

Labor's Affordable Child Care Plan



New Leadership.

Labor's Affordable Child Care Plan

Election 2007

Policy Document

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Overview

More than 700,000 Australian families use child care each year, with almost half a million children attending long day care centres and over 100,000 using family day care.

In the last five years, child care costs have grown much faster than the price of other goods and services. In the 12 months to June 2007 alone, after factoring in Child Care Benefit, child care costs rose by 12.8 per cent, the fifth year in a row of double digit increases.

Over the life of the Howard Government, out of pocket child care costs have more than doubled.

While the current Child Care Tax Rebate offers some relief to working families, it is paid too late to make a real difference to family budgets.

As part of Federal Labor's *Affordable Child Care Plan* the Child Care Tax Rebate will be increased from 30 per cent to 50 per cent, meaning that half of a family's total out of pocket child care costs will be met every year. The cap on the amount that can be rebated will also be lifted from the current rate of \$4,354 to \$7,500 per child.

Federal Labor will also ensure that working families receive the *50% Child Care Tax Rebate* every three months, instead of once a year. New information systems enable out of pocket costs to be calculated faster and in office, a Rudd Labor Government will fast track the introduction of the new Child Care Management System with the goal of paying the 50 per cent rebate every fortnight.

Federal Labor's *Affordable Child Care Plan* is one of several reforms to ensure our early childhood services are affordable, high quality and accessible for working families. Federal Labor will make further announcements about improving the quality of and access to child care.

This commitment to improving the Child Care Tax Rebate forms an important part of our long-term agenda to improve early childhood education and care for all Australian children.

Under a Rudd Labor Government, the early years will be a national priority. That's why Federal Labor has already announced plans to:

- Provide a universal preschool year for all four year old children – 15 hours a week for forty weeks a year of high quality, fun, play-based learning delivered by a qualified teacher.
- Invest in an additional 260 child care centres on school sites and community land to end the double drop off.

With Federal Labor's *50% Child Care Tax Rebate* and *50% Education Tax Refund*, working parents will now receive a 50 per cent reduction on eligible out of pocket costs up to the relevant limits from the time their children start child care through to the time they graduate from school.

A Rudd Labor Government will lift the Child Care Tax Rebate to 50 per cent, paying half of parents' out of pocket child care costs every three months.

Child care in Australia today

Child care has become an integral part of modern Australian family life.

More than 700,000 Australian families now have their children in formal care, with almost 500,000 of these in long day care and over 100,000 in family day care.

The proportion of children under three years of age in formal child care has grown by 25 per cent in the ten years from 1996 to 2005. Over the same period, the proportion of children aged three to four years in formal child care has risen from 27 per cent to 45 per cent. The proportion of families with children under twelve who now use formal child care each week has risen sharply – by over 65 per cent since 1996.¹

An accessible, affordable and high quality child care system helps facilitate important social and economic outcomes.

Access to affordable child care helps parents to return to work, playing a critical role in increasing workforce participation which helps maximise personal income, national productivity, and economic growth.

High quality child care also plays an important role in improving children's educational and developmental outcomes. A growing body of evidence shows that high quality early childhood education and care can stimulate cognitive and language development, and help overcome disadvantage.²

Labor's role in helping families access child care

The decisions about balancing work with the vital task of raising children are ultimately ones best made by parents, not governments.

However, government does have a key role to play in giving parents real choice when it comes to child care decisions – by ensuring that they can access affordable, high quality formal child care if they choose to.

Federal Labor Governments have been at the forefront of efforts to make child care available and affordable for Australian parents.³

- In 1972 the Whitlam Government introduced Commonwealth funding for child care.
- The Hawke Government introduced standardised fee relief for children in non-profit long day care centres in 1984.
- In 1988 the National Childcare Strategy was announced with a commitment to boost child care places by 30,000.
- In 1990 the Hawke Government committed to establishing a further 50,000 places by the end of 1996-97 and, for the first time, made fee relief available to commercial child care centres.
- In 1994 the Keating Government introduced the Childcare Cash Rebate.

Federal Labor's reforms have underpinned the development of child care services and it was Labor that pioneered the development of payments and rebates for working families to reduce out of pocket child care costs.

An accessible, affordable and high quality child care system helps facilitate important social and economic outcomes

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Child care affordability has become a major issue

Child care is increasingly unaffordable.

The Child Care Benefit (CCB) was introduced in 2000, but its value has not kept pace with soaring child care costs.

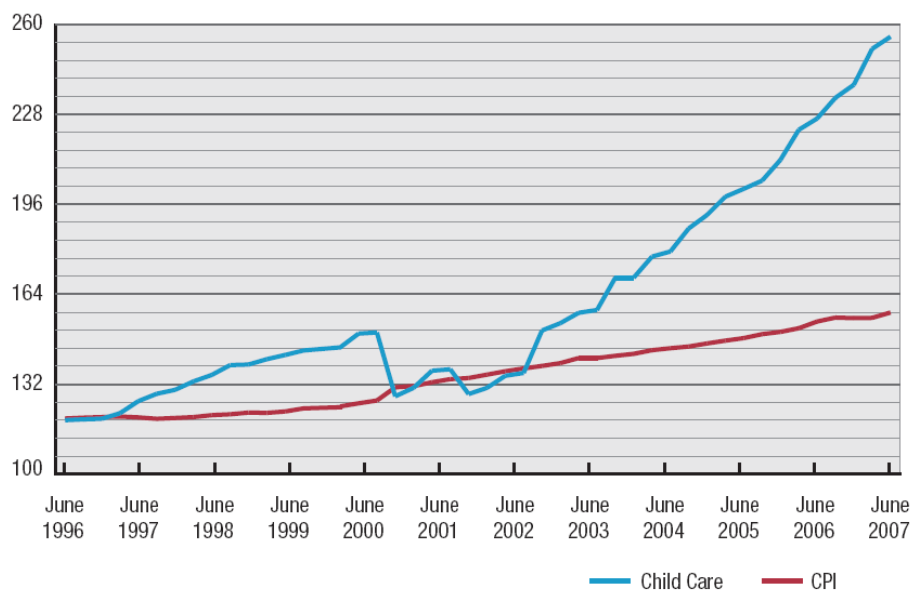
The Child Care Tax Rebate, which currently provides for a 30 per cent rebate on out of pocket child care costs, has provided some additional relief. However, the delivery of the rebate is delayed and for the first three years parents only received their refund two years after incurring expenses. Changes last month mean it is now paid a year after child care costs are incurred. This is still too late to help parents with their day to day caring needs.

In the last five years, child care costs have grown much faster than the price of other goods and services. In the 12 months to June 2007 alone, after factoring in the Child Care Benefit, child care costs rose by 12.8 per cent, the fifth year in a row of double digit increases.⁴ This represents a cumulative increase of 88 per cent over the last five years.

Over the life of the Howard Government, out of pocket child care costs have more than doubled.⁵

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Child care cost index 1996 to 2007⁶



A leading child care website, careforkids.com.au, reports that fees for long day care currently range between \$55 and \$105 per day.⁷ Other reports show that centres charge between \$67 and \$76 per day,⁸ and some up to \$110 per day.⁹ The Government claims that the average child care fee for long day care is just under \$250 per week, or around \$50 per day.¹⁰

Even after factoring in income growth, child care affordability has plummeted in recent years.

Analysis by ANZ Economics shows that child care affordability – factoring in child care fees less the Child Care Benefit, plus growth in incomes – has declined by 50 per cent in the last six years.¹¹

Less affordable child care adds extra pressure to household budgets, which are already being squeezed by rising petrol costs, grocery prices and mortgage repayments.

For the economy, it is also likely to have had a major impact on labour supply with many parents unable to work because they are cannot afford child care.

The United Nations says that “political commitment at the highest level must expressly recognise that early childhood care and education is an economic and social priority.”¹²

Workforce participation

Securing Australia’s long-term economic prosperity depends on boosting levels of participation.

As our population ages, the proportion of people of working age will shrink, leaving a smaller relative pool of Australians who are able to work. In this context, increasing participation rates will become even more important for continued economic prosperity.

A key component of the participation equation is women’s engagement with the labour market.

In Australia, women’s workforce participation has increased steadily over the last 25 years with the proportion of those aged 15 years and over in work rising from 40 per cent in 1979 to 53 per cent in 2004. Full time employment of women of child bearing age, that is aged 25-34, has also increased markedly rising from 29 per cent in 1979 to 44 per cent in 2004.¹³

However, by international standards female workforce participation in Australia remains low. Australia ranks eighth lowest in the OECD, behind the United States, United Kingdom, Canada, Germany and all Nordic countries.¹⁴ In recognition of this, an OECD country survey for Australia recently implored policymakers to increase the affordability and accessibility of child care.¹⁵

Affordable child care is an important mechanism for lifting the participation rate of women with children. Australian evidence shows that doubling the price of child care reduces the participation rate by around 2.2 per cent for single parents and 1.2 per cent for partnered women. Low-income women and those with younger children are more likely to be affected by any increase in the cost of child care.¹⁶

According to survey evidence, one in four workers with caring responsibilities has already reduced their hours of work because of the cost of child care, and over 20 per cent of workers with caring responsibilities are at risk of leaving the workforce because of the cost of care.¹⁷

In an ABS survey released earlier this year, almost 100,000 Australians cited child care as a reason for not working.¹⁸ Specific concerns raised include child care being unavailable, too expensive or of unsuitable quality.

Affordable child care is critical to lifting the workforce participation rate of women with young children

The Productivity Commission estimates that the cost and quality of child care are barriers to workforce participation for about 30 per cent of Australian women aged 25 to 44.¹⁹

The OECD estimates that if Australia's expenditure on child care was increased to the OECD average, the full time participation rate of women aged 25 to 44 would increase by three percentage points.²⁰

Labor's Affordable Child Care Plan

Summary

A Rudd Labor Government will slash parents' child care costs by radically improving the Child Care Tax Rebate.

Federal Labor will increase the rebate and pay 50 per cent of parents' out of pocket child care costs. Parents will receive their rebate every three months.

This initiative forms an important part of our long-term agenda to improve early childhood education and care for all Australian children. Under a Rudd Labor Government, the early years will be a national priority.

Federal Labor's new 50% Child Care Tax Rebate will apply from 1 July 2008

50% Child Care Tax Rebate

A Rudd Labor Government will increase the value of the Child Care Tax Rebate so that it pays half the out of pocket child care costs of working families.

The current rebate only meets 30 per cent of out of pocket costs.

Under Federal Labor's *Affordable Child Care Plan* the total amount that can be claimed will be lifted from \$4,354 to \$7,500 per child.

This provides families with more assistance to meet spiralling child care costs.

Federal Labor's new *50% Child Care Tax Rebate* will apply from 1 July 2008.

The *Affordable Child Care Plan* will offer all families a higher rate of assistance than if child care was tax deductible.

At 50 per cent, the new rebate level is higher than the top marginal tax rate.

Eligibility for the Child Care Tax Rebate will remain the same. It currently applies for children in approved care which can include: Long Day Care, Family Day Care, In-Home Care, Outside School Hours Care, Vacation Care and Occasional Care.

Paying the rebate sooner

Parents are waiting too long for a rebate on their out of pocket child care costs. Parents pay fees every week or fortnight, yet they receive their rebate only once a year.

Federal Labor will bring forward payment of the Child Care Tax Rebate so parents receive it every three months – closer to the time they incur the costs.

The payment in the final quarter of each financial year will also take into account each family's actual income to determine their final out-of-pocket child care costs.

Until just last month, under Mr Howard's Child Care Tax Rebate parents had to wait more than two years to get assistance with spiralling child care costs.

Today – even following the changes announced in the last Budget – parents still have to wait at least a year to receive the 30 per cent rebate on their out of pocket costs.

Federal Labor will bring forward payment of the Child Care Tax Rebate so parents receive it every three months

The fact is that the Child Care Tax Rebate could have been delivered faster to parents from the very beginning. A Rudd Labor Government will put the 50 per cent rebate in parents' pockets every three months – something which should have been done when the Child Care Tax Rebate was first introduced.

In office, a Rudd Labor Government will fast track the introduction of the Child Care Management System with the goal of paying the rebate to parents every fortnight, at the same time as their Child Care Benefit.

Federal Labor understands that spiralling child care costs have put extra pressure on working families.

Labor believes that providing parents with real choice when it comes to child care decisions means having an accessible, affordable, high quality child care system.

These measures are another important demonstration of Federal Labor's commitment to improving access to early childhood education and care for all Australian children.

Increasing participation

Federal Labor's *Affordable Child Care Plan* will also boost workforce participation.

It will help thousands of parents to get back into the workforce – and those already in the workforce to work a few extra hours if they wish.

Independent economic modelling by the Melbourne Institute shows that Federal Labor's *Affordable Child Care Plan* will help more than 34,000 Australians re-enter the workforce over the next five years.

This includes over 16,000 single parents and 15,000 mothers with partners.²¹

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Financial implications

Labor's *Affordable Child Care Plan* is fully costed and funded.

FINANCIAL IMPLICATIONS– IMPACT ON UNDERLYING CASH BALANCE (\$M):

	2007-08	2008-09	2009-10	2010-11	Total
Labor's 50% Child Care Tax Rebate	0	641.9	407.6	442.4	1,491.8
Net impact	0	641.9	407.6	442.4	1,491.8

Endnotes

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