NATIONAL FOUNDATION FOR AUSTRALIAN WOMEN

Senate Standing Committee on Education, Employment and Workplace Relations - Legislation

Inquiry into the provisions of the Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010

NFAW thanks the Committee for the invitation to submit to the inquiry into the provisions of the Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010.

We note that the Bill is a savings measure, will bring the Child Care Rebate cap back to the level promised in the previous election campaign, and that savings are stated in Budget papers to be transferred to assist Government in meeting the costs of enhancements of child care standards agreed through the COAG process.

We draw to attention that this will inevitably mean that out of pocket expenses for some parents will rise, providing a further disincentive for women with dependent children to return to the workforce or to remain work-force attached.

That said, we take this opportunity to revisit the considerations about the Child Care Rebate as a policy instrument in meeting the costs of registered child care, including care for children under school age, and for school vacation and before and after school hours care for young school age children. I have **attached** to this document the supplementary submission on child care funding which we provided to this Committee's previous inquiry into the provision of child care (to which report the Government has not yet responded).

In our view the Government should reconsider its commitment to the principle of funding child care services through tax subsidies, which are essentially a tool which provides demand rather than supply side subsidies.

Inevitably, demand driven subsidies, providing what is in effect a user voucher, drive growth of costs to the Budget through untrammelled expansion of supply by entrepreneurial private providers, which in turn causes Governments to decrease the value of the voucher over time.

We submitted previously that it was precisely this untrammelled growth in supply of nursing homes for the aged, and distortion of supply of services away from other potential solutions more to the benefit of aged persons, which was the driver of the mid-1980s reforms by the Hawke Government to aged care, limiting the numbers of eligible services (beds) per region, institution of measures to assess whether individuals required nursing home care (geriatric assessment teams) and a range of measures to assure quality whilst controlling service costs.

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The paragraphs below are from our earlier submission and expand on this problem:

3.4. Demand-Side Subsidies

The proponents of demand side subsidies argue that they have the following main advantages over the direct funding of providers:

They generate market signals to ensure that a service is provided where it is most needed and to the level that users need (allocative efficiency).

They generate market signals and market pressures that give service providers an incentive to (i) provide high quality care if they are to attract users and remain viable (ii) make the most efficient use of their resources (technical efficiency) (iii) continually innovate and improve their services and efficiency (dynamic efficiency).

They promote diversity, enabling users to choose between providers and service types.

However, demand-side subsidies have some significant limitations that reinforce the market failure inherent in human services. In particular:

They assume that all buyers have perfect information about the quality of care and the efficiency of resource usage by each provider. However, like most human services, child care is characterized by the lack of observability and measurability of inputs and outputs. Thus information for consumers is restricted and marketing techniques can be used to shape the expectations and choices of users, leaving them vulnerable to advertising and the superficial attractions of a provider. Many studies show that parents overestimate the quality of care received by their children (eg. see Press and Woodrow (2005: 282)).

They do not take account of the capacity to pay of different users. Unless government is prepared to pay the full cost of care and all associated services and prohibit co-payments and/or limit the subsidies to lower income groups, there will be tendency for at least some providers to move to areas where families have a greater capacity to make co-payments. This will distort supply away from the socially efficient allocation of resources.

They maximise the opportunities for FPOs that are focused primarily on profit maximisation rather than the welfare of children. This flows from the two above points.

Subsidies in the form of tax expenditures exacerbate these problems in a number of ways.

Firstly, they disproportionately favour higher income earners.

Secondly, tax expenditure *requires* a co-payment by the user, which has at least two undesirable effects. FPOs are attracted to those areas with higher income earners, pushing fees up in those areas and increasing the disparity in supply. Secondly, it means that in cases where a provider is prepared to waive or reduce the co-payment for low-income parents, then no or little assistance is available to these parents from this source.

Commonwealth funding for a number of other human services use demand-side subsidies that give users the right to choose their provider, but these subsidies are generally paid in the form of reimbursements to providers and exist in the context of other mechanisms for the planning and management of supply. These services include Medicare bulk-billing and payments for residential aged care. Providing they operate in a context of a system designed to plan and manage supply, these reimbursement-based subsidies overcome a number of the negative impacts of tax expenditures. A further advantage of such subsidies is that they help government obtain better data about the demand and supply, especially by location and about individual providers. Much of this data can be passed on to users to enable them to make more informed choices. Child care should be financed by either (i) reimbursement-based subsidies, or (ii) funding providers for a given number of children and places on a contractual or grant basis.

We urge the Committee to re-visit its earlier study of child care costs, and to recommend to Government the development of alternative approaches to financing child care services.

This submission has been approved by the NFAW Board.

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