

**A SUBMISSION TO THE
COMMONWEALTH GOVERNMENTS
WORK AND FAMILY POLICY REVIEW**

**IMPROVING EMPLOYER ASSISTANCE
FOR CHILD CARE
FOR FAMILIES THAT WORK**

PREPARED FOR ACCOR ASIA PACIFIC

DECEMBER 2002

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1. PURPOSE OF THE PROPOSAL

The proposal is aimed at:

- a) Providing new options to extend the child care choice for employees, particularly women, with the support of employers and the Government;
- b) Promoting a partnership between government and employers that can fully fund the child care costs of low income families and significantly increase the funding of child care costs for middle income families;
- c) Facilitating additional child care funding for families at a cost to government that is less than one third of the cost the Government would face if it solely provided the same level of additional child care assistance;
- d) Potentially reducing the cost of the Child Care Benefit scheme to the Government;
- e) Providing the Government with the opportunity to support greater choice for child care services through the tax system rather than further budget outlay allocations to line agencies; and
- f) Providing employers with the opportunity to save costs normally associated with staff replacement retraining, and the loss of corporate knowledge.

2. RECOMMENDATIONS TO GOVERNMENT

It is recommended that the Government:

- a) Support the concept of employer assistance for child care (EAC) by agreeing to one or more of the options discussed in this submission;
- b) Note that under the options for an EAC scheme, employees would be eligible for EAC benefits from their employers in addition to the Child Care Benefit (CCB) and Family Tax Benefit (Part A) provided by the Commonwealth Government;
- c) Note that options for the EAC scheme are proposed to complement and **not** replace the Government's existing child care assistance schemes, and be partly funded by reductions in the CCB and Family Tax Benefit (Part A) applied in proportion to family income;

- d) Note that, when offset by reductions in the CCB and Family Tax Benefit (Part A), the EAC scheme is estimated to cost the Government a potential maximum of **\$83 million** per year (in 2004-05), and that this figure results from modelling that is based on generous assumptions and current use and future predicted demand for child care;
- e) Note that its expenditure of \$83 million would enable up to 100% of the long day child care costs for low income families and 70% of long day child care costs for middle income families to be funded;
- f) Note that the current Child Care Benefit (worth an estimated \$1.4 billion in 2002-03) is estimated by government to cover 72% of the child care costs for low income families with two children in long day care and 60% of these costs for middle income families;
- g) Note that without the EAC scheme, it would have to spend an estimated \$287 million in 2004-05 to provide the same level of coverage for family child care costs that is achievable under the EAC scheme;
- h) Note that its expenditure on the EAC scheme would be in addition to its forecast expenditure on CCB.
- i) Note that based on the current average use of child care by families, the average annual net cost to employers from the EAC scheme is estimated to be about \$1073 per employee;
- j) Note that employees currently receiving the CCB and Family Tax Benefit (Part A) would receive more financial assistance under the proposed EAC scheme than currently provided by the CCB and Family Tax Benefit (Part A);
- k) Note that under the preferred EAC option employees from low-middle income families would benefit the most and receive greater assistance than they currently do under the CCB and Family Tax Benefit (Part A);
- l) Note that currently, only child care facilities provided by employers at their business location are exempt from the Fringe Benefits Tax Assessment Act 1986, which severely limits the flexibility of child care options for employers and employees, and discriminates against those employees whose employers do not provide on site child care;
- m) Note that employees could salary sacrifice the EAC benefit and/or receive it in addition to salary;

- n) **Agree** to provide a legal framework for the payment of the EAC benefit directly to child care providers;
- o) **Agree** to EAC being tax deductible for employers in order to provide the appropriate incentives for employers to use the EAC scheme; and
- p) **Agree** to EAC being exempt from Fringe Benefits Tax in order for it to be treated equally with the current exemption from FBT for employer provided on site child care facilities and other concessional items.

3. EXECUTIVE SUMMARY

The Proposal for Employer Assistance for Child Care (EAC)

- 3.1.1 The proposal for Employer Assistance for Child Care (EAC) relies on the **voluntary** contribution of employers to the child care costs of their employees. The EAC would be additional to existing government child care assistance for families under the Child Care Benefit (CCB) scheme and Family Tax Benefit (Part A) (FTB Part A). The proposal is **not** intended to be a compulsory scheme for employers or replace the current child care subsidies provided by the Government.
- 3.1.2 The proposal has been assessed and costed by the National Centre for Economic and Social Modelling (NATSEM), at the University of Canberra. Details of the modelling are in the NATSEM paper at Appendix A. In its assessment NATSEM has assumed the following three fundamental elements that shape the proposal:
 - The EAC is a reportable fringe benefit for the purposes of calculating income and thus the entitlement to CCB and FTB (Part A);
 - A proportion of the EAC is treated as a direct offset to CCB; and
 - Where the total CCB plus EAC would exceed child care costs paid by a family, CCB is reduced to the point where total assistance paid equals total child care costs.
- 3.1.3 An EAC benefit may be provided to an employee by way of a voucher, smartcard or other means. The issue and redemption of the value of the benefit via any chosen instrument could be managed by an independent entity, such as Accor Services, which would deal directly with child care providers on behalf of employers.

- 3.1.4 An employer would purchase the value of the benefit from this entity following agreement on the child care needs and costs of its employee/s. International experience demonstrates that this is an administratively simple and least cost arrangement.
- 3.1.5 In order for employers to have the incentive to use the EAC scheme, benefits provided under it would need to be tax deductible for employers and exempt from Fringe Benefits Tax (FBT).

The Need for Additional Options for Child Care

- 3.1.6 The EAC proposal can assist to address the **four** following issues which government may have to contend with in the short to medium term.

(a) *Meeting Community Expectations for Child Care Assistance From Budget Allocations*

- 3.1.7 In 2000 the Government introduced the Child Care Benefit (CCB) scheme to rationalise the previous myriad of subsidies, and increase the level of assistance to families. Between 2000 and March 2002, the CCB has reportedly had the effect of reducing child care costs to families by 10.2 per cent and substantially increasing their disposable income. Arguably this may create an expectation in the community for ongoing government assistance at this level.
- 3.1.8 In 2000-01 the CCB cost the Government \$1 billion. In 2002-03 the Government has forecast to spend \$1.4 billion on the CCB, which is a 42.7 per cent increase on expenditure from 2000-01, reflecting an anticipated increase in demand for child care services.
- 3.1.9 Depending on a range of other policy and expenditure issues facing the budget, the ability of government to maintain the level of subsidy for child care expected by the community may be subject to increased pressure from budget and fiscal constraints. This may be of concern to the Government in the short to medium term. The Treasury's mid year review for 2002-03 indicates a range of potential expenditure risks to the budget.
- 3.1.10 Pressure on the budget to meet community expectations may increase if child care costs rise higher than the Consumer Price Index (CPI) and Average Weekly Earnings (AWE). Between 1994 and 1999 child care fees increased by more than one and half times the rate of average weekly earnings (AWE) and Consumer Price Index (CPI). Pressure to increase child care worker wages and conditions may influence child care fee rises. Equally, increased government subsidies may encourage child care providers to raise fees.

- 3.1.11 Despite the high level of child care funding currently provided by the Government its subsidies cover an estimated maximum of 72 per cent of child care costs for low income families and 60 per cent of these costs for middle income families with two children in long day care. Under the EAC proposal, the costs of long day care for low income families could be up to 100 per cent funded, with those for middle income families being 70 per cent funded.
- 3.1.12 Based on a range of generous assumptions and current available statistics regarding current and future demand for child care, and depending on when the EAC proposal was introduced, the annual net cost of the EAC proposal to government is estimated to be **\$83 million** in 2004-05.
- 3.1.13 In order for the Government alone to provide the same benefits for families available under the EAC scheme, it would have to spend an estimated \$287 million in 2004-05.

(b) Providing Increased Support for Women and Families In the Workforce

- 3.1.14 Current studies confirm that women continue to carry out the primary care of their children and participate significantly in the workforce. Currently and into the future the vast majority of Australian children are and will most likely be born to mothers aged between 25 and 34.
- 3.1.15 Over 70 per cent of women between the ages of 25 and 34 are in the Australian workforce, reflecting their career choices since leaving school and/or tertiary education. Currently women also represent 67 per cent of part time workers in Australia, which is the second highest participation rate in the OECD.
- 3.1.16 Overall, women with partners and young children are more likely to participate in the workforce than sole female parents with young children. Within this context 53 per cent of women with one child younger than five and 40 per cent of women with a child younger than twelve months, participate in the workforce. Thirty-three per cent of women with two or more children younger than five are in the workforce.
- 3.1.17 The available figures seem to support two trends. These are that women are less likely to work as the number of young children they have increases and that women increase their labour force participation rate as their children age. The proposed EAC scheme increases the child care options for women with more than one child who wish to remain in the workforce, and assists women to return to the workforce earlier if they wish to do so.

3.1.18 In Australia in 1999 female students made up 58 per cent of university students commencing undergraduate studies and 52 per cent of postgraduate students. As more women pursue the career opportunities that university education can bring, and also choose to have children, there is likely to be increasing pressure on governments and employers to adopt policies that support the ability of women to re-enter the workforce after any period of maternity leave, through a wider range of child care options.

(c) Addressing Current Discrimination in the Provision of Employer Child Care Assistance

3.1.19 Currently only the employer provision of child care facilities at their business locations is tax deductible and exempt from FBT. As such employers only have this limited incentive to assist their employees' child care needs by the provision of costly child care centres where they can afford it. The other option of employees' salary sacrificing employer contributions to their child care needs is generally limited to higher income earners.

3.1.20 The current law unfairly discriminates against employers who cannot afford to provide on site child care facilities, but wish to provide assistance to their employees' child care costs. It also unfairly discriminates between employees who work for such employers and those that do not. The EAC proposal assists to address this.

(d) Assisting Employers Reduce Costs

3.1.21 Current employer studies indicate that it costs an average employer between \$3000 and \$60,000 to replace a staff member who leaves, depending on their skills and seniority. These costs include recruitment, retraining, loss of corporate knowledge and productivity costs.

3.1.22 Where the cost of child care is too high to make it attractive for an employee to remain employed it may encourage him/her to resign, in the absence of additional support. On the other hand, employers are likely to gain the loyalty and commitment of employees where they can offer additional incentives such as child care assistance that suits the convenience and choice of the employee. Employer provided on-site child care facilities are too limited and rare to offer this kind of choice.

3.1.23 The estimated annual net cost of the EAC proposal to an employer is \$1073 per employee. This is after the 30 per cent company income tax deduction has been applied.

Child Care Benefit (CCB) Scheme

- 3.1.24 In the 2001-02, there were 508 117 families (or 720 179 children) using approved (formal) care funded by the Commonwealth Government. This means each family had 1.4 children on average in approved child care.
- 3.1.25 The most used form of formal child care is centre based long day care. In 1999, 70 per cent of children in formal care were in long day care, making it a useful benchmark to assess average child care use and costs.
- 3.1.26 The current average cost of long day care is about \$3.60 per hour. Under the CCB, a family can claim a government subsidy for its child care costs, to a maximum of 50 hours per week. Where a family uses 50 hours of long day care a week their total costs would be about \$180 per week.
- 3.1.27 A family can claim the CCB where they meet certain criteria (such as being employed or studying) and if they fall within the income thresholds. A family with one non school age child and an annual income of less than \$30 806 can claim the maximum CCB of \$133 per week. A family with one non school age child and an annual income of \$88 344 can claim the minimum CCB of \$22.35.
- 3.1.28 The rate of CCB varies according to the number of children a family has. The CCB rate for school age children is 85 per cent that provided for non school age children. The income tests for the CCB are similar to those used for the Family Tax Benefit (FTB) (Part A), which provides general family assistance, and which can be used by parents to help meet child care costs.

Interaction of the EAC with the CCB Scheme and Tax System

- 3.1.29 The proposed EAC benefit is not intended to replace the CCB, but rather to work in tandem with it. This is because the EAC would **not** apply to people who are unemployed.
- 3.1.30 It is proposed that an EAC benefit be treated as a reportable fringe benefit, even though it may be exempt from FBT. This means that the EAC benefit would be counted as income for the purposes of assessing CCB and FTB (Part A) entitlements — a treatment that is consistent with that of other items also granted concessional FBT status (such as superannuation salary sacrifice).
- 3.1.31 As a result, the provision of the EAC may affect CCB and FTB (A) entitlements, leading to a reduction in these government subsidies in some

cases. The impact of the EAC would be determined by the application of a specific income test which complements the existing income test arrangements used by the Government for its subsidy schemes. As discussed below, the impact of the EAC can have a positive effect for families currently eligible for the CCB.

- 3.1.32 The value of EAC benefit would be determined according to the hourly cost of an employee's child care costs. The Government may wish to put a limit on the hourly benefit an employer may provide in order to ensure that the total EAC benefit and CCB a family may receive does not exceed their actual child care costs.

Benefits of the EAC for Families

- 3.1.33 A combined EAC benefit and CCB can increase the financial benefit for low to high income families currently eligible for the CCB and provide those families with more assistance than they currently receive under the CCB scheme. The EAC can also equitably increase the disposable income of low to middle income families, depending on the hourly rate of benefit provided. This is discussed in more detail in section 5.4.
- 3.1.34 To identify the net effect of the EAC on the level of child care assistance received by families and its impact on family disposable incomes, NATSEM has modelled an EAC benefit of \$1 or \$2 per hour for 50 hours of care per week. The modelling demonstrates that the \$1 per hour EAC benefit provides the most equitable benefit for all families currently eligible for the CCB. This benefit provides more assistance to low and middle income families than higher income families. In addition, low, middle and high income families all receive more assistance under the combined EAC and CCB scheme than the CCB scheme alone.
- 3.1.35 The EAC scheme has the potential to eliminate or significantly reduce the current gap between child care costs for low-middle income families and the government assistance they receive. The two figures below demonstrate the gap reduction and level of funding achievable under the EAC scheme. The two figures apply to a two parent family with one child in long day care for 50 hours per week and EAC subsidy of \$1 per hour of care.

Figure 1: Child Care Gap Fees Before and After CCB and EAC, \$ per week

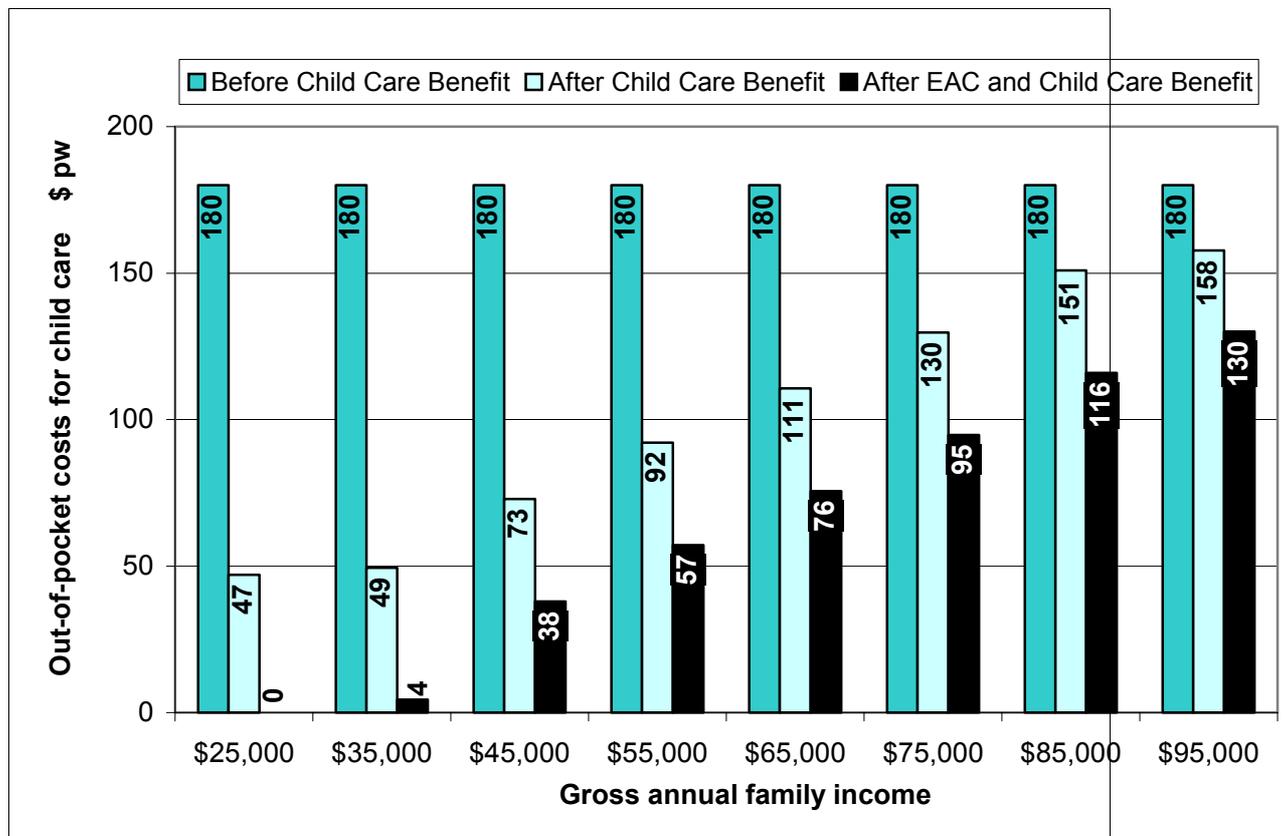
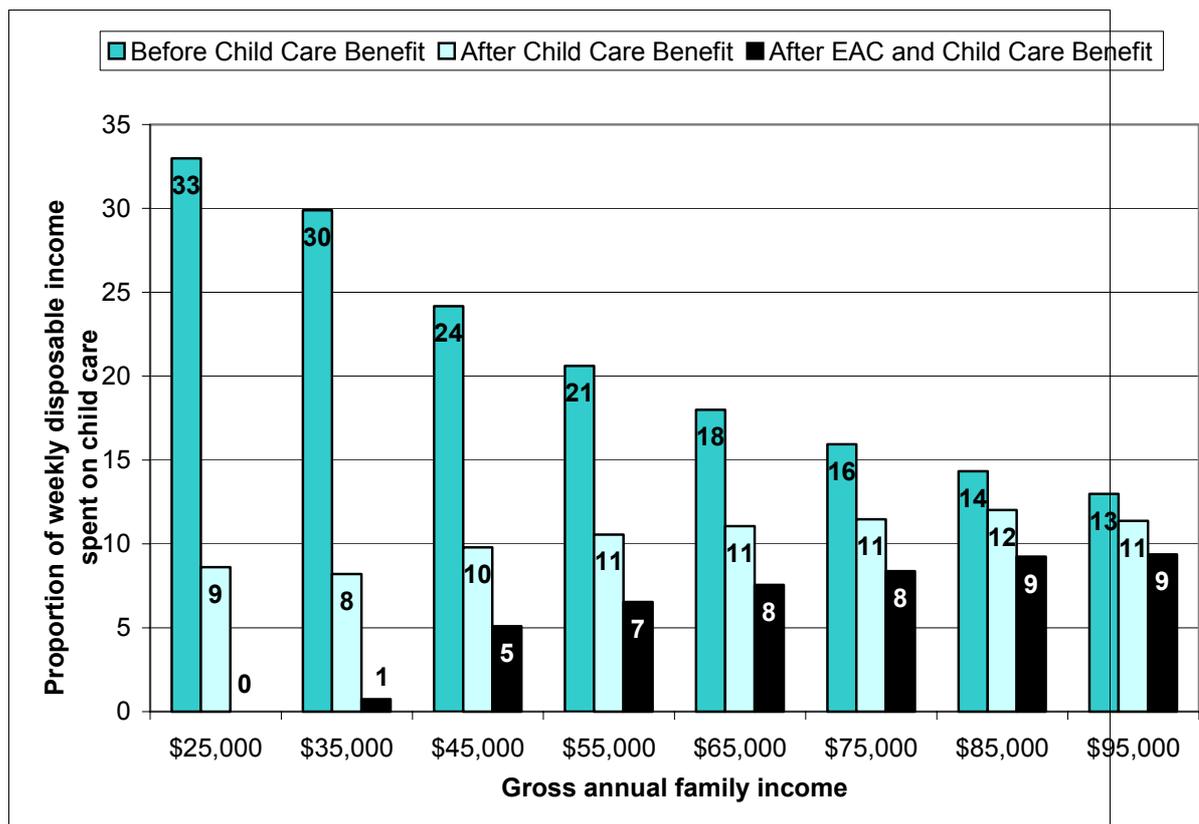


Figure 2: Child Care Gap Fees as a Proportion of Weekly Disposable Income Before and After CCB and EAC.



Note: Families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180). The value of the subsidy is assumed to be \$1 per hour. Income is assumed to be split equally between the partners in the couple. Disposable income is defined here as total income minus income tax. Gross income includes social security and family payments but excludes CCB. Note that these figures are very marginally different to those contained in Figure 7 of the 2000-01 FACS Annual Report. This is because FACS assumed a 60:40 income split within the couple, used an estimated cost of \$187 per week rather than \$180, and used a CCB maximum rate of \$129 rather than \$133. Despite these slight differences in assumptions the results are very similar.

Cost of the EAC proposal to Government

3.1.36 The cost to government arises from funding forgone tax revenue associated with the EAC. In determining the benefits to families from the EAC scheme, NATSEM has modelled a proportionate clawback in the CCB and FTB (Part A) payments to families for each dollar of EAC to partially offset the cost to government, and achieve equity of outcomes. This is illustrated below.

Weekly family adjusted taxable income^(b)	Proportion of EAC benefit treated as a direct offset to CCB^(a)
Below \$734 a week	0
Between \$734 and \$1694	20%
Above \$1694	100%

Note:

(a) These clawback parameters are for families with one child. For families with two or more children, the point at which the 20 and 100% thresholds were set would need to be increased so as to mesh with the existing income test for FTB(A). To be consistent, in our modelling for two child families the 20 per cent clawback range has been set at \$878 to \$1837 per week, which means that it aligns with the FTB(A) income test parameters.

(b) This is weekly family adjusted taxable income once the EAC has been counted as a reportable fringe benefit and has thus increased family income.

3.1.37 It should be emphasised that these clawback parameters are only one of many possible variants. For example, if the Government wanted to be more generous towards lower to middle income families, the 20 per cent clawback rate could be reduced to 10 per cent.

3.1.38 The cost to government has been broadly assessed on the basis that 40 per cent of the cost of an EAC benefit provided by an employer would be borne by the Government via forgone tax revenue; 494 000 families (out of a total of 578 591 eligible families using child care) claimed CCB in 2001-02 for work related purposes; these families used an average of 21 hours of child care per week for an average 1.4 children each; and each of these families may receive an average weekly EAC benefit of \$29.40 from their employers for the cost of child care.

3.1.39 These assumptions are based on currently available government statistics and are considered to be **generous assumptions** selected to illustrate a likely range of maximum cost to government.

- 3.1.40 Where it is assumed that 50 per cent of these families (247 000) would be employees whose employers were able and chose to participate in the EAC scheme, the net cost to the Government in 2004-05 is estimated to be **\$83 million**. This estimated cost includes consideration of the anticipated increased demand for child care services over time.
- 3.1.41 This cost should be compared with the cost to government if it chose to solely provide additional funding to achieve the benefits for families able to be realised by the EAC scheme. In order to achieve these benefits in the absence of the EAC scheme the Government would need to spend an estimated \$287 million in 2004-05.
- 3.1.42 The expenditure on the funding proposed by the EAC scheme would be in addition to the Government's spending on the CCB scheme which was \$1 billion in 2000/01 and is forecast to be \$1.4 billion in 2002-03. The actual cost of the CCB for government may decrease as a result of the CCB reductions integral to the EAC scheme, however, this is a matter for government to assess.
- 3.1.43 These issues are discussed in more detail in section 5.5 and in the NATSEM paper at Appendix A.

Cost to Employers

- 3.1.44 The assumptions used to provide an illustrative cost to government have also been used to demonstrate the potential cost to employers of the EAC scheme. This is discussed in more detail in section 5.5.
- 3.1.45 The modelling suggests that an EAC benefit provided at a rate of \$1 per hour of care is likely to cost employers an average of \$1533 for each employee who takes up the scheme. Assuming that 30 per cent of this cost is recouped via company income tax deductions, the average EAC benefit would cost an employer \$1073 per year.
- 3.1.46 This compares favourably to the average cost of between \$3000 and \$60 000 to replace an employee, depending on that employee's skills and seniority.

Application of the EAC

- 3.1.47 The Government would need to consider whether to apply the EAC to all types of care or only formal care. A clear option would be to apply the EAC to formal care as a first stage, with consideration of wider application after a period of monitoring and review.

3.1.48 It is proposed that the EAC be applied fully to non school age children, with 85 per cent of the value of an EAC benefit applying to school age children. This is consistent with the administration of the CCB.

3.1.49 The Government would need to consider whether the EAC should be provided to both mothers and fathers who are employees. If the scheme is considered as an incentive to retain and attract the participation of women in the workforce, then it is reasonable to only apply it to mothers. One clear option would be to apply the scheme to mothers and sole parent fathers as a first stage, with consideration of wider application after a period of monitoring and review.

4. BACKGROUND AND SUPPORTING INFORMATION

4.1 Introduction to Accor Services

- 4.1.1 Accor is an international corporation specialising in the delivery of hotel and corporate services, and employee benefits. From its humble origins in France in the 1960s Accor has grown into a corporation operating in 140 countries with two primary international activities – hotels and corporate/social services.
- 4.1.2 One of the missions of Accor Services is to assist government and industry manage and deliver social policy commitments. To achieve this Accor Services has developed and manages a range of social policy outcomes such as child care assistance, employee meal benefits, health benefits and education benefits.
- 4.1.3 Accor assists the government and industry to deliver these kinds of benefits through the provision of vouchers, smart cards, or other means which are used to extend access to services and systemise the manner in which the cost of the service required is redeemed.
- 4.1.4 Currently, these services are used each day by more than 13 million people in 32 countries.

4.2 Accor's Involvement in Child Care Assistance

Key Issues:

- Accor Services has developed a voluntary Child Care Benefit system for employers and employees in international jurisdictions.
- The cost of the child care benefit is funded between employers with assistance from government through tax incentives.
- The child care benefit assists employers to help employees with children, particularly women, to remain in the workforce, encourage staff loyalty, and reduce costs associated with staff replacement and loss of corporate knowledge.

- 4.2.1 Accor has developed a system of child care benefits to assist employers attract, retain and motivate its staff. The child care benefit system is flexible enough to support working mothers and fathers, who wish to combine the pursuit of their careers with the primary care of their children. As part of its system management, Accor also provides referral services for child care.

International Application of the Child Care Benefit System

4.2.2 The Accor child care benefit system was introduced in the UK in 1989 and is now used by more than 550 private and public employers in that nation. In the UK Accor Services works closely with Tax Authorities to implement the child care benefit system within legislative and policy frameworks. Accor Services is able to provide the necessary reports and information demonstrating the nature of its co-operation with these Authorities.

4.2.3 In the UK the value of the benefit is determined at the discretion of the employer, depending on its needs and those of its employees. The benefit can be structured to suit the needs of individual employees. There are five steps in the application of the Accor benefit system by employers.

- Employers develop eligibility criteria for the use the benefit by their employees consistent with equal opportunity and employment laws.
- Employers determine the level of child care allowance in consultation with their employees.
- Employers inform Accor Services which employees will receive the benefit and the value of the benefit to be used.
- Each employee receives an information pack from Accor Services, which includes information for their chosen child care provider and access to a helpline for them and their child care provider.
- The employee pays their child care provider with the benefit instrument (vouchers, smart cards or other means). The child care provider, having completed Accor's Benefit Redemption Agreement to join the scheme, returns the benefit for redemption. The benefit instrument can be personalised with employer and employee details and be used as often as required.

Scope of the Child Care Benefit System

4.2.4 Internationally, employees using the Accor benefit system have complete flexibility to choose their child care provider within the accreditation and other measures, individual governments use to regulate the provision of child care services.

4.2.5 Currently the Accor benefit system is used to access child care from a range of providers including:

- Private and community based long day and family care centres.
- Occasional care by registered carers.
- Before and after school care by registered carers.
- Out of school or school holiday schemes.
- Informal care by relatives or nannies who do not need to be registered.

Advantages of the Child Care Benefit System for Employers

- 4.2.6 International experience demonstrates that the Accor child care benefit system does not need to be compulsory in order for employers to use it.
- 4.2.7 Where the taxation incentives are appropriate, employers have the discretion to provide child care benefits in a number of ways. In other jurisdictions, employers may provide the benefit as part of an employee's existing salary package. Alternatively, an employer may choose to offer it as an additional benefit.
- 4.2.8 For example, in the UK, child care vouchers are fully exempt from employers' and employees' National Insurance Contributions (Australian superannuation requirement equivalent), and employers are able to claim all child care subsidy costs against corporations tax (including the administration charge paid to Accor).
- 4.2.9 There are numerous benefits for employers who choose to support their employees' need for child care through the benefit system. For example, the system:
- Assists employers recruit and retain key staff, thereby reducing hiring and retraining costs which has been estimated to cost the average Australian business between \$3000 - \$60,000 per employee, depending on the skills and seniority of the employee.
 - Induces loyalty amongst employees, which assists in the retention of corporate knowledge and potentially assists with productivity improvement.
 - Requires minimal administration.
 - Guarantees that the benefit can only be spent on child care and with legally entitled child care providers.

- Allows the benefit to be provided separately from an employee's salary, thereby avoiding discrimination between those employees who choose the benefit and those that do not.

Government Assistance

- 4.2.10 The child care benefit system does not require Government funding from consolidated revenue, but rather seeks government support through tax incentives. This reduces any potential for discrimination in the nature and level of government subsidies between families where one or both parents choose not to work in order to care for their children on a full time basis, and those families where sole or both parents choose or are required to work, instead of caring for their children full time.
- 4.2.11 A system of child care benefits cannot work in Australia without that system being exempt from the current Fringe Benefits Tax Assessment Act 1986. Government support is required to effect such an exemption.
- 4.2.12 These issues are discussed in more detail in the following sections of the paper. Section 5 sets out the Accor proposal in detail.

4.3 Child Care Costs and Use

Key Issues:

- In 2001/02 there were 720 179 children using Commonwealth funded child care. The most common form of formal care is centre based long day care. The demand for child care is rising with an 11.2 per cent increase in children in care between 2000 and 2001 alone.
- The Government spent \$1 billion in 2000/01 on child care subsidies and has forecast a 42.7 per cent increase in expenditure in 2002/03 to \$1.4 billion. Since 2000, the level of government subsidy has reduced child care costs to families by 10.2 per cent. Despite the level of funding, government subsidies only cover up to 72 per cent of the cost of long day care for low income families with two children in care, and 60 per cent of this cost for middle income families.
- Until recently child care costs rose one and a half times more than CPI and average weekly earnings and may be influenced by a push for higher wages and better conditions for child care workers.
- The Government may find it difficult to continue to meet community expectations for subsidies from budget allocations. Under the EAC proposal, the costs of long day care for low income families could be up to 100 per cent funded, with those for middle income families up to 70 per cent funded.

Demand for Child Care

- 4.3.1 Since the mid 1980s the Australian economy and society has undergone significant regulatory and structural change. As a result, the nature and rate of workforce participation for men and women has altered with increased labour market trends towards part time, casual and flexible working arrangements. This trend is likely to continue with the continued future growth of service oriented industries, such as hospitality, utilities, and financial services.
- 4.3.2 Flexible working arrangements, along with other factors such as the decline in the number of children in the 0-4 age group, lowering of school entrance age in some States and State government expansion of the provision of preschool services are all likely to have an impact on the demand for child care and how the market responds to that demand.¹
- 4.3.3 In 2001/02 there were just over 500 000 child care places available in Australia. At the same time there were 508 117 families (or 720 179 children) using approved Commonwealth funded child care services.² Between September 2000 and September 2001 the number of children using child care increased by 11.2 per cent.³
- 4.3.4 Recent reports and analysis indicate a sharp increase in interest by private capital and the stockmarket in the value and profitability of child care centres and services, reflecting an increased demand for child care services by the community.⁴
- 4.3.5 The Commonwealth Government has forecast spending \$1.480 billion on the Child Care Benefit scheme in 2002/03. This is a 42.7 per cent increase on expenditure in 2000/01 and may demonstrate a recognition by the Government of an increasing demand for child care services.⁵

Current Forms of Child Care

- 4.3.6 Child care in Australia is currently provided both formally and informally.

¹ Powlay, John, 'Child Care Affordability', 7th Australian Institute of Family Studies Conference, Sydney 24-26 July 2000, page 1.

² Department of Family and Community Services, Annual Report 2001-02

³ Ibid

⁴ Robbins, Brian, 'Play Dough', Sydney Morning Herald, October 12-23 2002, page 23.

⁵ Department of Family and Community Services, Annual Report 2001-02.

Formal Care

4.3.7 Formal care includes various forms of registered care, with the most used being centre based long day care. These centres provide quality all day or part-time care primarily for children of working families. These centres may also provide care for primary age school children before and after school and during school holidays.

4.3.8 The most recent available figures indicating the percentage of children using long day care are from 1999. In 1999, the population of children between the ages of 0 and 11 was 3.1 million. Of these children, 23.5 per cent (about 734 000) were in formal care.⁶ Of the children in formal care, 70% (about 513 800) were in long day care.⁷

4.3.9 Other forms of formal care include:

- Family day care – a network of people who provide care and developmental activities in their homes for other peoples children.
- In home care – provided to families in rural and regional areas, parents who work non-standard hours, families where the parent/s or children have an illness or disability and families with multiple births (more than two) and/or more than two children under school age. Currently there are 70 in home care services provided by a mix of long day, family day and other care services, such as nannies.⁸
- Preschool or kindergarten.

Informal Care

4.3.10 Informal care is generally unregulated by the Government, usually takes place in the child's home, and is provided by family members or paid babysitters. These care givers can be registered by the Government where appropriate, thereby formalising their child care responsibilities. In 1999, 37% (about 1.2 million) of children between the ages of 0 and 11 relied on informal care.⁹

⁶ Australian Bureau of Statistics, Income and Welfare, 22 January 2002.

⁷ Powlay, John, Child Care Affordability, 7th Australian Institute of Family Studies Conference, Sydney 24-26 July 2000, page 2.

⁸ Department of Family and Community Services, Child Care News, Issue 8, 2002.

⁹ Australian Bureau of Statistics, Income and Welfare, 22 January 2002.

Current Child Care Costs for Users

- 4.3.11 The total weekly or annual costs of child care for families varies according to the type of care, number of children in care and the number of hours of care used. Formal care tends to incur costs while informal care is reported as largely cost free, reflecting that it is generally provided by family members.¹⁰
- 4.3.12 In modelling the proposal in this paper, NATSEM has calculated that the current average cost of long day care is \$3.60 per hour.
- 4.3.13 The Government introduced the Child Care Benefit (CCB) in 2000 in order to rationalise previous subsidy schemes, and increase the level of child care subsidy. The Government claims that between 2000 and March 2002, the cost to families of child care has decreased by 10.2 per cent as a direct result of the CCB.¹¹
- 4.3.14 The Government indicates that the level of government subsidy for child care is currently as follows:¹²

Family Income	Number of Children in Care	Type of Care	Percentage of Child Care Costs subsidised by the Government
Low	2	Long day care	72% of average fee
Low	2	Family day care	82% of average fee
Middle (\$45 000 per year)	2	Long day care	60% of average fee
Middle	2	Family day care	69% of average fee

Meeting Future Child Care Costs for Users

- 4.3.15 The apparent success of the CCB scheme in reducing child care costs to families may arguably create an expectation in the community for ongoing government assistance at this level.

¹⁰ Australian Bureau of Statistics, Income and Welfare, 22 January 2002.

¹¹ Department of Family and Community Services, Annual Report 2001-02.

¹² Ibid

- 4.3.16 In 2000-01 the CCB cost the Government \$1 billion. In 2002-03 the Government has forecast to spend \$1.4 billion on the CCB, which is a 42.7 per cent increase on expenditure from 2000-01 reflecting anticipated increased demand for child care services.
- 4.3.17 Depending on a range of other policy and expenditure issues facing the budget, the ability of government to maintain the level of subsidy for child care expected by the community may be subject to increased pressure from budget constraints. This may be of concern to the Government in the short to medium term.
- 4.3.18 Pressure of the budget to meet community expectations may increase if child care costs rise higher and the Consumer Price Index (CPI) and Average Weekly Earnings (AWE). Between 1994 and 1999 child care fees increased by more than one and half times the rate of average weekly earnings (AWE) and Consumer Price Index (CPI).¹³ Pressure to increase child care worker wages and conditions may influence child care fee rises. Equally, increased government subsidies may encourage child care providers to raise fees.
- 4.3.19 Despite the high level of child care funding currently provided by the Government its subsidies cover only a maximum of 72 per cent of costs for low income families with two children in long day care and 60 per cent of costs for middle income families with two children in long day care. Under the EAC proposal, the costs of long day care for low income families could be up to 100 per cent funded, with those for middle income families being up to 70 per cent funded.
- 4.3.20 Government can avoid the need for further significant direct funding, by supporting the implementation of an EAC scheme which is flexible enough to incorporate a range of options chosen by employers and employees to meet the cost of child care, and be applied to the full spectrum of formal and informal child care providers, thereby assisting them to address any supply and demand issues.

¹³ Powlay, John, Child Care Affordability, 7th Australian Institute of Family Studies Conference, Sydney 24-26 July 2000.

4.4 Balancing Work and Family Responsibilities

Key Issues

- There are 4 million women in the Australian workforce, with 34 per cent of small business operators being women.
- Australian women make up 67.5 per cent of part time workers, which is the second highest participation rate in the world.
- Most children are and will be born to mothers aged between 25 and 34. Seventy per cent of women in this age group are in the workforce.
- Women make up an average of 55 per cent of university students.
- As a result, women are likely to increasingly demand greater choice for child care.

Current Debate on Paid Maternity Leave

- 4.4.1 The Sex Discrimination Commissioner, Ms Prue Goward, has recently released a final report recommending a government funded scheme providing up to fourteen weeks paid maternity leave for women employed during 40 of the past 52 weeks.¹⁴ The scheme is estimated to potentially cost the Government \$213 million per year.¹⁵
- 4.4.2 The final report and earlier discussion paper have firmly placed the issues surrounding child care on the public agenda and promoted debate about the pros and cons of providing potential government subsidies to women who choose to pursue both a career and parenthood.

¹⁴ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'A Time to Value: Proposal for a National Scheme of Paid Maternity Leave, 2002'.

¹⁵ Ibid.

- 4.4.3 Some senior members of the Federal Government are reported as viewing government funded maternity leave as a measure that discriminates against women who choose to raise their children full time, rather than enter or re-enter the workforce.¹⁶ This view is echoed by some sections of the community that consider it important to ensure that government programs do not discriminate against women on the basis of their life choices, but rather value and are flexible enough to cater for diversity.¹⁷
- 4.4.4 Equally, senior members of the Federal Government have expressed opposition to a compulsory maternity leave scheme funded by employers, whilst supporting the notion of a voluntary paid maternity scheme.¹⁸
- 4.4.5 Representatives of the business community such as the Australian Chamber of Commerce and Industry, Australian Industry Group and Council of Small Business Organisations of Australia are also reported as opposing any compulsory maternity leave scheme funded by employers.¹⁹
- 4.4.6 These differing views could also be equally applied to further government or employer subsidies for child care after a period of maternity or paternity leave or full time child care by one or more parent. A clear view is that whilst paid maternity leave for fourteen weeks may benefit working women in the short term, it does not assist them with the cost of child care if they chose to return to work.

Women's Workforce Participation and Birth Rates

- 4.4.7 Regardless of the differing social, funding and regulatory objectives various groups may bring to the debate on maternity leave, and by natural extension, child care, it is clear that Australian women continue to carry out the primary care of their children and participate significantly in the workforce.²⁰
- 4.4.8 From the available measured trends in child birth and child care emerges a reasonably clear picture of the potential need for more sophisticated measures to assist parents, particularly women, to access child care, and the current opportunity for the government, employers and community to work together to achieve the optimal level of choice.

¹⁶ The Australian Financial Review, 'Paid maternity discriminatory' 19 July 2002, page 4 – comments attributed to Senator Nick Minchin.

¹⁷ Australian Family Association 'Women Work and Choice' Family Update, September 2001, page 4.

¹⁸ The Australian Financial Review, 'Abbott rejects maternity levy' 23 July 2002, page 3 – comments attributed to The Hon Tony Abbott, Minister for Workplace Relations.

¹⁹ The Australian Financial Review, 18 July 2002, page 8.

²⁰ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 48.

- 4.4.9 Currently, almost four million women participate in the workforce.²¹ Thirty four per cent or about 440 000 of Australia's small business operators are women.²²
- 4.4.10 It is reported that 37.9% of employed women are in families with dependent children.²³
- 4.4.11 In Australia about 28% of employees are considered to be in part time employment when measured on the basis that part time jobs involve less than 30 hours per week. Women account for 67.5% of these part time employees. When the Australian statistics are compared to the US, UK, all member states in the European Union and all member states in the OECD, only the Netherlands has a higher percentage of part time employees (of which 76.5% are women).²⁴
- 4.4.12 It is reported that the median age of Australian mothers has risen from 26.3 years in 1978 to 29.8 years in 2000. Importantly in 2000, women were most likely to have had children between the ages of 30 and 34, with a vast majority of children born to mothers aged 25-34.²⁵ Significantly 70.8 % of women aged 25-34 participate in the workforce.²⁶
- 4.4.13 This would suggest that at present and into the future the significant majority of women becoming mothers are working at the time they choose to have children. Given the age of these women (25-34) it is more than likely that they are choosing to have children well after they have commenced their careers and completed their secondary and/or tertiary education. By implication it is reasonable to assume that many will seek to re-enter the workforce and their career paths following a period of maternity leave and/or full time child care.
- 4.4.14 The most recent survey conducted of women with children seems to support the notion that most women with careers would prefer to return to the workforce at some point following the birth of their children. Of those women surveyed, 87% with a child aged 0-4 preferred to return to the workforce and 71% of those women with a child aged 5-12 preferred to return to the workforce.²⁷

²¹ Australian Bureau of Statistics, Labour Force Australia, December 2000.

²² Australian Bureau of Statistics, Characteristics of Small Business Australia, 1999.

²³ RMIT University, 'Balancing Work and Family Responsibilities' – A Report for the Victorian Department of Premier and Cabinet', June 2002, page 29.

²⁴ The Economist, July 20, 2002, page 88.

²⁵ Australian Bureau of Statistics 3301.0, Births Australia 2000, pages 6-16.

²⁶ Australian Bureau of Statistics 6203.0, Labour Force Australia, August 2001, page 26.

²⁷ RMIT University, 'Balancing Work and Family Responsibilities' – A Report for the Victorian Department of Premier and Cabinet', June 2002, page 30.

- 4.4.15 The rate of female participation in higher education would also seem to support the notion that many 25-34 year old mothers have had careers before child birth and will choose to continue with those careers in combination with parenthood.
- 4.4.16 In Australia in 1999 female students made up 58% of university students commencing undergraduate studies and 52% of postgraduate students.²⁸ As more women pursue the career opportunities that university education can bring, and also choose to have children, there is likely to be increasing pressure on governments and employers to adopt policies that support the ability of women to re-enter the workforce after any period of maternity leave, through a wider range of child care options.
- 4.4.17 To appreciate the value of wider child care options it is important to understand the impact that the presence and age of children may have on women's employment either by personal choice or circumstance.
- 4.4.18 Overall, women with partners and young children are more likely to participate in the workforce than sole female parents with young children. Within this context 53% of women with one child younger than five and 40% of women with a child younger than twelve months, participate in the workforce. Thirty-three per cent of women with two or more children younger than five are in the workforce.²⁹
- 4.4.19 The available figures seem to support two trends. Firstly, women are less likely to work as the number of young children they have increases and that women increase their labour force participation as their children age.³⁰
- 4.4.20 The available statistics and assessments that can be drawn from them appear to support a current notion by British Sociologist, Dr Catherine Hakim, that the issues surrounding women's work and life choices can lead to the grouping of women into three broad categories.³¹
- About 15-20 % of women could be considered to choose an entirely work centred lifestyle, thereby committing themselves to a career and not selecting parenthood.

²⁸ Students 1999 – Selected Higher Education Statistics, Department of Education, Training and Youth Affairs, 1999.

²⁹ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 16.

³⁰ Ibid.

³¹ Hakim, Catherine, *Work-Lifestyle Choices in the 21st Century*, Oxford University Press, 2001.

- About 15-20% of women could be considered to prefer a largely home centred lifestyle, thereby not electing to pursue a career in the paid workforce.
- About 60 –70% of women could be considered to exercise an adaptive preference, choosing both parenthood and career in the paid workforce at different times.

4.4.21 This analysis would appear to be consistent with Australian statistics referred to above which indicate that the vast majority of children are born to mothers aged 25 –34 of whom almost 71% participate in the labour force. It is likely that a significant proportion of women represented in this category may exercise adaptive preferences during their lifetime, and look increasingly to government and employers to support these choices. It is likely that Australia’s fertility rates may in part depend on the ability of governments and employers to meet the demands of women who choose to exercise adaptive preferences.

4.4.22 Figures from 1999 provide a snapshot of the ways in which women are choosing to exercise their adaptive preferences. Flexible working hours (37%) were the most frequently used arrangement used by employed mothers, followed by permanent part-time work (34%), working from home (15%) and shiftwork, job sharing and other measures (14%).³²

4.4.23 Given the varying choices available to women and men in balancing work and family goals and with reference to Dr Hakim’s analysis, the Prime Minister, Mr Howard, has made it clear that it is the –

“...responsibility of Governments to implement policies and to create a climate that allow people, whichever category they fall into, whichever one of these three categories, or indeed any other category they might like to describe themselves as falling into – it’s the responsibility of Governments to create the climate for both men and women, to follow whatever pursuit and put themselves in whatever category they might choose.”³³

4.4.24 In broad terms the Prime Minister’s statement can be taken to lend support to the notion of government intervention through legislative, policy or other means to promote the quality of work and family life and gender equality. Child care assistance is an key policy platform from which the government is able to lend the required level of support.

³² Australian Bureau of Statistics, Income and Welfare, 22 January 2002.

³³ Transcript of an address to the Federal Women’s Forum, Liberal Party of Australia, April 12, 2002.

4.4.25 An issue for government is whether to fund this support through increased subsidies and/or increased choice in order to provide women and families with the optimal environment in which to exercise their preferences. The EAC scheme proposed in this paper permits the Government to promote increased choice for women and families to exercise their preferences, increase the level of financial support for all families eligible for the current Child Care Benefit and reduce the cost of funding child care through budget outlay allocations.

4.5 Current Child Care Assistance Provided by Employers

4.5.1 Currently employers are able to provide child care facilities on their premises for their employees. The provision of this benefit is fully tax deductible for employers and exempt from Fringe Benefits Tax. As such employers have this limited incentive to assist their employees' child care needs by the provision of costly child care centres where they can afford it.

4.5.2 Employers can also permit their employees to 'salary sacrifice' to pay for the costs associated with using these employer provided facilities. As a result of a special concession by the Government, these salary sacrifices are not subject to Fringe Benefits Tax. In calculating an employee's income tax liability, only the post salary-sacrifice amount is considered. This option is likely to be used primarily by higher income earners.

4.5.3 It is difficult to identify the number of employers participating in child care assistance schemes or the costs they may currently incur to do so. However it is reasonable to conclude that the current tax concessions only suit a limited number of larger employers who can afford to fund child care centres on their premises and/or a limited number of high income earners.

4.6 Discriminatory Effect of the Current FBT Exemption

4.6.1 The application of the FBT exemption in its current form has discriminatory effects at a number of levels.

4.6.2 At a fundamental level, many employers may not be able to afford the cost of providing child care facilities, irrespective of the exemption. This may especially be the case in relation to small to medium enterprises (SMEs). The introduction of the Goods and Services Tax may add a cost to the provision of on site child care facilities, affirming its unaffordability for many employers.

4.6.3 As a result, the exemption in its current form offers little flexibility for employers in developing individual arrangements with their employees to assist the provision of child care, and retards the ability of employers,

particularly SMEs, to develop policies that they may wish to do so in relation to child care in order to induce employee loyalty and retention.

- 4.6.4 The exemption in its current form may be particularly ineffective for employers whose business operates from more than one location. Employers in this category may find it unaffordable to provide child care facilities in more than one location.
- 4.6.5 Where an employer provides a child care facility at one or a few but not all its business locations, there are a range of equity of access and fairness issue for its employees that cannot be addressed by the exemption in its current form. These issues include the transport and time impediments for employees working in a location that is more than a reasonable distance from their employer's child care facility, particularly in regional and rural Australia.
- 4.6.6 The exemption in its current form cannot also address the discrimination that occurs between employees whose employers provide on site child care facilities and the employees of those employers that do not. The exemption works only in concert with the ability of an employer to afford a child care facility, rather than applying to promote the broader policy outcome of flexible child care options for both employers and employees.

4.7 Current Government Assistance for Child Care

Key Issues:

- In 2000/01, the Government spent a total of \$16.6 billion on family assistance in the form of subsidies specifically for child care, or subsidies that could be used by families to help pay their child care costs.
- The Government spent \$1 billion on the specific Child Care Benefit scheme and is forecast to spend \$1.4 billion on this scheme in 2002/03.

- 4.7.1 The Federal Government currently provides a range of financial assistance to families to support their child care needs. This assistance takes the form of subsidies for specific child care costs as well as subsidies for general family or child needs that families may use to fund child care costs. The Government also provides an exemption from Fringe Benefits Tax for child care services provided by employers at their business location.

Specific Child Care Benefits

4.7.2 There is only one specific child care subsidy provided by the Government. This is the Child Care Benefit (CCB), which incorporates the former Child Care Assistance and Child Care Rebate schemes.

*Child Care Benefit*³⁴

4.7.3 The CCB applies to both approved (formal) care and registered (informal) care and can be used by families where the mother is in the paid workforce or not. Under this scheme all families can claim up to 20 hours per week of CCB if they use approved child care. A person can claim up to 50 hours of CCB for approved or registered care if they are:

- Working (including paid full time, part time or casual work, self employed, paid leave, unpaid sick leave, paid or unpaid parental leave and setting up a business);
- Actively looking for work;
- Working as a volunteer for 15 hours or more per week;
- Studying or training (including voluntary or unpaid work to improve their skills);
- A person with a disability; or
- Caring for a child or adult with a disability.

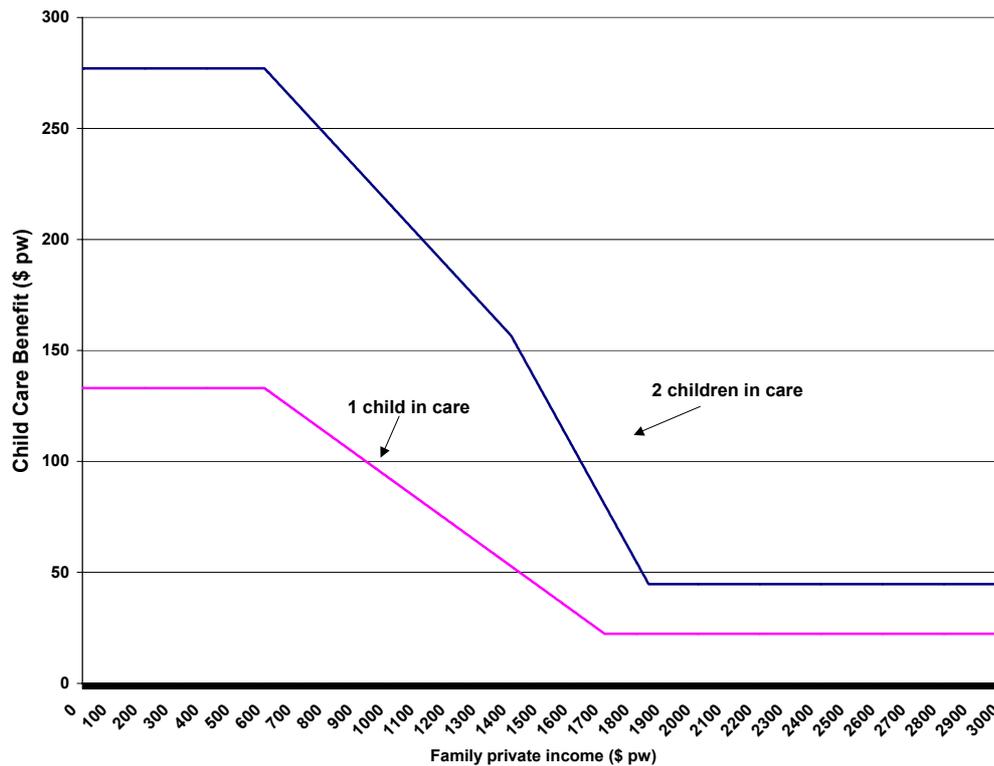
4.7.4 The ability to access CCB is income tested. For families using 50 hours of approved care per week, and whose annual income is less than \$30, 806 a year, the maximum CCB for a non-school age child is \$133 per week for one child. This amounts to a government subsidy of \$2.66 per hour of care. Higher rates are paid for more than one child. Rates for school age children are 85% of those for non-school age children.

4.7.5 From this lower threshold, the CCB varies depending on a family's income and hours of care used. The upper threshold for the CCB is a family income of \$88 344 (where the family has one child). At this income level the family is entitled to the minimum CCB of \$22.35 per week for each child in approved full time care. This amounts to a government subsidy of \$0.45 per hour of care.

4.7.6 The figure below illustrates the current CCB test for either one or two children in 50 hours of long day care per week.

³⁴ The information in the following section is sourced from the website of the Federal Government's Family Assistance Office as at 22 July 2002.

Figure 1: Existing income test for Child Care Benefit, October 2002



4.7.7 In the case of registered care up to \$22.35 per week for each non school age child is payable where a child is in full time care 50 hours per week. Rates for the CCB for school age children are 85% of those for non school age children in approved or registered care.

4.7.8 The CCB is provided for families using approved care either as a direct payment to their child care provider or as a lump sum payment to the family. Families using registered care claim the CCB from the Family Assistance Office via receipts.

4.7.9 In the June quarter of 2002, 508 177 families (720 179 children) used approved child care services funded by the Commonwealth Government. Ninety-five percent of CCB recipients claimed CCB as a fee reduction, with 4.5% potentially claiming lump sums at the end of the financial year.³⁵

4.7.10 In 2000-01 the Government spent \$1.037 billion on the CCB.³⁶

³⁵ Department of Family and Community Services, Annual Report 2000-01, Commonwealth of Australia, Canberra 2002.

³⁶ Department of Family and Community Services, Annual Report 2000-01, Commonwealth of Australia, Canberra 2001, page 77.

General Family Assistance

4.7.11 There is a range of family assistance schemes provided by the Federal Government that can be used by families to subsidise the cost of their child care as well as other family financial and living needs. The ability of a family to use these payments for the cost of child care would depend on the cost of their other needs and the interaction of these payments with the evaluation of their eligibility for the CCB.

*Family Tax Benefit*³⁷

4.7.12 The Family Tax Benefit was introduced in July 2000 and incorporates various previous family and parenting allowances, rebates and tax payments. The Family Tax Benefit is in two parts.

4.7.13 Part A of the benefit is a means tested payment to assist families with the cost of raising children up to the age of 21 and young people between 21 and 24 who are studying full time.

4.7.14 For families whose annual incomes are \$30 806 and less the maximum Part A payment is described in the table below.

For each child	Per fortnight	Per year
Under 13 years	\$126.70	\$3303.25
13-15 years	\$160.72	\$4190.20
16-17 years	\$40.74	\$1062.15
18-24 years	\$54.74	\$1427.15

4.7.15 For families whose annual income is between \$30 806 and \$79 643 the above rates are reduced by 30 cents for each dollar above \$30 806. For families with children under 17, the payment ceases where the family's annual income is between \$83 184 and \$96 689 depending on the number of children. For families with children between 18 and 24, the payment ceases when the family's annual income is between \$84 401 and \$122 859 depending on the number of children.

³⁷ The information in the following section is sourced from the website of the Federal Government's Family Assistance Office as at 22 July 2002.

4.7.16 The FTB (Part A) and CCB work on the basis of similar income tests, meaning that those families receiving more than the minimum CCB are also likely to be subject to FTB income tests. The EAC scheme proposed in this paper takes this into account when assessing the impact on families of the options canvassed.

4.7.17 Part B of the benefit is a payment to provide assistance to single income families, including sole parents, with children up to 16 years and children between 16 and 18 who are studying full time. There is no means test applied.

4.7.18 The maximum payments under Part B are described in the table below.

Age of youngest child	Per fortnight	Per year
Under 5 years	\$108.78	\$2836.05
5-15 years (or 16 –18 years if a full time student)	\$75.88	\$1978.30

4.7.19 Payments under the Family Tax Benefit scheme can be made as fortnightly or lump sum payments from the Family Assistance Office or as a lump sum payment through the tax system.

4.7.20 At 30 June 2001, about 1.8 million families (about 3.5 million children) received benefits under Part A, with 35% receiving the maximum payment rate.³⁸ The average annual payment was \$5700. At 30 June 2001, about 1.2 million families (about 2.3 million children) received benefits under Part B, with about 72% receiving the maximum payment rate.³⁹

4.7.21 In 2000-01, Government expenditure on the Family Tax Benefit was an actual \$10.076 billion through the social security system and an estimated \$11 million through the tax system.⁴⁰

Parenting Payment

4.7.22 The means tested payment is aimed at low income families and is provided to one parent who is the primary carer of a child. The primary carer may be a single parent or partnered.⁴¹

³⁸ Department of Family and Community Services, Annual Report 2000-01, Commonwealth of Australia, Canberra 2001, page 43.

³⁹ Ibid.

⁴⁰ Department of Treasury, Tax Expenditure Statement 2001, Commonwealth of Australia, Canberra, 2001, page 7.

⁴¹ Australian Bureau of Statistics, Income and Welfare – FaCS Payments for Families with Children, 4 January 2002.

- 4.7.23 The maximum rate of payment for sole parents is \$421.80 per fortnight. The maximum rate for partnered parents is \$332.80 per fortnight. The rate is higher if the partners are separated by illness, respite care or gaol.⁴²
- 4.7.24 A sole parent is eligible for the maximum payment if their income is up to \$136.60 per fortnight with any part payments ceasing when their income is \$1205.60 per fortnight.⁴³
- 4.7.25 A partnered parent is eligible for the maximum payment if their income is less than \$62 per fortnight and their partner's income is less than \$561 per fortnight. Part payments cease when a couple's income is \$1179.42 per fortnight.⁴⁴
- 4.7.26 At 30 June 2001, 424 616 people received the sole parent payment. Of these 392 187 were women. The bulk of recipients (399 388) were aged between 20 and 49.⁴⁵ At 30 June 2001, 214 721 people received the partnered parent payment.⁴⁶
- 4.7.27 In 2000-01 the Government spent a total of about \$3.9 billion on the sole parent payment. This was \$0.9 billion more than 1997-98. In June 2000-01 the Government spent \$1.5 billion on the partnered parent payment. This was \$0.7 billion less than 1997-98.⁴⁷

Maternity Allowance

- 4.7.28 This benefit is provided to families to assist them with the costs of a new baby, either born to parents or adopted by them. The benefit is a non-taxable lump sum payment of \$798.72 per baby. To be eligible for this benefit, parents must be eligible for the Family Tax Benefit Part A within 13 weeks of the child being born or adopted.⁴⁸ In 2000-01, 210 120 families (214 355) children received this benefit.⁴⁹

⁴² Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 108.

⁴³ Ibid

⁴⁴ Ibid

⁴⁵ Australian Bureau of Statistics, Income and Welfare – FaCS Payments for Families with Children, 4 January 2002.

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 106.

⁴⁹ Australian Bureau of Statistics, Income and Welfare – FaCS Payments for Families with Children, 4 January 2002.

Maternity Immunisation Allowance

4.7.29 This benefit is provided as a one off lump sum payment of \$208 for children who are fully immunised before their second birthday. To receive this benefit parents must be eligible for the Maternity Allowance and Family Tax Benefit Part A payment.⁵⁰ In 2000-01, 203 939 families (207 547 children) received the benefit.⁵¹

4.7.30 In 2000-01, the Government spent a total of \$218 million on the Maternity Allowance and Maternity Immunisation Allowance.⁵²

Baby Bonus

4.7.31 From 1 July 2002 the Government's Baby Bonus scheme came into effect. Under this scheme a parent who leaves the workforce to have a child would be able to claim up to \$2500 of the tax payable on their annual income in the year prior to the birth of their child. A parent would be able to claim this for every year up to five years from the birth of their child.⁵³

4.7.32 Although parents returning to work would still be eligible for the Baby Bonus, the entitlement would be reduced in proportion to the income earned, with a minimum annual benefit of \$500 available to parents with annual incomes of \$25 000 or less.⁵⁴

4.7.33 The Government has provided \$1.2 billion to fund this scheme over the four years from 2002-03.⁵⁵

Estimated Cost of FBT Exemption For On Site Child Care Services

4.7.34 Currently the Government provides a full exemption from Fringe Benefits Tax (FBT) for recreation/childcare facilities on an employer's premises. At this stage the government does not seem to have estimated the cost of the exemption from FBT for these activities. The most current Tax Expenditure Statements (2001) indicate that the actual cost of these exemptions to the Government are not available.

⁵⁰ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 106.

⁵¹ Australian Bureau of Statistics, Income and Welfare – FaCS Payments for Families with Children, 4 January 2002.

⁵² Department of Family and Community Services, Annual Report 2000-01, Commonwealth of Australia, Canberra 2001, page 42.

⁵³ Department of Treasury, Budget Strategy and Outlook 2002-03, Commonwealth of Australia, Canberra, page 1-17.

⁵⁴ Ibid.

⁵⁵ Ibid.

Total Government Expenditure on Family Assistance

Actual Costs in 2000-01

4.7.35 The table below describes the total cost to Government of providing family assistance in 2000-01.

Payment Type	Cost to Government in 2000-01 (\$'000)
Specific Child Care Benefit	
Child Care Benefit	\$ 1 037 137
General Family Assistance that can be used for Child Care	
Family Tax Benefit Part A and B	\$10 087 463 ⁵⁶
Parenting Payment	\$ 5 325 681
Maternity Allowance and Maternity Immunisation Allowance	\$ 217 899
FBT Exemption on employer provided child care facilities	\$ n/a ⁵⁷
Total	\$16 668 180

Estimated Future Costs

4.7.36 Future costs are based on forward estimates and not actual expenditure. Government expenditure on the Family Tax Benefit is expected to grow from \$11 billion in 2001-02 to \$12 billion in 2005-06. ⁵⁸

4.7.37 The Government has allocated \$1.2 billion for the cost of the baby bonus scheme from 2002-03 to 2005-06. ⁵⁹

4.7.38 Overall government expenditure on payments and services to families is expected to grow to \$17.5 billion in 2005-06. ⁶⁰ Excluding the cost of the FBT exemption on employer provided child care facilities, this represents a

⁵⁶ This cost was \$11 billion in 2001-02. Department of Family and Community Services, Portfolio Review, Commonwealth Government Budget Papers 2002-03, page 19.

⁵⁷ Department of Treasury, Tax Expenditure Statements 2001 – Table 5.1, Commonwealth of Australia.

⁵⁸ Department of Family and Community Services, Portfolio Review, Commonwealth Government Budget Papers 2002-03, page 19.

⁵⁹ See footnote 43.

⁶⁰ Department of Family and Community Services, Portfolio Review, Commonwealth Government Budget Papers 2002-03, page 19.

\$0.9 billion increase in expenditure from the actual cost of family and child care payments in 2000-01.

4.7.39 The Government has forecast spending \$1.480 billion on the CCB in 2002/03. This is a 42.7% increase on expenditure in 2000/01 and demonstrates the increasing demand for specific child care assistance.⁶¹

5. PROPOSAL FOR EMPLOYER ASSISTANCE FOR CHILD CARE (EAC)

5.1 Consultation on the Proposal

Survey of Employers

5.1.1 In 2001, 200 large-medium size businesses contributed to a survey conducted on behalf of Accor Services on child care services. The overwhelming responses indicate that:

- Employers recognise that the provision of child care facilities is of economic benefit to them because it encourages retention rates amongst their female staff in particular, increases company loyalty, reduces retraining costs and supports the maintenance of corporate knowledge, which is invaluable.
- Planning law at State and local government level, as well as a lack of suitable CBD space, is a disincentive for employers to provide on-site or shared joint venture child care facilities.
- It is unaffordable for businesses that operate from more than one location to provide on-site or shared joint venture child care facilities.
- Employers recognise that it is inequitable for those operating from more than one location to provide child care facilities in less than the total number of locations from which they operate.
- Employers would be more willing to contribute to the provision of child care services if they could offer that benefit through salary packaging or other means, where those options attracted an FBT exemption.

⁶¹ Department of Family and Community Services, Annual Report 2002.

Employer Groups

- 5.1.2 Consultations with the Australian Chamber of Commerce and Industry indicate that recent surveys of employers conducted by it demonstrate clearly that child care is the second highest priority for employers after flexible working hours.

Government Agencies

- 5.1.4 Consultations with the Department of Family and Community Services indicates that there is a desire within Government to ensure that any new options for child care payments should not erode the equity in the current system which provides more support for low to middle income families.

5.2 Features of the Proposal

Key Issues:

- The EAC scheme would be voluntary for employers and employees.
- The EAC scheme would operate jointly with the Government's Child Care Benefit (CCB) Scheme and only apply to employees.
- It is not proposed that employees be permitted to salary sacrifice their EAC benefits, as this is likely to only benefit high income earners.
- It is proposed that an EAC benefit be a reportable fringe benefit, although it would be exempt from Fringe Benefits Tax.
- It is proposed that the value of the EAC benefit be determined according to the hourly cost of child care.
- The EAC scheme could be applied to children in formal care and mothers and sole parent fathers in this first instance, with consideration of wider application after a period of review.

Scope

- 5.2.1 It is proposed that under the EAC scheme, employers have the option of **voluntarily** contributing to the costs of child care incurred by their employees.
- 5.2.2 This contribution could be made in the form of a benefit to a certain value (voucher, smart care or other means) that an employee can redeem at an approved child care provider of their choice.

- 5.2.3 This proposal goes beyond the current option for employers to assist with child care, which is limited to providing facilities on site. It permits employers to assist their employees to access child care centres of an employee's choice because they are closer to home, less expensive, of higher quality or for any other reason important to parents.
- 5.2.4 The proposal is **not** recommended as a replacement to the current CCB and Family Tax Benefit (Part A) schemes, because it cannot apply to all categories of people who currently receive the CCB. For example, the EAC could not apply to:
- Employees whose employers choose not to provide the EAC;
 - The self employed;
 - People on unpaid parental leave or unpaid sick leave;
 - The unemployed;
 - Volunteers
 - Students and others in training
 - Persons with a disability or those caring for a child or adult with a disability.
- 5.2.5 As a result the Government may need to impose a ceiling on the level of EAC available to employees. This is discussed further below.
- 5.2.6 The proposal is suggested as a complimentary scheme which can serve three primary purposes:
- It can reduce the Government's CCB and FTB (Part A) expenditure on the proportion of the population in employment and requiring and eligible for child care assistance from government;
 - It can encourage employers to provide greater assistance to their employees and invest in the loyalty and retention of employees, particularly women; and
 - It can increase the child care subsidy to employees, particularly those on low-middle incomes.
- 5.2.7 The proposal does **not** suggest employee tax deductibility for child care, as such an approach would be likely to provide greatest benefits for employees on high marginal tax rates or high income earners and be inconsistent with the Government's desire to ensure equity in the delivery of subsidies. As a result, the proposal focuses on employers providing direct child care benefits to their

employees, which is consistent with the recommendations of the 1996 Child Care Taskforce.⁶²

Reportable Fringe Benefits

5.2.8 The proposal recommends that benefits provided under the EAC be treated as reportable fringe benefits, even though they may be exempt from fringe benefits tax. This means that the EAC would effectively be counted as income for the purposes of assessing CCB and FTB (Part A) entitlements, making its treatment consistent with other items that are also granted concessional fringe benefits tax status.

5.2.9 Thus while the reportable fringe benefit is not included in the employee's taxable income, the total amount would be used to calculate the:

- Medicare levy surcharge;
- Superannuation surcharge and other factors associated with superannuation;
- HECS repayments;
- Child support obligations; and
- Entitlements to certain income tested government benefits, including CCB and FTB (Part A).

Eligible Types of Care

5.2.10 The Government will need to decide which types of care would be eligible for support under the EAC scheme. There are a range of issues to consider. As discussed at paragraphs 3.4.5-3.4.7 above, of the 3.1 million children aged 0 to 11 years in 1999, 23.5% were in formal care and 37% were in informal care.

5.2.11 Formal care includes long day care, preschools and kindergartens, family day care, outside school hours care and a range of other formal services for special groups such as indigenous children and children living in remote areas. Informal care includes care by relatives or friends.

5.2.12 Consistent with the 1999 figures, more recent statistics indicate the high use of informal care in the community. Informal care is the only type of care used by 80% of children under one year old, 60% of one year children, 48% of two year old children, 24% of three year old children and 13% of 4 year old children.⁶³

⁶² Economic Planning Advisory Commission, 'Future Child Care Provision in Australia: Child Care Task Force Interim Report, Economic Planning Advisory Commission, Canberra 1996.

⁶³ Australian Institute of Health and Welfare, 'Australia's Welfare 2001', 2001, page 155.

- 5.2.13 As a result, limiting the EAC scheme to formal care may not provide the best level of support to the majority of working parents with children between the ages of 0-2.
- 5.2.14 On the other hand, these figures may represent the averages for all children using any care and in reality it is possible that most parents in full time employment tend to use formal care.
- 5.2.15 Equally however, the discussion at paragraph 3.3.11 confirms that over 67% of women account for part time workers in Australia, which suggests a need for the EAC scheme to apply to this group, who may rely primarily on formal and informal care.
- 5.2.16 At the same time the Government needs to consider that informal care is difficult to regulate and therefore may not be a suitable context for the introduction of the EAC scheme in the first instance.
- 5.2.17 There are a number of options the Government could consider in relation to the eligibility of care for the EAC scheme.
- The EAC scheme could apply to both formal and informal care, with a lower maximum subsidy applying to informal care. This is the approach the Government has adopted in relation to the application of the CCB to formal and informal care.
 - Where the EAC scheme applies to informal care, it could be restricted to ‘registered providers’ only. This would mean that a relative or friend who provides informal care would need to register with the Family Assistance Office in order to be paid under the EAC scheme. This would inhibit the development of a black economy in child care.
 - The EAC scheme could be applied to formal care as a first stage, with the broader application to other types of care being subject to the monitoring and review of the success of the first stage. A period of 2 years from the introduction of the first stage may give the Government sufficient time to assess the suitability of the EAC to informal care. Restricting the scheme to children in formal care as a first stage may also stimulate economic activity in the child care service industry.

Age of Children

5.2.18 Currently the CCB subsidy for school age children is 85% that for non-school age children. This reflects the higher cost of purchasing care for non-school age children. It is proposed that the EAC scheme be similarly applied.

Benefit Per Hour of Care

5.2.19 Many employees work part time, have variable working hours and do not work a standard 40 hour week. Employers may not wish to provide the EAC equally to employees who work full time and part time and may wish to have the flexibility to provide the EAC to employees depending on their hours of work and need for child care.

5.2.20 As a result it is proposed that the EAC be provided by an employer in relation to an employee's required hours of child care to a maximum level of benefit per hour. For example, if the EAC benefit is capped at \$1 per hour, employees working a 40 hour week and paying for 50 hours of child care could receive a maximum EAC benefit of \$50 per week. On the other hand an employee working 10 hours per week and requiring 20 hours of child care could receive a maximum EAC benefit of \$20 per week.

5.2.21 The proposal recommends that the hours of child care required by an employee include the time that employees need to get to and from work, as this usually includes the time taken to drop off and pick children from child care before and after the working day. It is proposed that this apply to full time and part time workers. This could be calculated as a maximum number of hours in addition to the hours worked or as a percentage of the hours worked.

Recipient of EAC Benefit

5.2.22 The Government and employers may need to decide whether mothers and fathers are eligible for the EAC benefit.

5.2.23 If the proposal is primarily seen as a measure to support increased choice for women in the workforce and reduce employer costs by retaining existing female staff, then it may be inconsistent to provide the EAC benefit to fathers also. On the other hand, there may be fathers who are sole parents in a family and equally rely on child care support as part of their work/family life decisions.

5.2.24 In many cases, an employer may not wish to provide the EAC benefit to a male executive whose family is incurring child care costs because his partner is working for another company or for a government employer who is not paying the benefit.

5.2.25 The CCB avoids this issue because it is provided on the basis of family income. This may not be an option in relation to the EAC because it would require employers to inquire about the family income of their employees. This raises a range of privacy issues for employees and associated administrative costs for employers.

5.2.26 As a first stage, it is recommended that the EAC benefit be paid only to working mothers and sole parent fathers (including those who are sole parents for only part of the week because of shared custody arrangements).

5.2.27 As the EAC scheme develops, future consideration could be given to extending the benefit to all fathers, if appropriate.

5.3 Application of the Proposal

Key Issues:

- The tax deductibility and exemption from Fringe Benefits Tax of the EAC would result in forgone tax revenue for the Government.
- The Government may not wish to incur this cost in addition its current expenditure on child care and other family assistance.
- In order to reduce the cost to government, it is proposed that the cost of the EAC be offset with reductions in the Child Care Benefit.
- The proposed rate of reduced CCB is 0% for low income families, 20% for middle income families and 100% for high income families. Government can vary this rate of clawback in accordance with its priorities.
- The proposed rates of reduced CCB are designed to ensure equity amongst income groups, that all eligible families have more of their child care costs subsidised and that eligible families have higher disposable incomes after the application of the EAC.

EAC Relationship with CCB and FTB (Part A)

5.3.1 As the value of the EAC is proposed to be a Reportable Fringe Benefit it will affect any CCB and FTB (Part A) paid to a family.

EAC Benefit Treated as Partial Offset to CCB

- 5.3.2 The proposal recognises that the Government may not wish to provide child care assistance in addition to the full amount of existing CCB. Where the EAC is tax deductible for employers and exempt from Fringe Benefits Tax, the Government would be effectively subsidising benefits under the EAC scheme to the value of the forgone tax.
- 5.3.3 The proposal has been modelled by the National Centre for Social and Economic Modelling at the University of Canberra, which has identified that the tax deductibility of the EAC may equate to a Government contribution of between 18.5% and 48.5% of the value of the EAC benefit (This includes forgone company tax revenue, and forgone income tax and Medicare levy).
- 5.3.4 Equally, employers may not wish to provide the EAC if it is not tax deductible and would not want the full costs of providing child care assistance to be transferred from the Government to employers.
- 5.3.5 Neither the Government nor employers would want the combination of their assistance for child care to exceed the actual cost of an employee's child care costs in any one case.
- 5.3.6 For the EAC to be effective and attractive to the Government, employers and employees, working families would need to be better off under the combined EAC and CCB schemes than they would under CCB scheme alone.
- 5.3.7 It is also important to recognise that the introduction of the EAC scheme in combination with the CCB scheme should not provide greater benefits to those families on middle/higher incomes compared to those on lower incomes. However it is also valid to provide families on middle/higher incomes with additional child care assistance compared to the current minimum they receive under the CCB scheme.
- 5.3.8 In order to address all these issues, the proposal canvasses a partial reduction in CCB to partially offset the cost to Government of the tax deductibility of the EAC, without transferring the full cost of child care assistance from government to employers.
- 5.3.9 This reduction has been determined to ensure the equity of assistance between families on low to middle/higher incomes, whilst providing families on low to middle incomes with greater benefits than those on higher incomes.
- 5.3.10 In the modelling undertaken by NATSEM, one set of options for the EAC has been simulated, namely:

- The EAC a is reportable fringe benefit for the purposes of calculating income and thus the entitlement to CCB and FTB (Part A);
- In addition, a proportion of the EAC is treated as a direct offset to CCB (see table below); and
- Where total CCB plus EAC would exceed child care costs paid by a family, CCB is reduced to the point where total assistance paid equals total child care costs.

Weekly family adjusted taxable income ^(b)	Proposed proportion of EAC benefit treated as a direct offset to CCB ^(a)
Below \$734 a week	0
Between \$734 and \$1694	20%
Above \$1695	100%

Note:

(a) These clawback parameters are for families with one child. For families with two or more children, the point at which the 20 and 100% thresholds were set would need to be increased so as to mesh with the existing income test for FTB(A).

(b) This is weekly family adjusted taxable income once the EAC has been counted as a reportable fringe benefit and has thus increased family income.

Rationale for Proposed Option to Offset CCB with EAC

- 5.3.11 As noted above, the value of the EAC benefit is assumed to be treated as a Reportable Fringe Benefit, affecting the effective income levels and thus the CCB and FTB (A) entitlements of many families. Families with weekly incomes of more than around \$540 *before* they receive the new EAC payment are affected by the EAC being a reportable fringe benefit, with every \$1 of EAC they receive resulting in the loss of about 40 cents of CCB and FTB (A).
- 5.3.12 Families with weekly incomes below \$734 per week are generally subject to both the CCB and FTB (A) income tests, and therefore already face very high effective marginal tax rates. As a result, apart from the reduction in CCB and FTB (A) that these families would experience because of the EAC being a reportable fringe benefit, it is proposed not to directly offset any EAC benefit that employees in these families may receive with the CCB. It may also be considered inequitable to further reduce any CCB received by employees in these families because they are employees living in low income families.
- 5.3.13 Families earning between \$734 and \$1527 a week receive only minimum FTB (A). As a result, the provision of an EAC benefit would not result in family assistance being withdrawn at 30 cents in the dollar for families in this income range. This means that there is greater scope for the Government to reduce the

CCB without leaving families with employees receiving the EAC worse off. A 20 per cent withdrawal rate is proposed, which would mean that if an employee receives \$50 a week in EAC subsidy their potential CCB would be reduced by \$10 a week. This offset is intended to assist the Government finance its contribution to the EAC benefit made through the tax system (e.g. via forgone FBT tax revenue).

5.3.14 Families earning more than \$1694 a week receive only the minimum CCB rate of \$22.35 a week and do not receive the FTB (A). It is proposed that a 100 per cent withdrawal rate of EAC for CCB apply to families with incomes above \$1695. This withdrawal rate means that each additional dollar of EAC benefit would result in a one dollar reduction in CCB, up to the maximum CCB withdrawal of \$22.35.

5.3.15 The Government may be concerned that the combination of EAC and CCB as discussed above may result in families receiving child care payments which exceed their actual cost of child care. The proposal avoids this potential as its modelling relies on the fact that in circumstances where the combined CCB and EAC benefit exceed the child care costs paid by a family, CCB would be reduced to the point where the total EAC/CCB subsidy equals total child care costs paid.

5.4 Benefit of EAC Scheme to Employees and Families

5.4.1 The box below provides three examples of how the proposal would affect families. The examples relate to families on low, middle and higher incomes with one child using 50 hours of care per week.

5.4.2 It demonstrates that employees in all families within the current income tests used by the Government to provide CCB and FTB (Part A) would be better off under the combined EAC/CCB scheme than under the CCB scheme alone. Employees in low to middle income families have the potential to receive the most benefit, with high income families also benefiting.

5.4.3 The total cost of child care used in the examples below is based on the current average estimated cost of long day care (\$3.60 per hour) for 50 hours of care per week.

Box 1: Examples of proposed interaction between CCB and employer child care subsidy

Current Full CCB recipient: Employee 1 has one four year old child who attends 50 hours a week of long day care at a total cost of \$180. The employee works full-time and has a family income of \$575 a week. The employer provides a subsidy of \$1 per hour, or \$50 a week.

Current CCB entitlement of the family is \$133 a week.

Proposed new CCB entitlement of the family is \$129.58 a week. The government saves \$3.42 off its current CCB payments. The employee gains \$50 in employer subsidy, loses \$3.42 of CCB and loses \$10.25 in reduced FTB(A). The net gain to the employee is \$36.33. Under the new scheme they have 100% of their child care costs paid by the government and the employer.

Current part-rate CCB recipient: Employee 2 has one four year old child who attends 50 hours a week of long day care at a total cost of \$180. The employee works full-time and has a family income of \$1150 a week. The employer provides a subsidy of \$1 per hour, or \$50 a week.

Current CCB entitlement of the family is \$77.08 a week.

Proposed new CCB entitlement of the family is \$62.08 a week. The government saves \$15 on its current CCB payments. The employee gains \$50 in employer subsidy, loses \$15 of CCB and loses no FTB(A) (remaining on the minimum rate). The net gain to the employee is \$35. Under the new scheme they have 62% of their child care costs paid by the government and the employer.

Current minimum rate CCB recipient: Employee 3 has one four year old child who attends 50 hours a week of long day care at a total cost of \$180. The employee works full-time and has a family income of \$2000 a week. The employer provides a subsidy of \$1 per hour, or \$50 a week.

Current CCB entitlement of the family is the minimum payment of \$22.35 a week.

Proposed new CCB entitlement of the family is \$0 a week. The government saves \$22.35 on its current CCB payments. The employee gains \$50 in employer subsidy, loses \$22.35 of CCB and loses no FTB(A) (as they have none before or after the policy change). The net gain to the employee is \$27.65. Under the new scheme they have almost 28% of their child care costs paid by the government and the employer.

- 5.4.2 Employees who currently salary sacrifice because they have employer provided child care do not receive even the minimum child care benefit of \$22.35. However, for those on the top marginal tax rate their child care costs are effectively halved, as they pay those costs out of pre-tax income. Such employees would be able to remain in their current system and be unaffected by the new child care subsidy scheme. However, some may elect to move to the new child care subsidy scheme because they may be financially better off.

Impact of EAC on Family Disposable Income

Key Issues:

- The impact of the EAC proposal on the disposable income of families has been modelled where the EAC benefit may be \$1 or \$2 per hour for 50 hours of long day care per week.
- The modelling demonstrates that the most equitable outcome for all eligible low to high income families occurs when the EAC benefit is \$1 per hour of care for 50 hours of care per week.

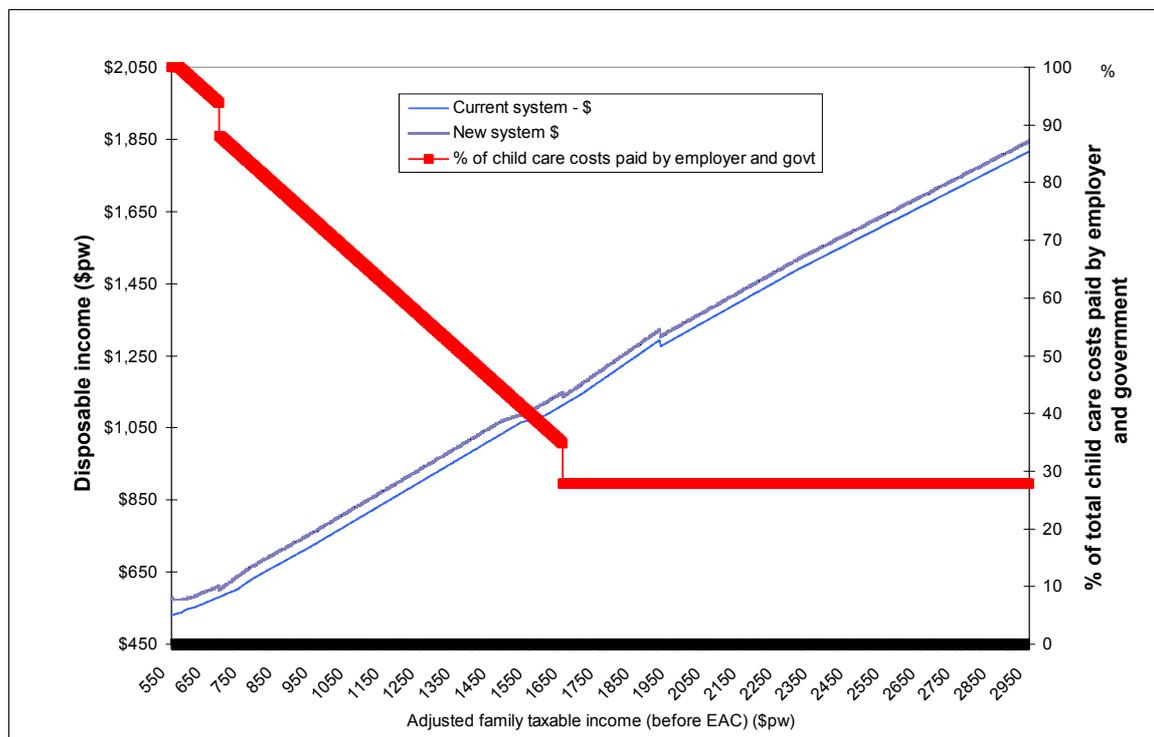
- 5.4.3 The EAC scheme is likely to increase the disposable income of employees in families whose incomes are within the income tests currently used to provide CCB and FTB (Part A). The level of this increase for families and the equity of the increase across income groups would depend on the actual EAC benefit per hour of child care. NATSEM has modelled two options for the proposal, which demonstrate the differences that can occur depending on the level of actual EAC benefit.

Impact of EAC Benefit of \$1 Per Hour of Care

- 5.4.4 Figure 2 below demonstrates the benefit of the EAC scheme on the disposable income of families compared to the current CCB scheme where the EAC benefit is one dollar per hour of child care for 50 hours of care. In Figure 2, families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180).
- 5.4.5 Figure 2 also shows the percentage of child care costs that could be funded for families on low to higher incomes under a combined EAC and CCB scheme. It illustrates that under the EAC/CCB scheme employees with low family incomes (below \$573 a week), have the potential to have all their child care

costs met through government and employer contributions. This percentage of combined subsidy for child care costs reduces in proportion to an employee's family income to a minimum level of 28 per cent when family income reaches \$1,674 a week. This minimum level of benefit is higher than that available under the current CCB scheme alone

Figure 2: *Weekly disposable income under the current and proposed systems and percentage of total child care costs paid by employers and government for a couple family with one child in long day care for 50 hours per week and EAC benefit of \$1 per hour of care.*

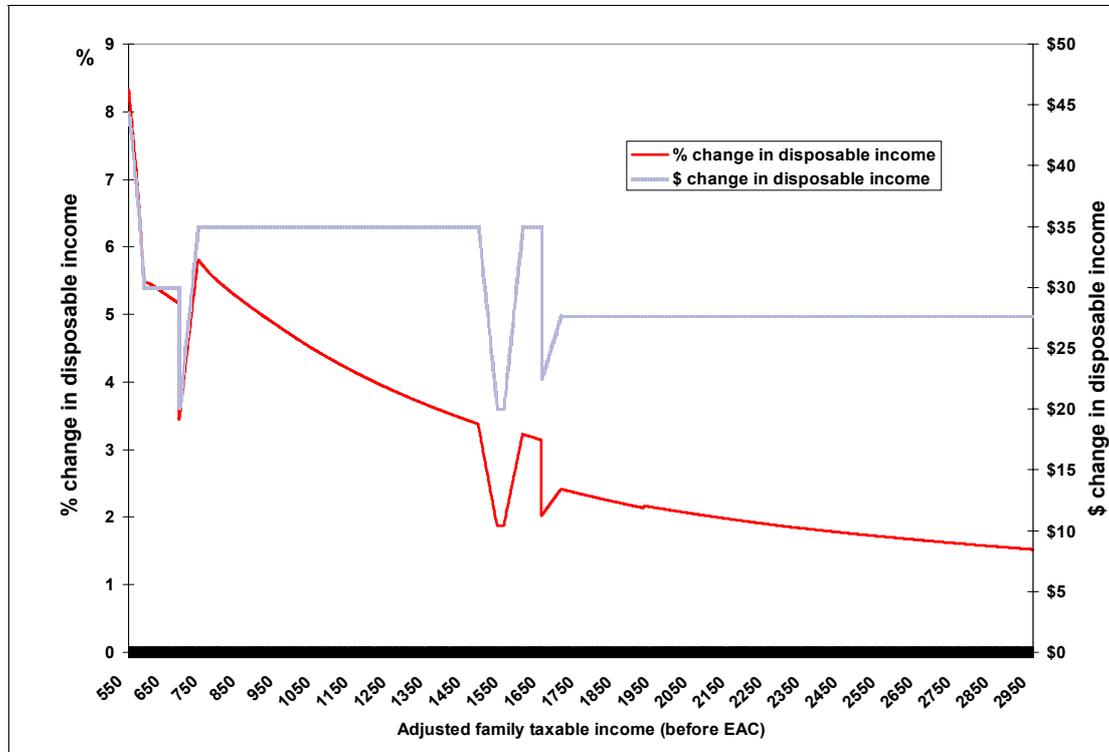


Note: Families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180). The value of the subsidy is assumed to be \$1 per hour. Income is assumed to be split equally between the partners in the couple.

5.4.6 It is also important to examine the dollar change in disposable income and percentage increase in disposable income that may result from the EAC scheme. This is shown in Figure 3 below.

5.4.7 There are two dramatic downward spikes in the pattern of dollar gains shown in Figure 3 which are a direct consequence of the FTB (A) income test, under which some families lose 30 cents of every dollar of new EAC subsidy via reductions in their FTB (A). Because the \$50 EAC benefit is treated as a \$50 increase in income, it results in a substantial reduction in FTB (A) over the income ranges illustrated in Figure 3.

Figure 3: Weekly dollar and percentage change in disposable income under the current and proposed systems for a couple family with one child in long day care for 50 hours per week and an EAC benefit of \$1 per hour of care.



Note: Families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180). The value of the subsidy is assumed to be \$1 per hour. Income is assumed to be split equally between the partners in the couple.

5.4.8 Figure 3 illustrates that the highest dollar gains in assistance for families in the income ranges covered by the chart, (\$35 a week), are made by lower to middle income families, with private incomes between \$735 and \$1477 per week. This is because these families are in the middle zone of FTB (A) — that is, above the point where the lower 30 per cent taper rate applies and below the point at which the withdrawal of minimum FTB (A) begins. For families with incomes above \$1698 per week, the dollar gains are a constant \$27.65 per week each. This is because such families receive only \$22.35 per week of CCB now and no FTB (A). Consequently, they only lose a small amount of CCB and no FTB (A) under the proposed system.

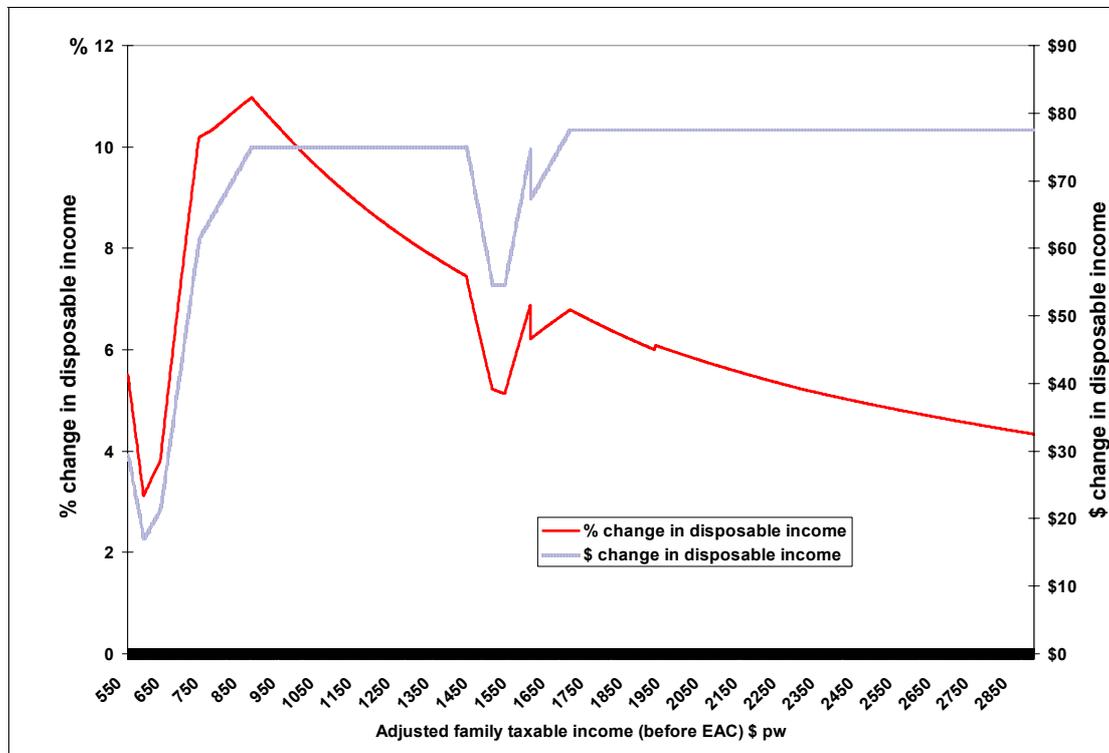
5.4.9 Another way of looking at the gains is as a *percentage of disposable income*. The percentage gains are generally much higher for low and middle income families than for high income families (with some spikes caused by the FTB (A) income test, as noted above). For most families with incomes below \$500 a week, the new scheme results in a five per cent increase in their after-

tax income. While many of these families are affected by the withdrawal of FTB (A) due to the new EAC subsidy, they are still much better off as a result of its introduction. The percentage gains for high income families are lower.

Impact of EAC Benefit of \$2 Per Hour of Care

- 5.4.10 Figure 4 below demonstrates the benefit of the EAC scheme on the disposable income of families compared to the current CCB scheme where the EAC benefit is two dollars per hour of child care for 50 hours of care (an EAC benefit of \$100 per week). In Figure 4, families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180).
- 5.4.11 Figure 4 shows a pattern of gains that is less progressive than those shown in Figure 3. When the subsidy is boosted to \$100 a week, those high income families currently receiving minimum CCB of \$22.35 a week make a gain of \$77.65 per week. (This results from their existing CCB payments being directly offset against their EAC subsidy.) Conversely, for lower income families the capping of CCB paid - so that the combined amount of EAC and CCB paid does not exceed the family's actual child care costs - limits their gains.

Figure 4: *Weekly dollar and percentage change in disposable income under the current and proposed systems, for couple family with one child in long day care for 50 hours per week and EAC subsidy of \$2 per hour of care.*



Note: Families are assumed to be paying \$3.60 per hour in child care fees (giving a maximum weekly fee of \$180). The value of the subsidy is assumed to be \$2 per hour. Income is assumed to be split equally between the partners in the couple.

Issues for Government Consideration

5.4.12 The figures above demonstrate the varying impact that the level of EAC benefit may have on the disposable income of different family income groups. They show clearly that the distribution of gains depends upon how high the employer EAC subsidies are. Equally, how the various policy parameters are set will determine the interaction of the EAC scheme with the CCB and FTB (Part A) schemes.

5.4.13 It is clear that where the EAC benefit is \$1 per hour, disposable income increases more equitably across all income groups, compared with the result where the EAC benefit is \$2 per hour. The Government would need to consider this equity issue if it wishes to impose a ceiling on the EAC benefit provided per hour of care.

- 5.4.14 The Government would need to consider the level of support equitably provided by the EAC benefit to families. Where the EAC benefit is \$1 per hour, it is clear that low to middle income families have the opportunity to have their child care costs fully or significantly funded by the Government and employers through the combined EAC/CCB scheme. At the same time, higher income families also receive more support for child care than they currently enjoy, although as a proportion of the cost, their benefit is much less than low-middle income families. This approach is likely to be viewed as an equitable one by families using child care and the community generally.
- 5.4.15 One possible alternative policy option, which has not been modelled here, is to exempt the EAC subsidy from being counted as a Reportable Fringe Benefit. Although this option would not be consistent with current government policy on other items that receive concessional fringe benefits tax status, it would mean that the marked dips in assistance over various income ranges shown in Figure 3 could be eliminated.

5.5 Cost of the Proposal

Key Issues:

- The assumptions behind the costing are generous to assist to identify a maximum potential cost to government and employers.
- Assuming that the Government took some time to consider and implement the EAC scheme, the estimated net cost to government would be **\$83 million** in 2004/05.
- In the absence of the EAC scheme, the Government would have to spend an estimated \$287 million in 2004/05 to provide the same level of assistance to families offered by the EAC scheme.
- The net cost to government is the cost of forgone tax revenue minus the CCB reductions for eligible families (494 000) receiving an average EAC benefit of \$29.40 per week for 21 hours of care per week for 1.4 children.
- The net cost to employers of subsidising the care of 700 000 children would be **\$1073** per year for each employee receiving an average EAC benefit of \$29.40 per week. This compares favourably to the cost of replacing staff which can cost between \$3000 and \$60 000 per employee.

Cost to Government

- 5.5.1 NATSEM has costed the proposal outlined in this paper. The detailed costing is attached in the NATSEM paper at Appendix A. The costing has been conducted with the intention of identifying the likely range of the impact of the proposal on the Government's budget, rather than determining only one illustrative cost.
- 5.5.2 The assumptions used to conduct the costing are generous to assist to identify the maximum potential cost to government. The general assumptions behind the costing are that:
- The EAC benefit is \$1 per hour for the cost of child care up to a maximum of 50 hours per week (\$50). Families are assumed to use child care for 21 hours per week, in line with current average usage shown in FACS administrative data.
 - The combination of the EAC benefit and CCB should not exceed the cost of child care per week, which is estimated at an average of \$3.60 per hour.
 - The EAC benefit would be paid per week for 52.14 weeks per year. (The CCB is generally provided for a maximum of 48-51 weeks per year).
 - The EAC costing does not apply to children in informal care as it is assumed that the Government would apply the EAC scheme to only children in formal care as a first stage.
- 5.5.3 Overall, it is assumed that 85 per cent of families using child care (494 000 families) are using it for work purposes, with the exact ratio applied varying by income level, in line with ABS data showing that the proportion of children with both parents in the labour force increases as family income increases.
- The tax revenue that the Government would forgo is based on the forgone tax due to the EAC being an estimated 40% of the cost of the EAC to employers. NATSEM has calculated that the Government is likely to pay for between 18.5 and 48.5% of the cost of an EAC benefit via forgone income tax and Medicare levy.
 - The estimated savings in CCB and FTB (Part A) are based on the modelling by NATSEM, described in full in the NATSEM paper at Appendix A.

- 5.5.3 Where it is assumed that 50% of these families included employees whose employers were able and chose to participate in the EAC scheme, the estimated net cost to the Government would be **\$83 million** in 2004/05. This is the maximum potential cost to government based on current available statistics regarding current and future predicted child care use and likely take up of the EAC scheme by employers.
- 5.5.4 This cost should be compared with the cost to government if it chose to solely provide additional funding to achieve the benefits for families able to be realised by the EAC scheme. In order to achieve these benefits in the absence of the EAC scheme, the Government would need to spend an estimated \$287 million in 2004-05.
- 5.5.5 The expenditure on the funding proposed by the EAC scheme would be in addition to the Government's spending on the CCB scheme which was \$1 billion in 2000/01 and is forecast to be \$1.4 billion in 2002/03. The actual cost of the CCB for government may decrease as a result of the CCB reductions integral to the EAC scheme, however, this is a matter for government to assess.

Cost to Employers

- 5.5.6 The proposal assumes the same issues for employers, including that employers would also contribute to the cost of formal child care for at least 500,000 families or 700,000 children.
- 5.5.7 The proposal assumes that an employer's accounting system is likely to treat a \$50 EAC benefit per week as an additional \$50 cost. Assuming that all employers of all employees in these families treated the estimated average payment of \$29.40 per week for 52.14 weeks per year as a cost, the global annual cost to employers as a whole would be about \$1211 million in 2003-04. This would be offset by the available tax deductions of about \$363 million per year, leaving a global net cost of \$848 million.
- 5.5.8 Alternatively, it may be more realistic to assume that about 50 per cent of the employers of these families were able and chose to take up the EAC scheme. Given this assumption and considering the potential increase in demand for child care as discussed at paragraph 5.5.4, the estimated global cost to employers in 2004/05 is \$606 million. Following the offset of available tax deductions, the global net cost for employers would be \$424 million.
- 5.5.9 However it is difficult to clarify what this means in terms of costs to individual employers' as it is not clear how many and which employers may participate

in the EAC scheme. As a result it is more useful and realistic to focus on the costs to employers of providing the EAC benefit compared with the retraining and recruitment costs required in order to replace staff who may choose to leave their employment because of the cost of child care.

5.5.10 There are a range of costs that employers face when seeking to replace a staff member. These generally arise in relation to:⁶⁴

- Separation costs associated with exit interviews, and the administration requirements regarding payroll, references and alike.
- Replacement costs associated with the advertising and filling of vacant positions.
- Training costs associated with the induction and education of an employee into a vacant position, regardless of whether that person is a external or internal recruitment.
- Productivity costs associated with the need and time it takes for the new employee to bring themselves up to speed with the responsibilities and conduct of their new position to an optimal level. These costs may also arise in relation to existing employees needing to perform their own tasks as well as the responsibilities of the vacant position until a permanent replacement is found.
- Corporate knowledge costs associated with the loss of an intellect or corporate memory that can often not be replaced or can only be substituted after a significant time by the replacement staff member.
- Customer relation costs associated with the need for new staff to reinvest the time and effort to establish beneficial relationships with existing clients.

5.5.11 It is generally accepted that these costs would be greater in relation to departing employees who have been with a particular employee for a long period of time. Given that most mothers are between the ages of 25 and 34 and that over 70% of these women are in the workforce,⁶⁵ the increased departure of these workers from the workforce currently and into the future is likely to represent a high cost to employers in the areas discussed above. For example a

⁶⁴ Sex Discrimination Unit, Human Rights and Equal Opportunity Commission, 'Valuing Parenthood – Options for Paid Maternity Leave: Interim Paper 2002', page 57.

⁶⁵ See paragraph 3.3.12

woman who leaves school at 18 and has her first child at 25 has been in the workforce, and perhaps with the same employer, for at least 7 years.

- 5.5.12 It is difficult to determine the precise cost of retraining, recruitment and other costs for employers. However employer sponsored studies indicate that the costs can be significant.
- 5.5.13 In 1996 Westpac Banking Corporation calculated that it cost \$40, 000 to replace a staff member with eight years experience and \$60, 000 for a senior manager.⁶⁶
- 5.5.14 The Australian Retailers Association estimates that it costs a minimum of \$3, 800 to replace a less skilled full time employee, not including the costs associated with retraining and skill loss.⁶⁷ The same Association estimates that the global cost to retailers associated with staff turnover is \$397 million including training, lost productivity, recruitment and separation costs.⁶⁸ It is difficult to establish how much of this global cost is attributable to mothers leaving because of the cost of child care. However, the real issue is the cost per employee.
- 5.5.15 Both these higher and lower costs compare favourably to the cost for employers to participate in the proposed EAC scheme. Assuming that an employer contributes an average \$29.40 per week to the cost of an employee's child care needs for a maximum possible 52.14 weeks per year, the annual cost to the employer is \$1533. This would be offset by a company income tax deduction resulting in a **net annual cost of \$1073 per employee**. This compares favourably with the potential cost of replacing staff as discussed above.
- 5.5.16 The proposed EAC scheme would permit employers to select the benefit they wish to provide within any limit imposed by the Government.
- 5.5.17 The scheme is also administratively simple for employers, as they will not have to enquire into the family income of their employees in order to determine the benefit agreed between them and their employee/s.

⁶⁶ NSW Department of Industrial Relations, 'The Business Case for a Family Friendly Workplace', Sydney 1996, page 11.

⁶⁷ Australian Retailers Association, Department of Employment and Workplace Relations and Equal Opportunity for Women in the Workplace Agency, 'Balancing the Till: Increasing Profits and Building a Better Workforce', Canberra, 2002, page 11.

⁶⁸ Ibid, page 7.

6. CONCLUSION

- 6.1 The proposal presented above achieves some key objectives for government, employers and the community. The proposal:
- Enables the child care costs of employees from low income families to be up to 100 per cent funded.
 - Enables the child care costs of employees from middle income families to be up to 70 per cent funded.
 - Assists the Government increase the financial support for families' child care costs through the tax system, rather than budget allocations.
 - Assists the Government meet community expectations for ongoing and potentially increased child care assistance by spending an estimated \$83 million in 2004/05.
 - Depending on employers' take up of the EAC scheme, provides government with the opportunity to spend less on child care benefits in the long term whilst facilitating greater assistance for families.
 - Does not compromise the application to the Child Care Benefit scheme to all eligible families.
 - Is more relevant to encouraging women to return to or remain in the workforce than paid maternity leave.
 - Ends the current FBT discrimination between employers able to provide on site child care facilities and those that cannot.
 - Provides small to large employers with the opportunity to reduce expenditure on staff replacement, and promote loyalty amongst employees.
 - Can be designed to fit seamlessly with the CCB scheme or promote other administration arrangements selected by government.
 - Can be applied using the latest smartcard or electronic payment devices to facilitate direct payments to child care providers.