loadings				
Multiple for 2 children	\$ 17.53	\$ 17.92	\$ 0.39	pw
Multiple for 3 children	\$ 50.95	\$ 52.07	\$ 1.12	pw
Income Limits				
1 Child	\$ 142,426	\$ 145,642	\$ 3,216	pa
2 Children	\$ 147,594	\$ 150,914	\$ 3,320	pa
3 Children	\$ 166,656	\$ 170,404	\$ 3,748	pa
4 Children	\$ 198,150	\$ 202,623	\$ 4,473	pa
add for each additional child in care	\$ 31,495	\$ 32,219	\$ 724	pa

Note: This table provides the Child Care Benefit rates with effect from 1 July 2013 and also outlines the respective indexed increases from the 2012-13 financial year. The Child Care Benefit Budget measure will maintain **only** the lower and upper Income Thresholds at the 2013-14 rates for three years. As the respective income limits are derived from both the income thresholds and the hourly rates these will also increase albeit by a lower amount because the Income Thresholds will be maintained.