



9 December 2013

Mr Matt Crawshaw
Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

Email: community.affairs.sen@aph.gov.au

Dear Mr Crawshaw,

Please find attached a short submission from Goodstart Early Learning on the provisions of Schedule 9 of the Social Services and Other Legislation Amendment Bill 2013.

Goodstart Early Learning is a not for profit social enterprise that is Australia's largest provider of early learning and care. Goodstart has 641 centres across Australia, providing care for 73,000 children from 61,000 families.

Should you require any further information, please don't hesitate to contact me.

Yours sincerely,

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SUBMISSION ON THE SOCIAL SERVICES AND OTHER LEGISLATION AMENDMENT BILL 2013 PROPOSING TO EXTEND THE FREEZE ON INDEXATION OF THE CHILD CARE REBATE

Goodstart Early Learning welcomes the decision of the Senate to inquire into the Social Security Measures Amendment Bill.

Schedule 9 of this bill implements the decision in the 2013 Federal Budget to extend the freeze on CPI indexation of the Child Care Rebate until 2017, with a projected saving of \$105.8 million over three years. This will mean that, by 2017, the \$7500 cap will have been frozen for nine years while early learning and child care costs are likely to continue to rise at a rate higher than the inflation rate.

The \$7500 cap is a blunt and poorly designed policy. The cap rations access to Child Care Assistance not on the financial or personal circumstances of the family, but on the amount of early learning and care that the family needs. The application of the \$7500 cap has the result that if a child is booked into care for 5 days a week over a full year, the Government effectively provides no assistance for the fifth day. The family, unless they are eligible for Child Care Benefit, has to fund 100% of the cost of fifth day of care.

Worse than that, the cap is even more disruptive because the family will receive the full Rebate for their expenses until the cap is reached, and then be cut off for the rest of the financial year leading to doubling of out-of-pocket expense each week for the rest of the year. In 2012-13, a family with a child in care for five days paying an average fee of \$72 a day¹ would have hit the cap 42 weeks into the financial year, and received no assistance in the last 10 weeks. By 2016-17, if this bill was passed, a family with a child in care 5 days a week paying an average fee would exceed the cap 32 weeks into the financial year.

What families are affected?

Ending the freeze on indexation of the Child Care Rebate cap will mean that the Government can no longer guarantee that most families with a child in care for four days a week will pay not more than 50% of fees. In 2012-13, based on an average daily fee of \$72 a day², a family requiring 48 weeks of care would have received a rebate of \$7416, just under the \$7500 cap. With the cost of early learning and care rising by around 7% a year in recent years³, such a family would exceed the unindexed \$7500 cap in 2014-15 and every year thereafter. By 2016-17, the Rebate would cover only 38.7% of the average annual cost of 4 days of care. Families paying even slightly above average fees would exceed the cap in 2016-17 even if their child was in care for 3 days a week.

Many centres charge slightly higher fees for children aged under three, and these families are likely to exceed the cap by 2017 for three days of care or more.

The Government justified the original freeze in 2011 arguing that only 5% of families would be affected. By 2013-4, the cap affected 72,000 families, or 7.8% of all families. As a result of this bill, this number will double, with 147,000 families, or 15.8% of families, exceeding the cap by 2016-17.⁴

Families face a range of circumstances, and the decision to place a child in care for 4 or 5 days a week (which will result in the family exceeding the cap) does not necessarily mean that a family is high income. It is possible under current policy design for a family to be eligible for the means tested Child Care Benefit, but exceed the cap for the Rebate. Families who would receive some Child Care Benefit but receive no Child Care Rebate on their remaining out of pocket expenses include:

- A single parent in full time work earning less than \$145,642;

¹ DEEWR Childcare in Australia August 2013

² ibid

³ ibid

⁴ "Families childcare pain" Sunday Telegraph 19/5/2013

- A two income family where the parents earn collectively less \$145,642.⁵

The application of the cap is also not well understood by families, so for many families it comes as a surprise when the cap is reached and it is an unexpected hit to the weekly budget. There are several immediate negative consequences for families that exceed the cap:

- They incur about a 50% increase in their weekly or fortnightly child care bill, for example from \$180 per week to \$360 per week for a full time average cost place. If they have two children their bill increases from \$360 per week to \$720 which is a significant increase.
- They may incur debts, either with their child care and early learning provider as they get behind in their payments or with their financial institution if they have direct debit arrangements in place.
- They may decide to withdraw a child from care and to reduce their work hours to save money.

A considerable number of low income two income families are found in outer suburban areas where family finances are often dominated by servicing a large mortgage. In these suburbs, Goodstart centres report that demand for care place for 4 or 5 days can be quite high. It will be these families who will be hurt hardest by the decision to freeze the cap on CCR.

Case Study: Gold Coast northern suburbs:

Goodstart has a large number of centres in the mortgage belt of western and northern Gold Coast. Many families require 4 or 5 days a week, disproportionately more so than in our inner city centres. Many parents commute up to an hour each day to Brisbane for work.

25% of families in the northern Gold Coast (Oxenford-Ormeau) had both parents working full time, compared to 21.7% for Australia as a whole in 2011. Despite this, family incomes in the northern Gold Coast (Oxenford-Ormeau) are lower than the national average, while mortgage costs are considerably higher. In the 2011 census, 16.2 per cent of households had mortgage repayments that exceeded 30% of household income (compared to the national average of 9.9%). The median family income for families in the northern Gold Coast area (Ormeau-Oxenford) was \$2167 a week, 6 per cent below the national average. Median mortgage repayments were \$2253 a month, 25 per cent above the national average.⁶

The Gold Coast has one of the highest levels of mortgage stress in Australia. On average, 19 out of 1000 borrowers in the Gold Coast, Ipswich and Logan were in arrears as of March 2012, compared to 17 in September 2011. Since 2008, the Gold Coast has been the worst performing region in Queensland, as declining house prices impacted the credit profile of leveraged buyers.⁷ The Child Care Rebate is an important piece of assistance to allow these families to balance their budgets. Families where both parents work full time already exceed the cap. In 2013-14, families with a child aged under 3 in care four days or more will also exceed the cap, and by 2014-15, families with a child aged 3-5 years requiring only four days of care could also probably exceed the cap. By 2017-18, families requiring three days of care could also probably exceed the cap.⁸

Impact on children's access to early learning:

The benefits of a child having access to early and learning care on a consistent and sustained basis is well documented.⁹ Children who have participated in quality early learning have been found to have higher test

⁵ The income cut off for any CCB is \$145, 642, which is about twice average full time earnings of \$72,843 (Nov 2012)

⁶ ABS 2011 Census QuickStats

⁷ Sydney Morning Herald 22/12/2012 <http://www.smh.com.au/business/property/southeast-queenslanders-suffer-more-mortgage-stress-20120822-24lr4.html#ixzz2mjhjgSU>

⁸ This projection assumes fees rising by the long term industry average of 4% above CPI. Goodstart's fee increases in recent years have been slightly below the industry average.

⁹ COAG Reform Council "Education in Australia 2012" October 2103

scores in reading, numeracy and science on Year 3 NAPLAN results.¹⁰ Relationships with educators are fundamentally important to a child’s early learning.¹¹ Being pulled in and out of care is highly disruptive. A policy that put pressure on struggling working families to pull children out of care half way through a year is fundamentally flawed and in need of review.

Our centre directors have reported that some families, when they exceed the cap, withdraw their child from care. Once a family exceeds the cap, they are then hit with the full cost of care (assuming they are eligible for little or no Child Care Benefit). Where a child is withdrawn from early learning and care, a parents is probably also withdrawing from the workforce. This is disruptive to the families, the child’s access to early learning and for the employer.

In 2012-13, a family paying an average fee of \$72 a day with a child in full time care would exceed the cap after just 42 weeks. By 2016-17, they would exceed the cap after just 32 weeks. In 2016-17, a family with a child in care for 4 days a week would exceed the cap after 40 weeks.

Impact of Child Care Assistance on Female Workforce Participation:

Female labour market participation has increased followed the introduction of the Child Care Rebate in 2004, and the increase to 50% in 2008-9. The increases have been most marked in the 25-34 year age group (reflecting the decision of women to return to the workforce earlier after the birth of a child). The introduction of the Rebate in 2004 was followed by a sustained 1.6% increase in workforce participation in the 25-34 year age group, while the increase in 2008-9 was followed by a sustained increase of around 1%.

Female Labour Force Participation Rate, Year to Sep	25-34	35-54	45-54	25-54
2003	71.0	72.5	73.9	72.5
2004	70.6	71.2	73.8	71.9
2005	72.6	73.0	75.5	73.7
2006	72.8	74.0	76.0	74.3
2007	72.9	74.5	77.1	74.8
2008	74.1	74.8	77.3	75.4
2009	73.3	75.3	78.0	75.6
2010	72.9	74.4	78.4	75.2
2011	73.8	75.3	78.1	75.7
2012	73.9	75.5	77.4	75.6
2013	74.2	76.1	77.3	75.9

(Source: ABS 6291.0; *Female labour force participation rates, years to September)

Australia is recognised as having a fairly low level of workforce participation by mothers of young children. The Grattan Institute has identified raising our female workforce participation rate as a ‘gamechanger’ that

¹⁰ Diana Warren & John P Haisken-De New “Early Bird Catches the Worm: The Causal Impact of Pre-school Participation and Teacher Qualifications on Year 3 National NAPLAN Cognitive Tests” Melbourne Institute Working Paper No 34/13 October 2103

¹¹ Linda Harrison et al “Child Care and Early Learning in Australia” (2009) FACSIA Social Policy Research Paper No 40

could substantially increase our economic growth potential. If Australia had the same rate of female workforce participation as Canada, they say, our economy would be \$25 billion a year.¹²

The Grattan report cites international research showing that public investment in making child care more affordable is twice as effective as investing in paid parental leave. Faced with the lowest female workforce participation rate in Canada, Quebec in 1997 introduced a policy of capping child care fees at \$5 a day, backed by Government subsidies. 70,000 mums returned to work and Quebec now enjoys the highest workforce participation rate in Canada. The policy has paid for itself, with an economic study finding a \$1.05 return to the Government in taxes for every \$1 in subsidies.¹³

Recommendation:

The Productivity Commission has been tasked with a comprehensive inquiry into the payments system supporting early learning and child care. It will report in October 2014, in time for consideration in the 2015 Budget.

Given the serious operational, equity and policy issues that a sustained freeze on the Child Care Rebate will have, it is recommended that this section of the bill be deleted and the Parliament review the issues after the Productivity Commission has had an opportunity to report.

¹² Grattan Institute "Gamechangers for the Australian Economy" 2012

¹³ Fortin P et al "Impact of Quebec's Universal Low Fee Childcare Program" (2012) University of Sherbrooke