



Australian Council of Social Service

5 February 2014

Commissioners Craik and Coppel
Productivity Commission
Inquiry into Child Care and Early Childhood Learning

By email: childcare@pc.gov.au

Dear Commissioners,

Thank you for the opportunity to participate in this important public Inquiry.

ACOSS has long advocated for reform of child care assistance in Australia to improve access, equity and educational and development outcomes for children in low income households. We therefore welcome this Inquiry as an opportunity to review the effectiveness of current policy settings in achieving these outcomes.

The importance of an affordable, quality early childhood education and care system

A well-educated population is the key to Australia's economic and social wellbeing, now and into the future. However, significant numbers of children and young people, particularly from low-income households and disadvantaged communities, are not achieving good educational outcomes. Lack of education has long been recognised as a key factor in poverty and disadvantage. Those who are better educated are at less risk of poverty, while those living in poverty are less likely to achieve high quality educational outcomes.

Studies also show that access to high quality early childhood education and care plays a critical role in children's educational outcomes throughout formal schooling, including in areas such as school attendance, completion rates, behavioural outcomes in class and interest and motivation.¹ In addition, recent research conducted by Melbourne University found that children who attended preschool achieved markedly higher NAPLAN literacy and numeracy

¹ Berlinski, S., Galliani, S. and Gertler, P. (2009) The effect of pre-primary education on primary school performance. *Journal of Public Economics*, 93(1-2), 219-234; Queensland Department of Education, Training and Employment (2013) *Evaluation of the Early Years Centre initiative – Summary Report*.



scores than those who did not.² Research from the United Kingdom demonstrates that these advantages continue through to better employment and wage outcomes at age 33.³

In addition to providing an important educational foundation for children, access to affordable, flexible care for children strengthens women's workforce participation.

Problems with the current system of child care assistance

Access to affordable, quality early childhood education and care is poor in Australia, particularly for low-income and single parent families. The current system of child care payments is particularly complex and inequitable. There are different payment types for low and higher income families and, by international standards, low levels of spending on child care overall. The Child Care Rebate is inherently regressive as it covers part of the gap fee between income-tested Child Care Benefit and fees charged. In addition, the level of subsidy available for low income families is generally not sufficient to finance quality care. As a matter of equity, funding should be directed to give most assistance to families that are in most need.

CCR reduces the cost of childcare in the short term but arguably contribute to child care fee inflation as services increase fees to absorb the subsidy. The Henry Review recognised this problem, noting that subsidies linked to out-of-pocket expenses 'may put pressure on child care fees and government expenditure, particularly if the supply of child care providers is constrained'.⁴

Further, because high income families pay more for child care than low-income families, they benefit disproportionately from the Child Care Rebate. With CCR covering 50 per cent of out of pocket expenses, it provides relatively more assistance as CCB is withdrawn. Compounding the problem is the fact that while the Child Care Benefit is indexed to the CPI, CCR is automatically adjusted to cover price increases (at least up to the cap). As the Henry Review noted, child care fees have generally increased at a much faster rate than CPI with the proportion of child care costs covered by CCB therefore likely to decline over time.⁵ This compares to CCR, which automatically adjusts to cover price increases as it is an 'out-of-pocket' assistance payment. As the Henry Review noted, "over time, this would shift the relative weight of child care assistance away from low-income families and create a flatter rate of child care assistance across the income spectrum."⁶

² Warren, D. And Haiken-DeNew, John P. (2011) *Early Bird Catches the Worm: The Causal Impact of Pre-School Participation and Teacher Qualifications on Year 3 NAPLAN Cognitive Tests* MIAESR, University of Melbourne.

³ Goodman, A. And Sianesi, B. (2005) *Early Education and children's outcomes: How long do the impacts last?* Institute for Fiscal Studies.

⁴ *Australia's Future Tax System* (the Henry Review), p.590.

⁵ Ibid at 589.

⁶ Ibid at 590.



ACOSS proposals for reform

ACOSS supports a universal child care system, funded through a single base payment to all families, with higher levels of support available to low income families. ACOSS' recommends that the Government introduce a universal minimum rate and increase the maximum rate of the Child Care Benefit. The maximum rate of Child Care Benefit should be increased to better reflect the actual costs of providing quality care. This should be funded by the removal of the Child Care Rebate, which would then be replaced with a universal minimum rate of Child Care Benefit. This proposal is revenue neutral, and is broadly consistent with the recommendation of the Henry Review which proposed a single payment, with higher rates of subsidy for low income families covering most of the cost of care and with a means tested payment with a base rate available for all families.⁷

Separate child care and family payments should be maintained to reflect their distinct purposes: respectively, assisting families with the costs of child care (CCB); assisting families with other direct costs of children (Family Tax Benefit Part A) or assisting sole parents with the additional costs of raising children alone (Family Tax Benefit Part B). While separate payments should be maintained, there may be scope for better integrating the CCB and FTB income tests to address high effective marginal tax rates and work disincentives.

Current proposals for child care costs to be tax deductible for parents would add further complexity and to the child care system, with assistance to families with moderate and high incomes delivered through the tax system and assistance for low income households delivered through the income support system. The Henry Review also highlighted the administration and compliance costs that would be associated with a dual system of tax deductions and transfer payments, noting that "it is likely to be simpler to provide assistance through a single mechanism in the transfer system".⁸ On this basis, it concluded that "Child care assistance is more effectively provided through the payments system rather than through a tax deduction."⁹

ACOSS does not support calls to have the cap on CCR removed so that parents with out-of-pocket expenses exceeding \$15,000 per child can claim more than \$7,500. We note that the average amount of CCR claimed by families in 2011-2012 was \$2,466 – well below the cap. In 2012-2013, 22,297 families had exhausted their CCR entitlement or 'hit the cap' by May 2013.

⁷ Australia's Future Tax System, Report to the Treasurer, December 2009, Part Two: Detailed Analysis, volume 2 at 592.

⁸ Ibid at 586.

⁹ Ibid at 587.



These were mainly high income families. Only 1.2% of families on incomes under \$100,000 had 'hit the cap' by that stage of the year.¹⁰

This submission sits in the broader context of ACOSS' positions on the importance of a sustainable budget for Australia; and that we target assistance where it's most needed. We have set out these positions in detail in our submissions to the [Commission of Audit](#) and in our forthcoming submission to the Federal Budget 2014-15.

Thank you again for the opportunity to participate in this Inquiry. I would welcome the opportunity to appear before the Committee to provide further evidence in person.

Yours sincerely,

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Chief Executive Officer, ACOSS

¹⁰ Senate Estimates, 5 June 2013, p. 79.