

Supporting research

# Deep and Persistent Disadvantage in Australia

### Key points

These key points were released with the <u>Deep and Persistent Disadvantage in Australia</u> staff working paper on 11 July 2013.

See also: Media release

- Australia has experienced two decades of economic growth and rising average incomes, but some in the community continue to be 'left behind'.
- Disadvantage is a multi-dimensional concept. It is about 'impoverished lives'
   (including a lack of opportunities), not just low income. Poverty, deprivation,
   capabilities and social exclusion are different lenses to view and measure
   disadvantage.
- A number of researchers produce estimates of the extent of disadvantage in Australia, Each relies on contestable assumptions and thresholds.
- Around 5 per cent of Australians aged 15 plus are estimated to have experienced deep social exclusion in 2010, fewer than in 2001 (7 per cent). The rate of very deep exclusion was stable at around 1 per cent (Social Exclusion Monitor).
- Fewer people experience ongoing disadvantage 3 per cent of Australians experienced deep social exclusion for five or more years (between 2001 and 2010) and just under 1 per cent for seven or more years.
- People who are more likely to experience deep and persistent disadvantage include: lone parents; Indigenous Australians; people with a long-term health condition or disability; and people with low educational attainment. Many are public housing tenants and are weakly attached to the labour market.
- Disadvantage has its roots in a complex interplay of factors. Many of these factors, when combined, can have a compounding effect. The probability that any one person will experience disadvantage is influenced by: their personal capabilities and family circumstances; the support they receive; the community where they live (and the opportunities it offers); life events; and the broader economic and social environment.
- A child's earliest years fundamentally shape their life chances. Gaps in capabilities between children from socioeconomically disadvantaged families and their more advantaged peers appear early in life. Starting school 'behind the eight ball' can begin a cycle of disadvantage that sets a trajectory for poorer outcomes later in life.
- Education is a foundation capability. It improves a person's employment prospects and earning capacity, and the evidence points to a relationship between education and better health and raised civic and social engagement.

- Employment is the route out of disadvantage for most people of working age.
- Disadvantage imposes costs on people and families who experience it and on the broader community. Only avoidable costs (reductions in disadvantage that are realistically possible) should be included when estimating the costs of disadvantage.
- Longitudinal data is critical to understanding the dynamics of disadvantage. But people who are most disadvantaged are often not well represented in such studies. Administrative data has the potential to provide new knowledge to inform researchers and policy makers about deep and persistent disadvantage.

### **Background information**

Jenny Gordon (Principal Adviser Research) 02 6240 3296



Research that matters.

# Trouble with childcare

Affordability, availability and quality

Policy Brief No. 49 March 2013 ISSN 1836-9014

David Baker



#### Summary

Recent government approaches to childcare funding have been simple rather than innovative. Improvements in affordability have been short lived, with benefits quickly absorbed through higher costs charged to families. The result is an ongoing game of catch up between government and service providers with families stuck in the middle. Since 2001, the proportion of Australian households reporting difficulties with the cost of childcare for a child under five has increased to more than three out of ten, making affordability an ongoing issue for households – and an election issue for politicians.

When childcare affordability was an election issue in 2004 and 2007, increased attention from the media and public appeared to produce an increase in reported difficulties. In an open letter to the Australian public published in *The Daily Telegraph* in January 2013, the Prime Minister discussed help for families through 'more government assistance with childcare costs than before'. This recognition of the difficulties some Australian families experience paying for childcare suggests increased money for families using childcare will form part of the government's re-election platform.

Despite increased government assistance following two elections in the last decade a greater proportion of families reported cost difficulties in 2010 than in 2001. This situation reflects long-term increases in childcare costs that exceed increases in the Consumer Price Index (CPI). When cost increases exceed CPI the proportion of costs offset by government assistance is reduced. The constant policy catch up between increasing costs and the effective shrinking of assistance payments, which are then increased by government, means affordability remains an issue that will inevitably shape future election campaigns.

The Australian Council of Social Services (ACOSS) and the Brotherhood of St Laurence have previously argued that childcare costs for low income families should be five and six per cent of disposable household income, respectively. By comparison, the government has promoted the success of assistance policies that achieved a ratio of 7.5 per cent based on the average price of 50 hours of long day care per week for one child. Yet parents engage in a range of childcare arrangements that are not delivering this level of support.

This paper finds that households reporting cost difficulties in 2010 were on average paying 9.6 per cent. More than one in five households in areas of low relative socio-economic advantage who reported cost difficulties were paying more than 10 per cent of disposable household income for childcare services. While affordability continued to be an issue, reported difficulties finding quality childcare and a childcare place more generally were at or near the lowest level since 2001. Childcare assistance provided by the government needs to be better targeted.

This paper proposes three policy options, which are not mutually exclusive to address the affordability issue.

- Extend means testing to the Child Care Rebate (CCR) or combine the CCR and Child Care Benefit (CCB).
- 2. Redirect current funding for the CCR to managed funding of childcare places and centres in areas of highest need to maximise service affordability.
- 3. Adjust means testing to achieve a progressive scale of the proportion of household disposable income spent on childcare costs.

Publically managing a proportion of the federal funding of childcare services could help ensure that government efforts to support Australian families are not undermined by the

<sup>&</sup>lt;sup>1</sup> Gillard, J (2013), 'Prime Minister Julia Gillard's open letter to the nation'.

existing game of catch up. Such a policy would mean available funding could be directed to areas of low and lower-middle relative socio-economic status. The involvement of public administration in childcare services could also increase the ability to assess and uphold quality standards. Assistance with the cost of childcare needs to balance a targeting of support for those most in need and a way of regulating pricing that does not simply underwrite corporate profits.

Less reliance on a policy of individual assistance payments would also reduce the administrative complexity faced by families. Complexity creates administrative barriers that are more likely to disadvantage households from areas of middle to low socio-economic status. Should the federal government wish to reduce complexity, redirecting a proportion of household assistance payments to direct subsidies would allow the means testing of assistance payments to be reduced, in turn reducing complexity.

Childcare affordability will continue to be an issue for many Australian families beyond the 2013 election unless funding policies move beyond simply increasing the amount of assistance given to families. A more direct delivery of funding would allow support to be better targeted and avoid the game of catch up that means funding increases are quickly followed by increases in costs.

#### Introduction

Affordable, accessible, quality childcare is an important service for both parents and children, allowing one or both parents to participate in the labour market. Where the cost of care is prohibitive or access is limited, such participation may be prevented. The quality of a childcare service can determine how much children benefit from it. There are also nationwide economic benefits generated by increased labour force participation and the purchase of childcare services.

The use of childcare in Australia has increased in recent years, along with the cost of childcare services. Increasing demand and cost are likely to be associated with reduced availability and affordability for some Australians. Data from the Australian Bureau of Statistics (ABS) shows that, in the period from 1999, the use of formal care had increased from 17 per cent to 22 per cent by 2008. This increase is attributed to a growth in the proportion of children under five placed in long day care. This paper focuses on the difficulties with access to formal childcare for children under five, the age range for which formal care use is highest. Formal childcare is "regulated care away from the child's home" and is largely provided by private or community centres, workplaces and by smaller family day care providers. Notably, increased use of formal care since 1999 has seen a reduction in the use of informal care rather than an overall increase in the number of children in childcare.

Federal funding of childcare began in 1972 when the Whitlam government began providing funding to non-profit centre-based long day care providers. The Hawke government introduced means-tested assistance for users of community-based childcare centres in 1984. This was extended to private centres in 1991 by the Keating government, from which point the number of corporate childcare options increased, outnumbering community centres within a few years. The Howard government accelerated the dominance of private sector childcare further in 1997 by removing operational subsidies for community based childcare. The subsequent Rudd and Gillard governments have made only slight changes, including a change to how assistance is paid and the provision of a rise in the amount of assistance available.

Despite an increase in childcare assistance, many households still report a range of difficulties accessing childcare services. Difficulties often include the cost of childcare, the availability of childcare places and the quality of childcare services. These three categories of difficulty are measured in the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The availability of data from 2001 means we can analyse any changes in the level of reported difficulties since then. Data on the cost of childcare and household disposable income are also collected in the HILDA Survey, allowing a measurement of the effect household demographics have on the likelihood of experiencing difficulties.

This paper considers the three aspects of access difficulties to childcare mentioned above; affordability, availability and quality. The paper restricts analysis to households using formal childcare services for a child not yet at school. Initially the paper provides a background on each form of difficulty, followed by an overview of who is using childcare and who of these people are reporting difficulties. An analysis of these difficulties between 2001 and 2010 and how household demographics inform the difficulties experienced in accessing childcare provides new insights into this issue. Finally some policy solutions are provided to address evident difficulties with childcare access.

<sup>&</sup>lt;sup>2</sup> ABS (2010), Australian Social Trends, p.26.

<sup>&</sup>lt;sup>3</sup> ABS (2010), p.26.

<sup>&</sup>lt;sup>4</sup> Rush, E (2006), Child Care Quality in Australia, p.4.

<sup>&</sup>lt;sup>5</sup> Pocock, B (2006), The labour market ate my babies: Work, children and a sustainable future.

# Australia's future tax system

Report to the Treasurer

December 2009

© Commonwealth of Australia 2010 ISBN 978-0-642-74585-9

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright Administration Attorney-General's Department 3–5 National Circuit BARTON ACT 2600

Or posted at:

http://www.ag.gov.au/cca

Internet:

This report and other related information on Australia's future tax system is available at: www.taxreview.treasury.gov.au

Printed by CanPrint Communications Pty Ltd.



23 December 2009

The Hon Wayne Swan MP Treasurer Parliament House CANBERRA ACT 2600

Dear Treasurer

We are pleased to present the Report on Australia's Future Tax System.

The Report presents a vision of a future tax and transfer system that would position Australia to deal with the demographic, social, economic and environmental challenges of the 21<sup>st</sup> century and would enhance community wellbeing.

We note that the terms of reference call for a review of Australia's tax system, taking into account the relationships with the transfer payment system and other social support payments, rules and concessions. We considered these relationships to be of such importance that we have applied a systemic approach encompassing both transfers and taxes.

The Review has attracted wide public interest, evidenced by over 1,500 written submissions, many stakeholder meetings and around 30 speeches and presentations to a diverse audience, as well as the extensive coverage of the Review in the media since its announcement in the 2008-09 Budget. We thank everyone who has participated in this process.

It is evident from this level of interaction that the Review has raised the community's awareness of the tax and transfer system and its implications for the wellbeing of Australians. We hope this Report further contributes to that awareness and supports an informed debate about future tax and transfer policy.

We wish to record our appreciation for the help and support provided by the Review secretariat, other areas of the Treasury, the Department of Families, Housing, Community Services and Indigenous Affairs, the Australian Taxation Office, Centrelink and other agencies, including the State and Territory treasuries.

Yours sincerely

Ken Henry Chair Jeff Harmer Member John Piggott Member

Heather Ridout Member Greg Smith Member

AFTS Secretariat The Treasury Langton Crescent PARKES ACT 2600

Information Line: 1800 614 133 Email: afts@treasury.gov.au

# Contents

PREFA	ACE	٠١
TERMS	OF REFERENCE	VI
CONTE	ENTS	X
Execu	The task The setting The vision The future architecture Pathway to reform	xv xvi xvi
PART	ONE: OVERVIEW	1
1.	THE NEED FOR REFORM  1.1 Demographic change in Australia  1.2 A changing social context and expectations  1.3 The rise of Asia and the shifting centre of world economic activity  1.4 Increasing globalisation  1.5 Growing environmental pressures  1.6 Technology  1.7 An unsustainable tax structure	
2.	DESIGNING A FUTURE TAX AND TRANSFER SYSTEM	
3.	A TAX AND TRANSFER SYSTEM FOR THE 21ST CENTURY  3.1 Existing strengths  3.2 Opportunities for improvement  3.3 The future architecture.	23
4.	PERSONAL TAXATION  4.1 Fairer, more efficient and simpler personal taxation  4.2 Taxing income from savings  4.3 Improving retirement incomes  4.4 Wealth transfer taxes	29 32
5.	INVESTMENT AND ENTITY TAXATION	39 41 42

6.	LANG	LAND AND RESOURCE TAXES				
	6.1	Charging for non-renewable resources	47			
	6.2	Land tax and conveyance stamp duty	48			
7.	TAXII	NG CONSUMPTION	51			
8.	ENHA	ANCING SOCIAL AND MARKET OUTCOMES	53			
	8.1	Road transport taxes	53			
	8.2	Taxes to improve the environment	55			
	8.3	Alcohol taxation	55			
	8.4	Tobacco taxation	56			
	8.5	Gambling taxation	57			
	8.6	Rationalising other taxes	58			
9.	THE:	TRANSFER SYSTEM	59			
	9.1	Three types of income support payment	59			
	9.2	A more comprehensive definition of means				
*	9.3	Better targeted family-related payments				
	<b>*</b> 9.4	Child care				
	9.5	Housing assistance	66			
	9.6	Transfers tied to goods and services	67			
	9.7	Aged care	67			
10.	Insti	Institutions, governance and administration				
	10.1	A responsive and accountable tax system				
٠	10.2	State tax reform				
	10.3	The client experience of the tax and transfer system	71			
	10.4	Monitoring and reporting on the system	72			
11.	Maci	MACROECONOMIC AND FISCAL IMPACTS				
	11.1	Implications for economic growth	73			
	11.2	Macroeconomic stability and national savings	74			
	11.3	Fiscal sustainability	76			
12.	LIST	LIST OF RECOMMENDATIONS				
13.	Appr	APPENDICES 107				

Cons	OLIDAT	ED LIST OF RECOMMENDATIONS	.79
	Part O	ne A tax and transfer system for the 21st century	80
	Α	Personal taxation	80
	A1	Personal Income tax	80
	A2	Retirement incomes	84
	А3	Wealth transfer taxes	86
	В	Investment and entity taxation	86
	B1	Company and other investment taxes	86
	B2	The treatment of business entities and their owners	87
	B3	Tax concessions for not-for-profit organisations	88
	C	Land and resource taxes	89
	C1	Charging for non-renewable resources	89
	C2	Land tax and conveyance stamp duty	90
	D	Taxing consumption	91
	D1	A cash flow tax	91
	D2	The goods and services tax	91
	D3	Payroll tax	91
	D4	Taxing financial services	91
	E	Enhancing social and market outcomes	
	E1	User charging	91
	E2	Taxes to improve the environment	92
	E3	Road transport taxes	92
	E4	Housing affordability	
	E5	Alcohol taxation	93
	E6	Tobacco taxation	
	E7	Gambling taxation	94
	E8	Rationalising other taxes	
	F	The transfer system	
	F1	Income support payments	
	F2	Means testing	
N.	F3	Family and youth assistance	
*		Child care assistance.	
	F5	Housing assistance	
	F6	Transfers tied to goods and services	
	F7	Funding aged care	
	G	Institutions, governance and administration	
	G1	A responsive and accountable tax system	
	G2	State tax reform	
	G3	Local government	
	G4	Client experience of the tax and transfer system	
	G5	Monitoring and reporting on the system	105

points, youth payments focused on encouraging study, training or workforce engagement should be available.

There should be a seamless transition from family assistance to income support for young people. This should be based on the person's circumstances and only one payment should be available in each circumstance, rather than families having to choose between youth and family payments. Assistance would still need to be flexible, to accommodate diverse transition paths by recognising earlier independence in a number of circumstances.

### \* 9.4 Child care

Access to high-quality and affordable child care can be an important factor in a parent's decision to remain in or return to the workforce. Child care assistance provides secondary earners and sole parents with material support to participate in the workforce. Assistance with child care costs recognises that child care is a cost of employment and thereby reduces the disincentives to participate that are created by the tax and transfer system. Access to quality child care also plays a role in early childhood development, particularly of children from families experiencing, or at risk of, social exclusion.

Currently, there are two main child care payments: Child Care Benefit (CCB) (a means-tested per hour rate of assistance payment) and Child Care Rebate (CCR) (which covers 50 per cent of out-of-pocket costs). These two payments combine to provide a total level of assistance which is higher for low income families and still significant for middle and higher income families (see Chart 9.5).

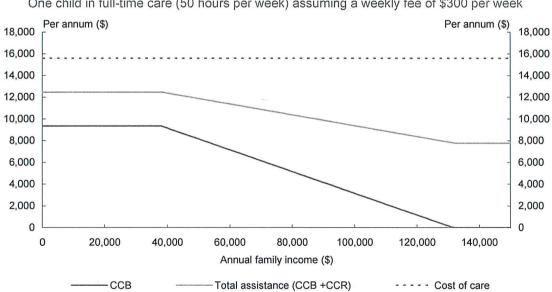


Chart 9.5: Child care assistance, 2009–10

One child in full-time care (50 hours per week) assuming a weekly fee of \$300 per week

Note: Assumes that the child is in approved care and not of school age and that the child care fee is constant across all income levels.

Source: Treasury estimates.

Child Care Benefit and Child Care Rebate should be combined into a single payment to make child care assistance simpler and more transparent. The new payment should be set as

a percentage of out-of-pocket expenses to ensure that the rate of assistance is maintained over time and that it accommodates the wide distribution of child care prices in Australia.

Low-income families should receive a high rate of assistance to facilitate workforce participation and support the use of child care for early learning and development. The payment should be means tested, but all families where parents participate in work, training or study should have access to a base rate of assistance, set with reference to the marginal tax rate faced by most taxpayers.

## 9.5 Housing assistance

Access to adequate housing is integral to a decent life enabling full participation in society.

Including Rent Assistance as part of the income support system allows assistance to be targeted to need and delivered in a way that does not discourage workforce participation. However, the current maximum levels of assistance are too low for many people to secure an adequate standard of housing. Further, indexation of assistance to the Consumer Price Index means that assistance is not well targeted over time, leaving recipients to bear the risk of rent fluctuations.

Rent Assistance should be increased so that assistance is sufficient to support access to an adequate level of housing, and indexed to market rents. Rent Assistance should also be extended to public housing tenants, with tenants charged rents that reflect market rates, subject to grandfathering or other transitional arrangements.

Public tenants currently receive a higher average level of assistance than private tenants, with assistance poorly targeted to need. As most public tenants have similar means to recipients of Rent Assistance, the large difference in assistance levels is inequitable. The gap in assistance leads to rationing of access to public housing through queuing and can lead to poor outcomes for tenants in the long-term.

The use of queues to ration public housing and income-based rent setting discourages workforce participation. Further, public housing funding neither effectively targets assistance, nor encourages the use of the housing stock in ways that reflect the needs of clients.

Social housing providers should receive a new source of funding for tenants with high housing needs, such as those with high costs due to disability or people likely to face discrimination in the private market. The payment would be based on the needs of recipients and directed by them to providers of their choice. In combination with Rent Assistance, this assistance would encourage the formation of a more dynamic social housing market that would reduce reliance on the current system of block grants.

The Australian government and the States should retain the option of providing capital for social housing provision.

### \* F4 — Child care assistance

Recommendation 99: Child Care Benefit and Child Care Rebate should be combined into a single payment to parents (or to child care centres) in respect of each child based on a percentage of child care costs. The payment should have the following features:

- (a) a high rate of subsidy for low-income families that covers most of the costs of child care (up to 90 per cent). This would involve a small co-payment for low-income families;
- (b) a base rate of assistance for all families that use child care to facilitate parental engagement in the workforce. The base rate of assistance should be set as a proportion of child care costs, with reference to the marginal tax rate faced by the majority of taxpayers. (Based on the indicative personal income tax rates scale in Part Two Section A1, this would indicate a rate of assistance of 35 per cent);
- (c) access to the base rate of assistance subject to a requirement that parents participate in work, education or training. Where parents are not participating, the maximum rate of assistance should be available for a limited number of hours. The number of hours subsidised without a participation requirement should be the same as the number of hours of universal access to pre-school (15 hours by 2013); and
- (d) coverage of the full costs of child care for at-risk children and children facing multiple disadvantages, without participation requirements on parents.

Recommendation 100: The child care payment should be means tested down to the base rate of assistance based on family income and should have regard to the interaction with other means tested payments (income support and family payments) and marginal tax rates, to ensure that effective marginal rates of tax are not excessive.

Recommendation 101: The fringe benefits tax exemption for child care facilities provided on an employer's business premises for the benefit of employees should be removed.

## F5 — Housing assistance

Recommendation 102: The maximum rate of Rent Assistance should be increased to assist renters to afford an adequate standard of dwelling. To ensure that Rent Assistance can be maintained at an adequate level over time, the rent maximum should be indexed by movements in national rents, which could be measured by an index of rents paid by income support recipients.

Recommendation 103: To better target an increase in the maximum rate, Rent Assistance should be part of the income support system, with eligibility based on rent paid and the income support means test, rather than on eligibility for another payment (for example, Family Assistance).