Child care

affordability in Australia
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When the choice is made to have a baby, it’s an exhilarating time, but it also means big responsibility and big changes, including having to take time off work or even moving house to make enough room for the new addition.

When the time then comes for parents to decide whether to return to paid work, full or part-time, it’s not only an emotional consideration but also an important financial one.

Career continuity, personal fulfilment, and the availability of either formal child care or informal care by family members, will all contribute to the decision to either work or become a stay at home parent.

For some families, the decision to return to paid work may not be a choice.

If parents do decide to return to work, the economic payback of working versus not working is intrinsically tied to suitable child care places that are in line with parents’ preferences for location, hours, quality, as well as cost.

The affordability and accessibility of child care is critical due to its role in supporting a sustainable society, and is a balancing act of a large range of factors.

Government of course plays a crucial role developing policies to address this, and in providing subsidies in line with income to help child care affordability. Government subsidies, such as the Child Care Benefit and Child Care Rebate, have helped offset the rising cost of child care for families.

Over the past five years child care prices grew by 44.2 per cent (or 27.5 per cent in real terms), equivalent to an annual average increase of 7.6 per cent, according to the Australian Bureau of Statistics. But our report shows, after accounting for Government subsidies, since 1988, out-of-pocket child care costs grew by little more than the CPI and less than incomes.

While these subsidies have addressed affordability issues, we need to consider whether ongoing subsidies are sustainable over the longer term, and whether alternative solutions should be explored.

Certainly, the role of employers in working with parents around flexible hours, and identifying alternative child care solutions cannot be understated. As we move more and more towards a technology-enabled workforce where we are always accessible, this will become even more important.

Finding different, flexible ways to work with parents will not only help employers keep their employees happier and more productive, but will help employers attract quality candidates and maintain workplace diversity—essential to business success. In this sense, flexibility may no longer be a ‘nice-to-have’ for employers, but a must-have.

Reducing workforce participation barriers, particularly for women, will be important for helping offset the negative economic impacts of an ageing population. The level of support offered to parents returning to work is critical, as well as the ongoing affordability of child care.

Addressing child care affordability is not just a concern for parents and government—it is a consideration for all of us.

Demand for affordable and accessible child care will only increase. We, as a community, need to take a holistic approach to ensure we address this growing need and support working parents.

Paul Sainsbury
Chief Customer Officer
AMP

Foreword
The rapid increase in demand for child care coincides with strong price growth for these child care services.
Many Australian families are juggling paid work with raising children. Child care, both formal and informal, makes this intricate balancing act possible.

The decision around whether to return to work after having children is not an easy one. Child care is expensive and families have to manage many important financial, family and social obligations.

Families making the difficult decision about a return to work have to not only consider upfront child care costs, but also the potential impact of paid work on the Government benefits they may receive.

Where a person lives will also have a big impact on their child care costs, with some daily rates as high as $170 a day.

An important focus of this report is the affordability of child care for families and the impact child care costs have on the decision to work. The report outlines the trends in child care use and costs and then considers the complicated interactions between returning to work, the loss of Government benefits and the costs of increasing child care use.

There is great variation in the cost of child care across the country and the report explores Australia’s most and least affordable regions.

The Government subsidises child care through a number of benefits, but the current system is expensive and complicated. The report considers Government benefits received by families using child care and their effectiveness and explores possible alternative support systems.

While providing benefits to working parents is expensive, Australia needs women to work and contribute to the tax system to help the nation manage the cost of an ageing population.

Policy concerns for child care in Australia

The main policy issues facing Government, child care providers and families are affordability of care, supporting women in going back to work, accessibility to high quality care and the importance of early learning in preparing children for primary school and later life.

Child care costs have increased dramatically in recent years, placing a strain on family budgets. Governments have responded with large increases in financial assistance, mostly in the form of the Child Care Benefit (CCB) and the Child Care Rebate (CCR).

The CCB provides a capped, per hour, subsidy direct to the family or child care centre to offset the cost of care. The payment is means tested and provides maximum benefit to low income families. The payment increases in line with the consumer price index (CPI).

The CCR is not means tested and provides a rebate of 50 per cent of ‘out-of-pocket’ costs. This payment increases with the actual cost of child care, but strong demand and steep child care price inflation has meant it’s a growing share of the Federal Budget.

The cost of child care, loss of Government benefits and increased personal income taxation can mean that as the secondary earner (usually the female), or single parent, increases their working hours, for some, the financial return from paid work can be negligible.
With an ageing population, governments are trying to encourage more women back into the workforce and the cost and availability of child care are major impediments to this.

Government child care subsidies are a double-edged sword—they’re part of the solution and part of the problem. Child care subsidies certainly improve affordability, but they also likely contribute to higher child care prices.

Female workforce participation is also impacted by the difficulty in finding appropriate care that is convenient to work, both in terms of location and hours worked. While there are many quality child care operators, it can be difficult to find a suitable vacancy.

Education policy makers are increasingly aware of the importance of the early years of learning. The days of thinking about child care as a child minding centre are disappearing. Many other countries embrace the idea that education in a child’s early years is invaluable and quality child care can make a significant contribution to the learning outcomes for children later in life.

**Trends in child care**

The rate of child care use has increased by 77 per cent since 1996. Figure 1 shows 13.4 per cent of children between the age of 0 and 11 used formal child care in 1996 and by 2011 this rate increased to 23.7 per cent.\(^1\)

The use of informal care provided by grandparents, relatives and friends remains a vital element of child care in Australia, with 38.6 per cent of children aged between 0 and 12 using informal care.\(^2\)

**Figure 1 – Formal child care use**

This rapid increase in the demand for child care coincides with strong growth in the price charged for these child care services.

Placing a child in Long Day Care can cost a family up to $170 per day in the most expensive regions of Australia.

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1. Childhood, Education and Care, ABS 2011. For a consistent time-series of data, some minor adjustments were made to alter the age group to ‘0–11’ for all years.
2. Childhood, Education and Care, ABS 2011.
The gross cost of child care has increased by almost 10 per cent per annum in the past decade (Figure 2). This increase is well ahead of the consumer price index at just 3.1 per cent per annum. The almost 10 per cent annual increase translates into a 150 per cent price hike in ten years, rising from around $30 per day in 2003 to $75 per day in 2013.

Government benefits such as the CCB and the CCR have helped offset the rising cost of child care for Australian families. After accounting for these subsidies, the price of child care grew by little more than the CPI and significantly less than household incomes or the gross cost of child care.

In recent years, child care prices have been driven by strong demand. Much more generous Government subsidies, increasing workforce participation of women and a long run of growth in household incomes have pushed up the demand for child care.

**Figure 2 – Cost of child care in Australia**

Note: This is an index and offers a base point of comparison, rather than a dollar figure.

### Child care today

Long Day Care (LDC) is the most used type of formal child care, with around 630,000 Australian families using this type of care (Figure 3a). LDC mostly caters for children aged five and under who are not yet at primary school. This type of care is generally used (or at least paid for) as a full day of care.

Family Day Care, or home-based care from registered carers, is used by around 109,000 families and mostly caters for younger children yet to attend primary school.

The major form of formal care for school-aged children is before and after school care (Outside School Hours Care—OSHC). This type of care is mostly used by primary school aged children immediately before and after school hours. Before school care is used by 117,000 families, while 241,000 use after school hours care.¹

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¹ Department of Social Security Statistical Paper, number 11, 2012.
Overall, 887,000 families use formal child care in Australia, with nearly 1.3 million children attending around 13,000 approved child care centres.

**Figure 3a – Child care use, by type of formal care**

Informal care is the most used form of care in Australia (Figure 3b). Grandparents provide 23 per cent of all hours of child care and non-resident parents are used for 27 per cent of total hours. Of formal care, Long Day Care easily makes up the most hours used at 30 per cent.²

**Figure 3b – Share of child care total hours, formal and informal types**

² Non-resident parents are mostly separated and divorced parents who don’t have primary care of the child but do provide child care.
Child care is used mostly by children aged between one and five years of age (Figure 4). Child care usage peaks for three year olds, where 59 per cent of children are in formal child care. Only around eight per cent of children aged less than one use formal child care, which increases dramatically to 34 per cent by the age of one.

Figure 5 shows a small increase in the average hours of child care used by children in formal care services since 2004. Long Day Care has the longest average use at 27.5 hours per week, while Outside School Care and Occasional Care are used for less than half the time of Long Day Care. Family Day Care is used on average for 24.5 hours per week.

The largest increase in usage was for Family Day Care, while only Outside School Hours Care recorded a decline in average hours of use.

A common concern of parents is the lack of vacancies available at child care centres. Figure 6 shows the majority of centres have vacancies. Vacancy rates have not altered significantly for Long Day Care or After School Hours Care in recent years. Vacancy rates for Vacation Care have actually increased by eight percentage points since 2011, but vacancies at Family Day Care Centres decreased by around six percentage points over the same period.
These figures may gloss over the true state of play for child care vacancies. The vacancies will not be suitable for all parents in terms of location, hours of care, cost or level of service. Anecdotally at least, this issue is particularly relevant for inner city locations where demand for child care spots is strong.

Figure 6 – Share of centres with vacancies, by type of care

![Graph showing the percentage of centres with vacancies by type of care for 2011 and 2013.](source: DEEWR, Child care in Australia, 2013)

**International comparison of child care use**

Australia sits roughly in the middle of Organisation for Economic Co-operation and Development (OECD) countries with regard to the proportion of children using formal child care (Figure 7). Australia’s use of child care is well behind the Scandinavian countries, where rates of child care for children under three years of age are around twice that of Australia. The Scandinavian countries were early adopters of formal child care and have higher rates of female workforce participation.

Figure 7 – Child care use by children aged less than three years of age

![Graph showing the percentage of children aged less than three years of age using child care in various countries.](source: OECD Family Database, 2014)
Facilitating more women to enter and stay in the workforce is crucial in offsetting the implications of an ageing population.
Female workforce participation

When discussing workforce participation and the impact of child care accessibility we are mostly talking about female participation. In Australia, women still undertake most of the child rearing responsibilities. A previous AMP.NATSEM report *Race Against Time* (AMP.NATSEM 2012) found men spend approximately two more hours per day on employment related activities, while women spend around two hours a day more on domestic related activities and child care.

**Trends**

Facilitating more women to enter and stay in the workforce is crucial in offsetting the financial implications of an ageing population.

Female workforce participation has increased by about 15 percentage points over the past 35 years, rising from 44 per cent in the late 1970s to 59 per cent in 2013 (Figure 8). Male workforce participation has declined from 79 per cent to 72 per cent over the same period.

Much of the increase in female workforce participation has been in part-time and casual employment. In terms of the share of total hours worked, women now account for around 39 per cent of hours, up from just 30 per cent in 1978.

Changing societal attitudes towards working mothers and increased educational standards have been major contributors to the rising number of women in the workforce. The availability and affordability of child care have also had a significant impact on female workforce participation, helping them more easily transition back to work after having a child.

**Figure 8 – Workforce participation rates by gender**

Source: ABS Labour Force
Females still perform the bulk of child care responsibilities. For families where the youngest child is five years or younger and is in formal child care, only around 29 per cent of women work full-time. For families where the youngest child is five or under and not in formal care, only 26 per cent of mothers work full-time.

Around 42 per cent of mothers work part-time where the children are in formal care, while only 21 per cent work part-time where formal care is not used.

These numbers compare to around 90 per cent of fathers working full-time, regardless of the type of care their children receive.¹

**International comparison**

Australia sits in the middle of international rankings of female to male employment ratios (Figure 9). Australian women are employed at the rate of 86 per cent of males. This compares poorly with Scandinavian countries where women are employed at nearly the same rate as males. Over the past five years, Australian females picked up 1.8 percentage points in their employment ratio relative to males.

**Figure 9 – Female to male employment ratio**

Source: OECD.stat database, 2014

¹ NATSEM, STINMOD 13
Policy and economic implications

If Australia is serious about countering the impacts of an ageing population, using the female participation ‘lever’ will likely require Government policies that more strongly encourage female workforce participation, alongside continued cultural change around the way women juggle work/life balance. This future balance will require a stronger child care sector and a greater role for men in the caring of children in the home.

Increasing female workforce participation is dependent on the affordability of child care and the way the tax and Government benefit systems interact with family income. Currently, as women increase their working hours, they lose child care benefits and pay more income tax.

Research undertaken by economic modellers suggests there is a strong relationship between the cost of child care and female workforce participation (Gong et al 2011).

Research estimates a one per cent increase in the gross price of child care for pre-school children leads to a decrease in hours worked by partnered women of 0.10 per cent. This price change leads to a decrease in the employment rate of 0.06 per cent. These estimates are statistically different from zero.2

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2 The research only considered partnered women and the results may not be applicable for single parents.
Long Day Care can cost up to $170 per day—this is more than a full-time wage for many low income women.
Affordability

Government subsidies, such as the Child Care Benefit and Child Care Rebate, have meant over the long term out-of-pocket child care prices have not increased much faster than the CPI, but the concern is around recent price growth and the likelihood of further rises.

Child care prices have increased by 44.2 per cent in the past five years and, in the absence of additional Government assistance, family out-of-pocket costs have risen at the same pace.

Of the 87 expenditure categories monitored by the ABS, the price growth in child care was only eclipsed by utilities and tobacco during the past five years. The growth in the cost of child care was around 12 percentage points higher than that of education services (Figure 10) and just over eight percentage points more than that of petrol over the same period.

Figure 10 – Selected cost of living items, five year price increase

Source: ABS Consumer Price Index, 6401.0, March 2014

Note: The child care category takes into account Government assistance, such as the Child Care Benefit and Child Care Rebate.

Without Government child care assistance, the gross cost of child care would have doubled in growth compared to incomes and would be 182 per cent above current levels.

While child care subsidies have contained out-of-pocket costs, it’s likely they have contributed to an increase in the gross cost of child care, requiring greater assistance and so the cycle continues. The ability of Government assistance to improve affordability and female participation in the workforce is considerably compromised by the ability of child care providers to react to increased subsidies with increased prices.

Child care payments increased from $900 million in 1999–00 to $4.7 billion in 2012–13. Overall, payments increased during this period by 254 per cent in real terms.

The large increase in Government assistance has improved child care affordability, but the impact on female participation rates is not clear. Female participation rates were increasing steadily prior to 1999, but recent growth in this rate is not as strong.¹

¹ There are a host of potential confounding demographic and economic factors that make comparing participation rates through time particularly difficult.
Families are on average $4,352 out of pocket from the cost of child care.

**Typical child care costs before and after subsidies**

With prices and subsidies both increasing at such strong rates, what has the outcome been for families? What impact has it had on their actual out-of-pocket child care costs and how does this compare for low, middle and high income families?

Table 1 shows the distribution of child care costs over different family income levels. Income levels\(^1\) are split into ‘quintiles’ with ‘Q1’ representing the lowest 20 per cent of household incomes, while ‘Q5’ represents the highest 20 per cent of household incomes.

### Table 1 – Distribution of child care costs and Government payments, 2013\(^2\)

<table>
<thead>
<tr>
<th>Income level</th>
<th>Average income ($)</th>
<th>Gross child care costs ($)</th>
<th>Out-of-pocket costs ($)</th>
<th>Government subsidy ($)</th>
<th>Costs to income (%)</th>
<th>P25(^3) (%)</th>
<th>P75(^3) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple</td>
<td>113,445</td>
<td>9,840</td>
<td>4,879</td>
<td>4,961</td>
<td>4.3</td>
<td>1.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Single</td>
<td>53,166</td>
<td>6,767</td>
<td>1,795</td>
<td>4,972</td>
<td>3.4</td>
<td>0.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Q2</td>
<td>52,327</td>
<td>8,175</td>
<td>2,296</td>
<td>5,879</td>
<td>4.4</td>
<td>0.2</td>
<td>5.8</td>
</tr>
<tr>
<td>Q3</td>
<td>70,193</td>
<td>7,681</td>
<td>2,660</td>
<td>5,021</td>
<td>3.8</td>
<td>0.6</td>
<td>4.4</td>
</tr>
<tr>
<td>Q4</td>
<td>97,631</td>
<td>9,678</td>
<td>4,581</td>
<td>5,097</td>
<td>4.7</td>
<td>1.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Q5</td>
<td>175,242</td>
<td>10,740</td>
<td>6,507</td>
<td>4,232</td>
<td>3.7</td>
<td>1.4</td>
<td>4.9</td>
</tr>
<tr>
<td>All families</td>
<td>$103,139</td>
<td>$9,315</td>
<td>$4,352</td>
<td>$4,963</td>
<td>4.2%</td>
<td>1.1%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

*Source: NATSEM, STINMOD 13*

Families are on average $4,352 out-of-pocket from the cost of child care. With an average gross cost of $9,315, the Government covers about 54 per cent of the cost of child care.\(^4\)

The out-of-pocket child care expenses for high income families (Q5) are nearly three times, or $4,200 per annum, higher than low income families (Q2) who, on average, use less child care and receive higher subsidies.

High income earners (Q5) spend around 3.7 per cent of their disposable income on child care while, due to significantly lower disposable incomes, the lowest income group (Q2) spend 4.4 per cent. The middle income group (Q3) spends 3.8 per cent of disposable income on child care. Couple families spend around $3,000 more on their out-of-pocket child care cost than single parents.

Around 50 per cent of families spend between 1.1 per cent and 5.7 per cent of their income on out-of-pocket child care expenses.

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\(^1\) The income distribution is based on equivalised disposable incomes of all ‘income units’ in Australia. The majority of families with children in child care are in the higher income groups. Equivalising incomes adjusts family incomes to account for household size and composition. The Modified OECD equivalising function was for equivalising purposes.

\(^2\) The ‘Q1’ results are not included due to the very small sample size. Very few low income families use child care.

\(^3\) P25 and P75 relate to the 25th and 75th percentile of the distribution of child care costs to income ratio.

\(^4\) These costs refer only to families who paid for either formal or informal care.
Targeting of CCB/CCR

The 2013–14 Federal Budget shows the Child Care Benefit and the Child Care Rebate are expected to cost the Government around $2.5 billion dollars each this financial year (2013–2014).

The CCB is means tested and targeted towards lower income families, while the CCR is not means tested and is set at 50 per cent of out-of-pocket costs, up to a $7,500 annual cap.

Table 2 – Distribution of weekly child care costs and Government payments\(^5\), 2013

<table>
<thead>
<tr>
<th>Family type</th>
<th>CCB max (%)</th>
<th>CCR cap (%)</th>
<th>CCB average payment ($)</th>
<th>CCB $ share (%)</th>
<th>CCR average payment ($)</th>
<th>CCR $ share (%)</th>
<th>Subsidy average payment ($)</th>
<th>Subsidy $ share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple</td>
<td>9.2</td>
<td>10.1</td>
<td>31.86</td>
<td>69.4</td>
<td>63.54</td>
<td>91.8</td>
<td>95.41</td>
<td>82.9</td>
</tr>
<tr>
<td>Single</td>
<td>72.6</td>
<td>0.9</td>
<td>68.05</td>
<td>30.6</td>
<td>27.56</td>
<td>8.2</td>
<td>95.61</td>
<td>17.1</td>
</tr>
<tr>
<td>Q1(^6)</td>
<td>90.0</td>
<td>2.6</td>
<td>68.83</td>
<td>9.9</td>
<td>36.57</td>
<td>3.5</td>
<td>105.40</td>
<td>6.0</td>
</tr>
<tr>
<td>Q2</td>
<td>70.8</td>
<td>0.7</td>
<td>76.88</td>
<td>22.4</td>
<td>36.17</td>
<td>7.0</td>
<td>113.05</td>
<td>13.1</td>
</tr>
<tr>
<td>Q3</td>
<td>24.3</td>
<td>5.0</td>
<td>57.67</td>
<td>35.5</td>
<td>38.89</td>
<td>15.9</td>
<td>96.56</td>
<td>23.7</td>
</tr>
<tr>
<td>Q4</td>
<td>4.2</td>
<td>11.1</td>
<td>30.97</td>
<td>27.8</td>
<td>67.04</td>
<td>39.9</td>
<td>98.02</td>
<td>35.1</td>
</tr>
<tr>
<td>Q5</td>
<td>0.6</td>
<td>12.9</td>
<td>6.55</td>
<td>4.5</td>
<td>74.84</td>
<td>33.7</td>
<td>81.39</td>
<td>22.1</td>
</tr>
</tbody>
</table>

Source: NATSEM, STINMOD 13

Table 2 shows the CCB is more tightly targeted, with around 67 per cent of the payment received by families in the bottom 60 per cent of the income distribution. Only 27 per cent of CCR goes to the bottom 60 per cent, while of total subsidies, 43 per cent go to families in the bottom 60 per cent of the income distribution. To a large extent, the driver of these results is the greater proportion of higher income families with children in formal care.

Very few families in the bottom 60 per cent of the income distribution reach the CCR cap as do less than 10 per cent of families with children in paid care. Policies to increase the cap would assist higher income families but would offer limited relief for low and middle income families.

The maximum CCB payment is targeted to low income families and Table 2 shows this, with very few middle and high income families eligible for the maximum payment.

Female workforce participation is more sensitive to child care price (and therefore subsidies) for low income people\(^7\). The current distribution of subsidies provides roughly similar dollar amounts throughout the income distribution.

It is generally the low and middle income families who lose more of their income to loss of Government benefits, income tax and to cover the cost of child care as they increase their working hours.

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5 CCB Max is for low income families who receive the maximum CCB hourly subsidy. CCR Cap relates to families who reach the $7,500 ‘cap’ on per child subsidy. Q1 results should be taken with caution due to a low sample size.

6 Q1 results are provided for completeness for Table 2, but a low sample size means caution should be used.

7 Gong et al 2011
Regional affordability

The figures most often quoted for child care are based on the rates for inner city child care, but what does the picture look like throughout Australia?

Long Day Care can cost up to $170 per day in some of our capital cities. This is more than a full-time wage for many low income women. Are there regions in Australia with relatively inexpensive child care? Are regional areas significantly cheaper than cities and how do these prices compare when regional incomes are considered?

This section estimates the child care costs of a typical family in each region of Australia and compares this cost to the typical disposable income of those regions. A low ratio of costs to income indicates a more affordable region. We assume the costs of a family with one child in Long Day Care for 24 hours per week and one child in Outside School Hours Care for 18 hours per week.  

Capital cities tend to offer less affordable child care compared to regional areas, which are more affordable. See appendix for maps illustrating the typical ratio and child care out-of-pocket costs to disposable income.

The exceptions to this rule are some mining towns, the central coast of New South Wales and Tasmania. Mining towns are likely to have high cost child care stemming from high underlying costs for providing care in these regions. Many of the permanent residents of such regions may not have particularly high incomes. The central coast of New South Wales and Tasmania both tend to have populations with relatively low incomes.

Queensland tends to have the most affordable child care, with the areas around Far North Queensland the most affordable in the country at around 3.8 per cent of disposable income.

The least affordable areas are dotted around Sydney Harbour—child care is 9.3 per cent of disposable income in Mosman, and the Western Australian mining regions where child care costs up to 11.4 per cent of disposable income.

Looking closer at Sydney, outside of a few very expensive mining centres, the most expensive child care in Australia is found around Sydney Harbour, with some of these centres commanding daily fees of over $170 per day. In spite of the high incomes earned by many in the area, these prices account for a higher share of income than in any other region in the country, with the exception of some mining communities. The vast majority of Sydney has middle or high price to income ratios. Only the outer west provides relatively more affordable child care.

Melbourne is a similar story with most of the inner city areas commanding high child care prices of up to nine per cent of disposable income, placing these regions in the least affordable category. Mid-range affordability care can be found in much of the outer regions of Melbourne.

Brisbane offers the most affordable child care of all the major capital cities in Australia, with no regions in the highest category of unaffordability. Most Brisbane regions offer affordability in the middle band and lower middle band of affordability.

Table 3 shows the most and least affordable regions in the nation.

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1 For an explanation of the methodology, data and assumptions see the appendix.
### Table 3 – Most and least affordable child care in Australia, share of disposable income, 2013

<table>
<thead>
<tr>
<th>Least (%)</th>
<th>Most (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NSW</strong></td>
<td></td>
</tr>
<tr>
<td>North Sydney – Mosman</td>
<td>9.3</td>
</tr>
<tr>
<td>Queanbeyan</td>
<td>8.6</td>
</tr>
<tr>
<td>Sydney Inner City</td>
<td>8.3</td>
</tr>
<tr>
<td>Manly</td>
<td>8.3</td>
</tr>
<tr>
<td>Goulburn – Yass</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>VIC</strong></td>
<td></td>
</tr>
<tr>
<td>Darebin – South</td>
<td>9.0</td>
</tr>
<tr>
<td>Stonnington – West</td>
<td>8.6</td>
</tr>
<tr>
<td>Kingston</td>
<td>8.6</td>
</tr>
<tr>
<td>Whitehorse – West</td>
<td>8.4</td>
</tr>
<tr>
<td>Melbourne City</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>QLD</strong></td>
<td></td>
</tr>
<tr>
<td>Outback – South</td>
<td>7.8</td>
</tr>
<tr>
<td>Mackay</td>
<td>7.4</td>
</tr>
<tr>
<td>Central Highlands</td>
<td>7.1</td>
</tr>
<tr>
<td>Brisbane Inner</td>
<td>7.1</td>
</tr>
<tr>
<td>Chermside</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>SA</strong></td>
<td></td>
</tr>
<tr>
<td>Norwood – Payneham – St Peters</td>
<td>7.2</td>
</tr>
<tr>
<td>Holdfast Bay</td>
<td>7.1</td>
</tr>
<tr>
<td>Mitcham</td>
<td>7.1</td>
</tr>
<tr>
<td>Prospect – Walkerville</td>
<td>6.9</td>
</tr>
<tr>
<td>Lower North</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>WA</strong></td>
<td></td>
</tr>
<tr>
<td>Kimberley</td>
<td>11.4</td>
</tr>
<tr>
<td>Stirling</td>
<td>9.3</td>
</tr>
<tr>
<td>Pilbara</td>
<td>9.3</td>
</tr>
<tr>
<td>Cockburn</td>
<td>9.2</td>
</tr>
<tr>
<td>Mandurah</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>TAS</strong></td>
<td></td>
</tr>
<tr>
<td>Hobart – North East</td>
<td>8.2</td>
</tr>
<tr>
<td>Hobart Inner</td>
<td>8.1</td>
</tr>
<tr>
<td>Hobart – North West</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>NT (only 4 areas analysed)</strong></td>
<td></td>
</tr>
<tr>
<td>Palmerston</td>
<td>7.4</td>
</tr>
<tr>
<td>Darwin Suburbs</td>
<td>7.2</td>
</tr>
</tbody>
</table>

The least affordable areas are dotted around Sydney Harbour and the Western Australian mining regions.

The cost of child care, loss of Government benefits and increase in tax, means the financial gain in returning to work after having kids can be negligible for many Australian women.
Is it worth working?

After having children, Australian women are faced with the important question of whether to return to work, and if they do, when, and should they work full-time or part-time?

This decision is complicated by the cost of child care, which can account for a substantial proportion of disposable income. The more the mother works, the more child care is required. Usually more care is required than actual hours worked to account for things like travel time, unless grandparents or other forms of informal care can be used.

Beyond the cost of child care there are other considerations when thinking about whether it’s financially worth working. As the mother increases her work hours, she will lose Government pension payments, have reduced family payments and will pay an increasing share of income tax.

To explore how the number of hours worked impacts a family’s Government entitlements we have created some hypothetical families across low, middle and high incomes.¹

In each case, we assume the family has two children, a two-year-old who attends Long Day Care for 120 per cent of the mother’s working hours and a seven-year-old who attends Outside School Hours Care for half of the number of hours the younger child spends in Long Day Care. The hourly rate of Long Day Care and Outside School Hours Care is assumed to be eight and six dollars per hour respectively, which are roughly the median hourly rates for these types of care around Australia. The analysis assumes the mother increases her paid employment from zero hours to a full 40 hours per week in half-day increments (four hours).

Financial necessity is often one of the major drivers for a woman deciding to go back to work after having a child, but how do the numbers really stack up? How does the cost of child care, payment of income tax and a likely reduction in Government benefits impact the financial gain of returning to work?

Table 4 provides the overall financial gains of returning to work for the secondary earner², usually the mother.

In this report we calculate a mother’s ‘effective tax rate’ on returning to work. This is the money she loses to income tax, loss of Government benefits and covering the cost of child care. As an example, if a mother works an extra half-day and receives an extra $100 in wages, she may lose $20 in personal income taxation, $20 in Government benefits and $30 in out-of-pocket child care costs. Her take-home pay increases by only $30 and her ‘effective tax rate’ is 70 per cent.

Low income family

A mother from a low income family returning to work part-time (20 hours) after having a child would lose about 69 per cent of her pay to income tax, loss of Government benefits and covering the cost of child care. The low-income mum would keep less than a third of her pay, or $5.10 of her $16.37 hourly wage, when returning to work part-time. She would lose more if she went back to work full-time, keeping only $4.55 of her hourly wage.

A low-income mother already working part-time (20 hours a week) who decided to increase her hours to full-time (40 hours), would lose around 75 per cent of her pay for those extra 20 hours. Her hourly rate for these extra 20 hours would be just $4.09.

¹ The low income level was the minimum wage which, at a full-time rate (40 hours), is around $34,000 per annum. The middle income hypothetical used the average wage for full-time workers of around $64,000 per annum, while the high income family assumed a constant wage for the ‘bread winner’ of $100,000 per annum and the secondary earner up to $100,000 per annum.

² The estimates in this section are based on the 2013–14 financial year using the tax and government benefit system of the 2013–14 Federal Budget. The 2014–15 budget will likely impact on these estimates for years beyond 2013–14.
Middle income family

A mother from a middle income family would lose 45 per cent of her pay to income tax, loss of Government benefits and covering the cost of child care if she went back to work part-time (20 hours). She would keep just $16.80 of her $30.70 hourly wage. If this woman worked full-time (40 hours per week), she would lose even more of her take home pay (60 per cent), and keep just 40 per cent, or $12.32 of her hourly wage.

A middle-income mother already working part-time (20 hours a week) who decided to increase her hours to full-time (40 hours), would lose around 75 per cent of her pay for those extra 20 hours. Her hourly rate for these extra 20 hours would be just $7.83.

High income family

The final scenario considers a high income family (primary earner’s wage of $100,000) where the mother returns to a $100,000 per annum job. If she went back to work part-time (20 hours), the mother would lose 47.7 per cent of her salary to income tax, loss of Government benefits and payment of child care, meaning her hourly gain for return to work would be $25.14, from a hourly wage of $48.08. If this woman went back to full-time work, she would lose just over 53 per cent of her income, making her gain for a return to work $22.54 an hour.

A high-income mother already working part-time (20 hours a week) who decided to increase her hours to full-time (40 hours), would lose almost 59 per cent of her pay for those extra 20 hours. Her hourly rate for these extra 20 hours would be just $19.90.

Table 4 – Effective tax rates of the mother returning to work (couples)

| Amount of salary lost to income tax, loss of Government benefits and payment of child care |
|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Average Tax rate | 0–20 hrs (%) | 20–40 hrs (%) | 0 to 40 hrs (%) | Start ($) | Finish ($) | Avg hourly ($) |
| Min Wage | 68.8 | 75.0 | 72.2 | 51,953 | 61,409 | 4.55 |
| Single Average Weekly Earnings | 45.4 | 74.5 | 60.0 | 62,972 | 88,588 | 12.32 |
| High Income | 47.7 | 58.6 | 53.1 | 82,278 | 129,154 | 22.54 |

Source: NATSEM, STINMOD13

Note: ‘Start’ refers to the disposable income for each family where the spouse is not working. The ‘finish’ income is the family disposable income where the spouse works full-time.
Single parents

A low income single parent going back to work part-time (20 hours) would lose about 45 per cent of her pay to income tax, loss of Government benefits and covering the cost of child care, meaning she would keep just $9.09 of her $16.37 hourly wage (Table 5). If she went back to work full-time (40 hours) she would lose almost 62 per cent of her pay, meaning she would keep just $6.25 an hour.

A single low-income mother working 20 hours a week, who decided to increase her hours to full-time (40 hours), would lose around 80 per cent of her pay for those extra 20 hours. Her hourly rate for these extra 20 hours would be just $3.44.

A single parent on average wages would retain about $13.54 an hour if going back to work part-time (20 hours) and $10.20 an hour if she returned to full-time work (40 hours).

Table 5 – Effective ‘tax’ rates of the mother returning to work (singles)

<table>
<thead>
<tr>
<th>Amount of salary lost to income tax, loss of Government benefits and payment of child care</th>
<th>Average Tax rate</th>
<th>0–20 hrs (%)</th>
<th>20–40 hrs (%)</th>
<th>0 to 40 hrs (%)</th>
<th>Start ($)</th>
<th>Finish ($)</th>
<th>Avg hourly ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Min Wage</td>
<td>44.5</td>
<td>79.0</td>
<td>61.8</td>
<td>38,088</td>
<td>51,088</td>
<td>6.25</td>
<td></td>
</tr>
<tr>
<td>Single Average Weekly Earnings</td>
<td>55.9</td>
<td>83.0</td>
<td>66.8</td>
<td>38,088</td>
<td>59,315</td>
<td>10.20</td>
<td></td>
</tr>
</tbody>
</table>

Source: NATSEM, STINMOD13

Note: ‘Start’ refers to the disposable income for each family where the single parent is not working. For single parents ‘start’ income comprises Government cash benefits. The ‘finish’ income is the family disposable income where the single parent works full-time.

The cost of child care, loss of Government benefits and increase in tax, means the financial gain in returning to work after having kids can be negligible for many Australian women.

In addition to child care affordability, there are of course other complexities for families to consider when thinking about a possible return to work after having kids. Long spells outside of work can be a career killer for women. Time out of the workforce can lead to a loss of skills and reduced career confidence and can impact a woman’s opportunity for promotion relative to their male counterparts. Less time in the workforce can also have a big impact on a woman’s superannuation balance. Obviously, many women return to work for reasons beyond the financial to re-engage with the challenges and opportunities of their chosen careers.

Staying in the workforce, at least in a part-time capacity, can help overcome these issues, in spite of the likelihood the financial return may not be particularly attractive in the short term.
The child care subsidy system should be simple, encourage female workforce participation and minimise the likelihood of gross price increases.
Alternative policy for child care

The existing system of a means tested CCB and a fixed per cent CCR with a cap is complicated. A simpler, more transparent system would enable parents to more easily base their decisions around balancing child care and work commitments.

A number of alternative policies have been floated for child care in Australia.

One proposal is for child care costs to be deemed tax deductible. There is some logic in this argument as few would disagree child care costs are truly a work-related expense.

The problem with this approach is the scheme would adversely impact low income families.

The current system is actually more generous for everyone, compared to a tax deduction approach, as CCR is universal (not means tested) and reduces the payment at 50 cents in the dollar. Even the highest income mothers could get a deduction of no more than 45 cents in the dollar. A low-income mother (the most price sensitive group) would get either no deduction, as they don’t pay tax, or 19 cents in the dollar.

Figure 11 shows the dramatic distributional impact of a shift away from the existing child care benefit and rebate to a full tax deductibility scheme.

The highest 20 per cent of disposable income families with children in paid care are significantly less worse off, due to their much higher marginal tax rate, when compared to lower income families. These families are still worse off, but only by $1,700 per year or 0.9 per cent of their disposable income.

In contrast, the lowest 20 per cent of income families with children in care will be worse off by around $4,400, or 10 per cent of their disposable income.

The main advantage of this type of scheme would be a saving of around $3 billion to the 2013–14 Federal Budget.

Alternatively, the CCB and CCR could be rolled into the one system resembling the existing CCR approach.

A sliding scale could be introduced in the per cent applied to out-of-pocket costs according to family income.¹

¹ As recommended by the Henry Taxation Review and the Commission of Audit Report.
The existing CCR scheme applies at a constant rate of 50 per cent to out-of-pocket costs. A single payment system would operate in a similar manner to CCR with the exception of a higher rate of rebate, around 80 per cent, to low income families and a lower rate to high income families, approximately 30 per cent.

Key issues around the design of a new system would be to encourage female participation, simplifying the system and minimising the likelihood of gross price increases that largely offset the benefits in the first place.

In terms of the effectiveness of the current policy, we know high effective tax rates seem to apply right across the income distribution and we also know from the work of Gong et al (2013) that the impact of child care price on hours worked is stronger for low income families.

Figure 11 – Distributional impact of income losses from full tax deductibility

Source: NATSEM, STINMOD 13
Child care in Australia is becoming a significant policy conundrum with the cost of child care concerning for both parents and Government. The costs are rising quickly and, at the same time, policy makers are trying to remove barriers to women entering the workforce to help manage the implications of an ageing population.

Child care is, by its very nature, expensive. Quite rightly, quality standards of care require low ratios of staff to children, which makes this industry very labour intensive and expensive to operate.

Government subsidies help to keep a lid on families’ out-of-pocket child care costs, but it is hard to escape the conclusion they have also helped drive up prices and the cost to government. The higher prices go, the more financial assistance families will require and so the cycle continues.

It would be unreasonable to link higher prices to the national quality framework, since this program has only just been implemented. Wages of early childhood workers are the main input cost, but their wages remain low.

Child care prices are significantly higher, both in absolute terms and relative to incomes, in inner city areas. Inner city Sydney and Melbourne parents pay a greater price than most other families for child care. Families in remote mining communities also face steep child care prices.

Australia is only a middle-ranked country in terms of female workforce participation and the use of child care. Research suggests early learning has a high return and Australia would gain significantly from smart investment in our youngest children.

Reforming the existing child care assistance system would not be easy. High up-front costs and the existing rebate system combine with other payments and taxes, which culminates in some mothers earning as little as $3.44 per hour when they return to work. The existing industry is built around these subsidies and significant alteration or the development of a ‘state-based’ system as found in Scandinavian countries would be very costly.

In the meantime, in spite of the costs, good quality child care with quality educational programs offers a good start for young children and allows women to keep a foot in the door of employment.

From a fiscal perspective, women who have children in formal child care are paying $7 billion in taxes and by working save the Government through lower pensions, allowances and family payments.

Taking a long-term perspective would suggest in spite of the high costs most women will ultimately be financially better off by staying in the labour market and using quality child care.

The existing system of child care subsidies is complex and increasingly expensive. It would appear likely further increases to these payments will lead to ever-increasing child care fees. Striking the right balance between Government support and affordability remains a challenge for the Government.

If Australia is to continue to break down the barriers for women returning to work, an important element, beyond the financial aspect, will be a changed work culture where child care is viewed as a shared responsibility of the mother, father and the employer.
References

ABS (2013) Consumer Price Index, ABS 2013 6401.0
ABS (2011) Childhood, Education and Care, ABS 2011
ABS (2011) Household Survey of Income and Housing, 6523.0
DEEWR (2013) Childcare in Australia, August 2013
OECD, Family Database 2014
OECD.stat database, 2014
Appendix – Regional child care affordability methodology

We compare the ratio of child care prices to incomes for over 300 regions of Australia, in both capital cities and regional areas. We compare inner city suburbs with middle ring and outer ring areas of cities and we consider more remote mining centres, such as Port Headland in Western Australia, that are renowned for their high cost of living.

To measure child care prices and incomes we use the same ‘hypothetical family’ in each region. This family consists of a couple family with two children, one aged two who attends long day care for 24 hours per week and the second child is aged seven and is in Outside School Hours Care for 18 hours a week. The family has a median income of families with children in a given region. The father is assumed to earn two-thirds of the total family income and the mother one-third.

NATSEM’s tax and transfer calculator, STINMOD, is used to calculate their benefits, tax paid and assessable income for child care purposes.

To measure child care prices we use data extracted from the Government’s MyChild website that provides the distribution of child care prices for each of the 300 regions in our research. The prices used here are the median price for long day care providers for children under five years of age and the median price for outside school hours care in each region. We simulate for each family their out of pocket child care costs after using STINMOD to calculate their CCR and CCB. Their costs are then compared to their disposable income to provide an estimate of the typical ratio of child care costs to income for a given region.

Actual cases within each region will vary according to individual circumstances and whether or not a family chooses a higher or lower cost care provider. However, the point of the analysis is to evaluate the affordability from region to region. Appendix Figure 1 maps, for Australia and major capital cities, the affordability ratio.

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1 The hypothetical family is based on the typical use of couple families in STINMOD
2 The regions are based on the SA3 statistical area as developed by the ABS. A few relatively small regions were not included as sample size of child care centre information was too small to be considered reliable.
Appendix Figure 1a – Typical ratio of child care out-of-pocket cost to disposable income, Australia

Legend
Regions in Australia
- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Appendix Figure 1b – Typical ratio of child care out-of-pocket cost to disposable income, in and around Sydney

Legend

- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Appendix Figure 1c – Typical ratio of child care out-of-pocket cost to disposable income, in and around Melbourne

Legend

- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Appendix Figure 1d – Typical ratio of child care out-of-pocket cost to disposable income, in and around Brisbane

Legend
- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Appendix Figure 1e – Typical ratio of child care out-of-pocket cost to disposable income, in and around Adelaide

Legend

- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Appendix Figure 1f – Typical ratio of child care out-of-pocket cost to disposable income, in and around Perth

Legend

- 3.71–4.94%
- 4.95–5.87%
- 5.88–6.79%
- 6.80–7.90%
- 7.91–11.45%
- Missing

Maps for Darwin, Hobart and Canberra can be requested from the author.
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