

# Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010 [provisions]

## Reference

1.1 On 26 May 2010, the Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010 (the bill) was introduced into the House of Representatives.<sup>1</sup> The Senate immediately referred the provisions of the bill to the Senate Standing Legislation Committee on Education, Employment and Workplace Relations for report by 15 June 2010. This was pursuant to a 13 May 2010 resolution of the Senate referring for inquiry the provisions of all bills introduced into the House of Representatives after 13 May 2010 and before 3 June 2010 and containing provisions commencing on or before 1 July 2010.<sup>2</sup>

## Conduct of the inquiry

1.2 Notice of the inquiry was posted on the committee's website and advertised in *The Australian* newspaper, calling for submissions by 4 June 2010. The committee also directly contacted a number of interested parties, organisations and individuals to notify them of the inquiry and to invite submissions. Six submissions were received, as listed in Appendix 1.

1.3 Given the relatively short time frame for the inquiry, the committee decided to prepare its report on the basis of the submissions received without holding any public hearings. The committee thanks those who assisted by making submissions to the inquiry.

## Purpose of the bill

1.4 Schedule 1 of the bill amends the *A New Tax System (Family Assistance) Act 1999* to cap the annual child care rebate at \$7500 for four income years starting from 1 July 2010, with no indexation to occur until 1 July 2014. This amendment will generate net savings of \$86.3 million over four years.<sup>3</sup>

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1 *Votes and Proceedings*, No. 161, 26 May 2010, p. 1782.

2 *Journals of the Senate*, No. 122, 13 May 2010, pp 3485-3486.

3 Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010, Explanatory Memorandum, p. 2.

## Background to the bill

1.5 Child care rebate is paid to eligible families to assist them in meeting the cost of fees for care provided by an approved child care service.<sup>4</sup> The payment assists families who are using child care while undertaking work, training or study, providing them with up to 50 per cent of their out-of-pocket child care costs up to an annual cap.<sup>5</sup>

1.6 Previously the annual cap has been subject to annual indexation. The most recent indexation took place on 1 July 2009, increasing the child care rebate limit for the 2009-10 income year to \$7778.<sup>6</sup>

1.7 The savings made by reducing the cap to \$7500 from 2010-11 and pausing indexation until 1 July 2014 will in part fund the Australian Government's new National Quality Framework (NQF) for early childhood education and care (ECEC). The NQF, which has been agreed in partnership with the state and territory governments, will for the first time establish a national quality standard for all ECEC providers.<sup>7</sup> All providers will be required to implement better staff-to-child ratios and ensure that staff have improved qualifications.<sup>8</sup>

1.8 The Women's Budget Statement for 2010-11 notes that boosting the quality of child care and early childhood education is intended to make it easier for parents, particularly women, to engage in paid work while being confident that their children are receiving quality care.<sup>9</sup>

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4 All families eligible for child care benefit are also eligible for the child care rebate, even where their child care benefit entitlement is currently zero due to income. Source: Australian Government Fact Sheet, 'Information for families using child care – Fact Sheet 10', accessed at [mychild.gov.au](http://mychild.gov.au) on 28 May 2010.

5 Australian Government Fact Sheet, 'Information for families using child care – Fact Sheet 10', accessed at [mychild.gov.au](http://mychild.gov.au) on 28 May 2010.

6 Family Assistance Legislation Amendment (Child Care Budget Measures) Bill 2010, Explanatory Memorandum, p. 2.

7 Council of Australian Governments (COAG), *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care*, 2009, accessed at [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-12-07/docs/nap\\_national\\_quality\\_agenda\\_early\\_childhood\\_education\\_care.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2009-12-07/docs/nap_national_quality_agenda_early_childhood_education_care.pdf) on 29 May 2010.

8 The Hon Julia Gillard MP, Deputy Prime Minister; Minister for Education; Minister for Employment and Workplace Relations; Minister for Social Inclusion; and the Hon Kate Ellis MP, Minister for Early Childhood Education, Child Care and Youth, '\$273.7 million to boost the quality of child care and early childhood education for Australian children', Media release, Budget 2010-11, 11 May 2010.

9 The Hon Tanya Plibersek MP, Minister for Housing; Minister for the Status of Women, 'Women's Budget Statement 2010-11', p. 2, accessed at [http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget10\\_11/Documents/women/women\\_budget\\_statement\\_2010.pdf](http://www.fahcsia.gov.au/about/publicationsarticles/corp/BudgetPAES/budget10_11/Documents/women/women_budget_statement_2010.pdf) on 28 May 2010.

1.9 According to the Minister for Early Childhood Education, Child Care and Youth, only three per cent of families eligible to receive the child care rebate will be affected by the amendment:

It is important to note that under the adjustment to the childcare rebate featured in this bill, the vast majority of Australian families will not be affected by this change.

In fact only about three per cent of families currently receiving the rebate will be affected. The vast majority of families will not be affected.

In order to reach the cap most families would need to be placing their child in care for 10 to 12 hours a day for more than four days a week, at average fee levels.

In fact, the average use of child care in Australia is much lower with most parents using around 2½ days a week, with the average childcare rebate claim last year being less than \$2,000—well below the cap of \$7,500.

Overall less than one per cent, 0.67 per cent, of families using child care who earn less than \$100,000 a year will be impacted by this change in 2010-11.<sup>10</sup>

1.10 The Minister also highlighted other changes made to the child care rebate under the Rudd government:

In July 2008, we delivered on our election commitment to increase the childcare rebate from 30 to 50 per cent of parents' out-of-pocket expenses. This extra support goes directly to parents to help them with the cost of their child care. We also met our election commitment to lift the maximum that families could claim from \$4,354, as it was under the previous government, to \$7,500 per child per year—a substantial increase of \$3,146 a year, or some 72 per cent.<sup>11</sup>

1.11 Kirsten Livermore MP, speaking in support of the bill, commented that one of the changes that the government had made to the Child Care Rebate was to make payments available to families more frequently than had previously been the case:

In our first budget in 2008 we honoured our election commitment to increase the childcare rebate and also made it possible for families to receive the rebate payment quarterly rather than annually as it had been under the previous government.<sup>12</sup>

1.12 Ms Livermore went on to remark upon the wider industry and budgetary context of the bill:

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10 The Hon Kate Ellis MP, Minister for Early Childhood Education, Child Care and Youth, *House of Representatives Hansard*, 26 May 2010, p. 22.

11 The Hon Kate Ellis MP, Minister for Early Childhood Education, Child Care and Youth, *House of Representatives Hansard*, 26 May 2010, p. 22.

12 Kirsten Livermore MP, *House of Representatives Hansard*, 3 June 2010, p. 4.

The change in this bill needs to be understood in the context of our overall approach to the budget this year. This measure to keep the childcare rebate annual cap at \$7,500 for the next four years delivers \$86.3 million in savings...[which] will go towards some important new initiatives also announced in the budget. First of all, there is \$59.4 million to improve the quality of 142 budget based funded early childhood services in rural and remote Australia. This funding will help those centres to improve infrastructure and staff qualifications and will benefit some of our most isolated and disadvantaged children... In addition we have announced \$81.9 million to implement the new national quality standards. This includes the first national ratings system for child care and early education services so parents have the information they need to make those important decisions about the best care for their child. There is also \$1.9 million to support new regulatory measures to help achieve ongoing stability in the childcare sector in the wake of the ABC Learning crisis. This includes developing measures that require large childcare providers in the market to prove their financial viability— something that no-one would argue against after we saw what happened with ABC Learning not so long ago. Since taking government we have taken steps to improve the affordability of child care through assistance to families. Now we also need to continue our work with the sector on standards and quality. These three budget initiatives progress that quality agenda.<sup>13</sup>

## **Issues raised during the inquiry**

### ***Reduction in the rebate cap***

1.13 Most submitters accepted that the reduction in the child care rebate cap and the pause in indexation were necessary measures to help improve the quality of child care in Australia. For example, the National Foundation of Australian Women (NFAW) and National Investment for the Early Years (NIFTeY) remarked in their jointly signed submission:

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 the savings are stated in the Budget papers to be transferred to assist Government in meeting the costs of enhancements of child care standards...<sup>14</sup>

1.14 The Liquor, Hospitality and Miscellaneous Workers' Union (LHMU) were supportive of the bill, noting in relation to the proposed changes that:

...Government funding to the early childhood education and care (ECEC) sector remains at historically high levels and...the Bill does not result in a net decrease of funding to the sector.<sup>15</sup>

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13 Kirsten Livermore MP, *House of Representatives Hansard*, 3 June 2010, p. 4.

14 National Foundation for Australian Women, *Submission 1*, p. 1.

15 Liquor, Hospitality and Miscellaneous Workers' Union, *Submission 3*, p. 1.

1.15 The Endeavour Forum expressed some qualified support for the proposed changes:

In general we support the indexation of government payments, but as the Child Care Rebate is quite unjustly only available to mothers in the paid workforce, we support the capping of it in this instance.<sup>16</sup>

1.16 The Child Care National Association (CCNA) was the only submitter which opposed the proposed changes, arguing among other things that the sector is already vulnerable following the collapse of ABC Learning and the global financial crisis, and that capping the level of support available:

...will further reduce utilisation at a time when [child care] services are financially very vulnerable.<sup>17</sup>

### ***Committee view***

1.17 The committee notes that the global financial crisis of 2008-09 materially altered the economic circumstances in which the government is operating. The ongoing effects of that crisis are still being felt around the world. Australia remains in a strong position compared to many advanced economies (assisted by the Australian's government's swift and effective implementation of the Nation Building Economic Stimulus Plan), and the government has now adopted a strict fiscal strategy in order to work towards its goal of returning the budget to surplus within three years.<sup>18</sup> This savings measure is consistent with that strategy.

1.18 The committee also notes that the percentage of out-of-pocket child care expenses for which parents are entitled to a rebate remains at 50 per cent, substantially higher than the 30 per cent available to them under the previous government. Furthermore, only a small number of families will be affected by the cap reduction:

...97 per cent of Australian families receiving CCR [child care rebate] will not reach this cap [\$7500] in 2010-2011 and consequently are not expected to be affected by this adjustment.<sup>19</sup>

1.19 The savings generated by the slight reduction in the child care rebate cap (and the temporary pause on indexation) will be invested in raising standards in the early childhood education and child care sector, to the benefit of all Australian children and families who access this care. The committee is of the view that this budget measure is

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16 Endeavour Forum Inc., *Submission 2*, p. 1.

17 Child Care National Association, *Submission 6*, p. 1.

18 The Hon Wayne Swan MP, Treasurer, *House of Representatives Hansard*, 11 May 2010, p. 40.

19 The Hon Tanya Plibersek MP, Minister for Housing; Minister for the Status of Women, 'Women's Budget Statement 2010-11', p. 4, accessed at [http://www.fahcsia.gov.au/about/publications/articles/corp/BudgetPAES/budget10\\_11/Documents/women/women\\_budget\\_statement\\_2010.pdf](http://www.fahcsia.gov.au/about/publications/articles/corp/BudgetPAES/budget10_11/Documents/women/women_budget_statement_2010.pdf) on 28 May 2010.

a responsible way in which to generate the funds needed to support important improvements in the quality of Australian child care services.

***Likely increases in child care fees***

1.20 NFAW and NIFTeY jointly pointed out that this policy change will result in increased costs for some parents:

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.<sup>20</sup>

1.21 The likelihood of fee increases has also been acknowledged in the Council of Australian Governments Regulation Impact Statement for these sectoral reforms.<sup>21</sup>

1.22 The LHMU commented that, whilst consumer subsidies such as the child care rebate and the child care benefit have had the desired effect of attracting 'significant private investment into childcare' and 'driving an overall expansion in supply', one other consequence has been inflationary pressure on costs.<sup>22</sup>

1.23 The LHMU further remarked in its submission that whilst:

...the immediate effects on the of the Bill on parental affordability will be negligible...it must be recognised that without alternative allocation of funding, the proportion of affected families will certainly increase over the subsequent years.<sup>23</sup>

1.24 The CCNA also commented that increased child care costs could have an adverse impact on the participation of women in the workforce over the long term.<sup>24</sup>

***Committee view***

1.25 The committee notes that the bill currently before the committee for inquiry relates only to the cap adjustment, not to the potential impact of the NQF on fees in the sector. Accordingly, the committee will largely confine its comments to the matter directly at hand.

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20 National Foundation of Australian Women and National Investment for the Early Years, *Submission 1*, p. 1.

21 Council of Australian Governments (COAG), *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, 2009, accessed at [http://www.coag.gov.au/coag\\_meeting\\_outcomes/2009-12-07/docs/ris\\_early\\_childhood\\_education\\_care\\_quality\\_reforms.pdf](http://www.coag.gov.au/coag_meeting_outcomes/2009-12-07/docs/ris_early_childhood_education_care_quality_reforms.pdf) on 28 May 2010.

22 Liquor, Hospitality and Miscellaneous Workers' Union, *Submission 3*, p. 2.

23 Liquor, Hospitality and Miscellaneous Workers' Union, *Submission 3*, p. 2.

24 Child Care National Association, *Submission 6*, p. 2.

1.26 However, the committee does note that the government has already planned for increased expenditure on the child care rebate over the next four years, due to the introduction of mandated improvements in child care standards. As stated in *Budget Measures: Budget Paper No. 2: 2010-11*:

The Government will provide \$130.4 million over four years to help support parents with the introduction of new national standards in child care. The new minimum standards will improve child-to-carer ratios and staff qualifications in early childhood education and care services as set out in the National Partnership for the National Quality Agenda for Early Childhood Education and Care.

The introduction of new national standards, which include improving child care ratios, will lead to increased Government assistance through the Child Care Rebate.<sup>25</sup>

### *Other funding models for child care*

1.27 The NFAW and NIFTeY submitted that there is a fundamental flaw in the rebate-based approach:

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.<sup>26</sup>

1.28 The NFAW and NIFTeY went on to propose that alternative child care funding models should be considered, including the possibility of providing reimbursement-based subsidies to providers or directly funding providers for a given number of children or places.<sup>27</sup>

1.29 Australian Community Children's Services stated in its submission that it has:

...always argued that the CCR [child care rebate] is a flawed mechanism and calls on the Government to abandon the rebate and roll the funds into increasing CCB [child care benefit] fee subsidies for low and middle income families...[child care benefit] is a progressive system of support for families...[child care rebate] undoes all the good work of CCB.<sup>28</sup>

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25 Australian Government, *Budget Measures: Budget Paper No. 2:2010-11*, p. 143.

26 National Foundation of Australian Women and National Investment for the Early Years, *Submission 1*, p. 1.

27 National Foundation of Australian Women and National Investment for the Early Years, *Submission 1*, p. 1.

28 Australian Community Children's Services, *Submission 4*, p. 1.

### **Committee view**

1.30 The committee notes these opinions here for completeness of the record but reiterates that the current inquiry before the committee is only into the provisions of the bill, not into broader policy around child care funding. For this reason, these proposals will not be addressed further in this report.

### **Conclusion**

1.31 The proposed adjustment to the annual cap for the child care rebate, which in 2010-11 will impact only three per cent of Australian families receiving this rebate, will generate savings that will assist with the establishment of a National Quality Framework to ensure that all children in child care receive high quality care and education.<sup>29</sup> The committee believes this to be an extremely worthwhile initiative and recommends that the Senate pass the bill.

### **Recommendation 1**

**1.32 The committee recommends that the Senate pass the bill.**

**Senator Gavin Marshall**

**Chair**

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29 The Hon Julia Gillard MP, Deputy Prime Minister; Minister for Education; Minister for Employment and Workplace Relations; Minister for Social Inclusion; and the Hon Kate Ellis MP, Minister for Early Childhood Education, Child Care and Youth, '\$273.7 million to boost the quality of child care and early childhood education for Australian children', Media release, Budget 2010-11, 11 May 2010.