Increasing childcare subsidies is urgently required to support children, families and the economy

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The Commonwealth Government's decision to revert back to largely pre-COVID-19 arrangements for funding early childhood education and care risks many children and families being unable to access care at a time when they need it most.

Even before COVID-19 hit, early childhood education and care was already bordering on unaffordable. Fees in Australia are high, absorbing nearly a fifth of household income for many families (OECD, 2020). Even after government subsidies, many parents pay more to have a child in early learning than they would to send a child to a private primary school (Hurley et al., 2020).

The Commonwealth Government implemented an emergency relief package to support the sector and families during the initial crisis, but when it came to an end on 13 July 2020 parents resumed paying fees to keep their child engaged in early learning.

The Government has announced a number of small changes to the pre-COVID arrangements once fees resume. Parents whose work situation has been affected by COVID-19 will have their fees reduced[1] and be able to access more subsidised hours even if they are working less.

However COVID-19 has driven unprecedented increases in unemployment and underemployment, stretching the capacity of many families to afford even basic necessities. Early education is expensive, and may be one of the first items for parents to cut. Quality early learning matters for children's development and families' work-life balance, so this will impact negatively on children, families and the economy.

Instead of snapping back to pre-COVID-19 arrangements, the Government needs to consider alternative options, both during the transition and in the longer term.

Going back to pre-COVID-19 settings – even with modifications – is risky

Australia's existing Childcare Subsidy (CCS) system is not fit for purpose in the context of COVID-19 (The Front Project, 2020). Prior to the pandemic, nearly half of Australian families reported having difficulties with the cost of childcare (Wilkins et al., 2020). In the wake of the pandemic, one in five workers has been adversely affected by the recession (Gittins, 2020), resulting in an estimated 130% increase of employment stress in families (Noble et al., 2020).

The Government has made only minor adjustments to the CCS during this transition period. There will be a temporary easing of the Activity Test, which means families working and studying less can access more hours of subsidised childcare – but they will still need to pay at least 15% of childcare fees. The Additional Childcare Subsidy (ACCS) will continue to provide free childcare to some families experiencing significant financial hardship, for a short time.

Key messages

Increasing childcare subsidies for families on low-medium incomes would provide a triple social and economic dividend by:

- Ensuring more children can remain engaged in early learning
- Supporting families' livelihoods and ability to work
- Benefiting the economy during COVID-19 recovery

While these measures will help some families, they are unlikely to be enough to counter the unprecedented economic impact of the COVID-19 crisis. Vast numbers of parents and carers will be

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[1] This is not a change, but will occur under pre-existing arrangements, whereby subsidy rates to families increase by one per cent for every $3,000 per household income is reduced.

faced with a decision on whether they can afford to keep their child engaged in early learning. The employment outlook is highly uncertain, and for families on low-medium incomes in precarious employment, annual childcare fees of up to $18,000 are likely to be unaffordable.

When childcare becomes unaffordable it affects children, parents and the economy. Children removed from early learning, or with only intermittent access, face disruption to their routine, and possibly developmental and educational delays. Families with limited or no childcare arrangements in place face huge barriers to taking up work when it does become available. They may be deterred from doing so at all, with reduced support in caring for and nurturing children. These effects disproportionately affect women, placing them at greater risk of long term disengagement from paid work (WGEA, 2020).

What are the options?

Some advocates have argued for an overhaul of the childcare system to make **childcare permanently free** (Cox, 2020 & Dent, 2020). One of the main barriers is cost, with estimates suggesting this would cost in excess of $24 billion per year (Wood et al., 2020). The Australia Institute argues that this would constitute a highly effective fiscal stimulus, enabling more parents to participate in work, and boosting consumer spending (Grudnoff et al., 2020).

Others have pushed for a **temporary extension of fee-free care**, to provide a more gradual transition and more support to women and families when they need it most (Tuohy, 2020). This may have been considered, but has been rejected by the Commonwealth Government.

Instead, the Government has opted for a **return to the previous CCS system,** with a few changes. Some peak bodies representing early learning providers support the move (ELACCA, 2020 & ACA, 2020), but others have serious concerns about the impact on children and families if they are locked out of early learning due to costs (CCCA, 2020 & Goodstart, 2020).

A third option proposed as part of longer term reform is a **universal entitlement to 20 hours of free care**, to ensure access for all Australian children, while allowing parents to pay for additional hours above the universal entitlement (ECA, 2020). This policy recognises children's fundamental right to early learning, and it would be much more straightforward than our current complex arrangements. It merits serious consideration, and should be considered alongside proposals to **integrate early learning within the public education system** (Carey, 2020).

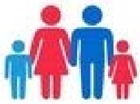
But the most effective option in the short-medium term would be to **increase subsidy rates for families on low-medium incomes** – either temporarily or permanently. It would require increased investment, but it could be done very quickly through the existing CCS payment infrastructure. It would ease financial pressures for the families hardest hit by COVID-19, and provide a significant stimulus to the economy during the recovery period.

Increased subsidies would support families in need, and the economy

The Mitchell Institute's scenarios analysis shows that families who have lost income or jobs will be significantly worse off when the subsidy system restarts. Many relied on free childcare during the initial crisis to keep their children engaged in early learning and provide stability and continuity of care (Duffy, 2020). This will be jeopardised when tough decisions need to be made on where to cut family budgets (The Parenthood, 2020), as seen in the scenarios below.

Scenarios: Impact of fees on low-medium income families with reduced income due to COVID-19, including modelling of increasing the maximum CCS rate from 85% to 95%

Lisa, Adam, Jack & Alice



Lisa works full time and Adam works three days a week. Jack and Alice are in childcare for three days a week. Lisa's income has dropped to the JobKeeper rate, and the family's pre-tax combined income has plummeted by around $47,000 – from $138,000 to $90,700.

When fees resume, their subsidy will increase, but they'll still be paying nearly $10,000 in childcare costs. Their fortnightly income has dropped by $1,200, but their out-of-pocket childcare costs have only reduced by $208 per fortnight.

If the maximum CCS rate were increased to 95% for families earning less than $68,163, Lisa and Adam's CCS rate would rise to 85.32%. Their out-of-pocket childcare costs would drop from $594 (pre-COVID) to $277, and the family would be nearly $8,000 better off per year.

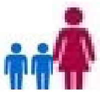
Ali, Maia, Zac & Leila

Ali and Maia both work full time, with Zac and Leila in childcare five days per week. Pre-COVID, their combined income was $100,100 but with Ali's salary reduced by 20%, and Maia moving onto JobKeeper, this has dropped to around $81,000.

When fees resume, Maia and Ali's Family Tax Benefit and Childcare Subsidy rate will increase. They've lost $433 per fortnight in income, but they're only saving $135 per fortnight in reduced childcare fees. They will still be paying $560 per fortnight.

Increasing their CCS rate would reduce their fortnightly fees to a more affordable $365. They would save $8,200 compared with pre-COVID fees.

Rosie, Ben & Molly



Rosie is a single parent who works full time; her children Ben and Molly are in full time childcare. When Rosie moved onto the JobKeeper minimum rate, her salary was nearly halved (dropping from $86,200 to $39,000).

Rosie is eligible for increased Family Tax Benefit, Childcare Subsidy and the Parenting Payment. This will help, but Rosie will still be paying $470 per fortnight in fees; $120 less per fortnight compared with her pre-COVID-19 fees.

If the maximum CCS rate was increased to 95% Rosie could access that rate, and her out-of-pocket costs would drop from $469 (pre-COVID) to $237 per fortnight. Rosie's family would save nearly $8,800 per year.

Rob, Yuhan, Mei & Charlie

Rob and Yuhan both work part time, and Yuhan is studying. Mei and Charlie are in childcare for three days per week. Rob's income has been reduced and Yuhan has just lost her job and is on JobSeeker, meaning the family's pre-tax income has dropped from $86,400 to $73,800.

Their Family Tax Benefit will increase and they may be able to access further support through the Additional Childcare Subsidy. This will make a difference. But while their take-home income has dropped by $120 per fortnight, they will still be paying $308 in childcare fees.

With a higher maximum CCS rate of 95%, this family's rate would increase to 92.5% and their fees would be a more affordable $177 per fortnight. Rob and Yuhan would be saving around $4,500 per year on fees.

While snapping back to existing CCS arrangements is a straightforward and low cost option, evidence suggests it will adversely affect children, families and the economy (Grudnoff et al., 2020; The Parenthood, 2020 & Goodstart, 2020).

Increasing the CCS subsidy for families on low incomes to 95%, tapering to 50% for families with a combined income of $173,163, could be achieved under the current system, with limited increased investment. This would deliver significant educational, wellbeing and economic benefits (Wood et al., 2020 & The Front Project, 2020).

Increasing the maximum subsidy to 95% for the most disadvantaged families could be the difference between families being able to afford early learning or having to withdraw their children, temporarily or permanently. A family with both parents working full time on low incomes would see their fees drop from $600 to $360 per fortnight. This would provide a triple dividend by supporting children's access to early learning, putting more money back into family budgets and supporting economic recovery.

This policy change could be made quickly, and it could deliver substantial relief and economic stimulus in a short amount of time, as well as long-term benefits for children's development.

Monitoring the impact of transition policy settings is vital

The impact of the policy settings put in place for the transition out of the emergency relief package will need to be closely (and independently) monitored. Monitoring must focus not only on how many childcare services remain viable and open, but also the impact on children and families, and how that impact is distributed across different demographics.

COVID-19 has exposed pre-existing weaknesses within Australia's early childhood education and care system, many of which were already widely recognised (Pascoe & Brennan, 2020). Addressing workforce challenges, lifting quality to support educational outcomes for all Australians, and working towards a less complex and more stable system are major challenges that need to be addressed.

Beyond 2020, an ambitious and fair reform agenda aimed at improving educational outcomes and reducing inequality should consider a range of policy options and models for early learning.

But for now, supporting access for children and families, workforce participation, economic recovery, child wellbeing, and the sector's survival, can be best addressed by increased CCS rates.

About us

The Mitchell Institute for Education and Health Policy at Victoria University is one of the country's leading education and health policy think tanks and trusted thought leaders. Our focus is on improving our education and health systems so more Australians can engage with and benefit from these services, supporting a healthier, fairer and more productive society.

Acknowledgements	Thanks to Dr Jen Jackson and Sarah Pilcher for editorial input, and Gaby Kypriotis for research assistance.
Suggested citation	Noble, K. and Pilcher, S. (2020). Increasing childcare subsidies would support children, families and the economy. Mitchell Institute for Education and Health Policy. Victoria University.

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Cover image	Markus Spiske via Unsplash

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