



**Election 2022**

**Education policy brief:**

**Early childhood education  
and care**



# Election 2022 policy brief

## Early childhood education and care

Cost of living pressures and debates about women’s social and economic security mean early childhood education and care (ECEC) is a key election battleground. All major parties are offering increases to subsidy rates but there are big differences in the amount of support promised. Less clear are policies to address the many other issues in the sector. Access to childcare is highly variable depending on where a family lives. Low pay and difficulty with staff retention are also continuing problems. ECEC is shaping up to be emblematic of wider debates about costs and care, and parties will be eager to demonstrate their commitment to families, women and easing cost of living pressures.

### Policy background: what is early childhood education and care?

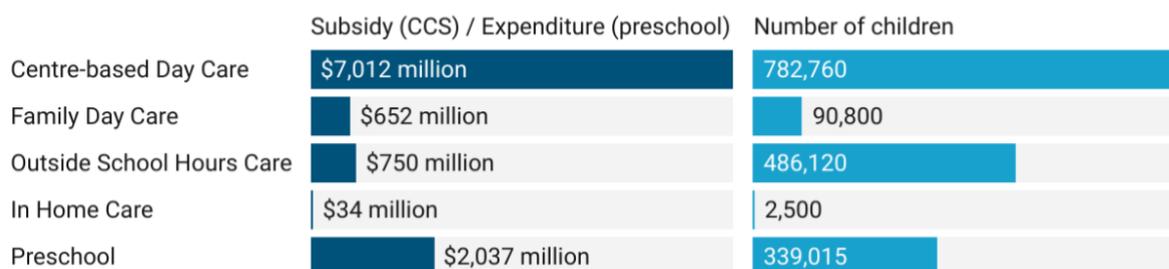
Early childhood education and care (ECEC) refers to the holistic development of children, including their social, emotional, cognitive and physical abilities [7]. Centre-based day care is the most common service and most associated with the term, ‘childcare’. But the sector also includes preschool (provided in the year or two before school), family-day care (care in the educator’s home), in-home care (care provided in the home of the child), and outside of school hours care (before and after care for school-aged children). These disparate services can be regulated by different levels of government but nominally operate under a single quality framework.

Services covered by the Child Care Subsidy (CCS) are the largest part of the sector. The Australian government supports access to these services through subsidies based on family income. Preschool is more likely to be funded by state and territory governments, with contributions from the Australian government, and has a more explicit focus on transitions to school.

The figure below shows the split of funding based on the different types of early learning, as well as the number of children in each service.

**Figure 1: Centre-based Day Care is the largest part of the ECEC system [1] [6]**

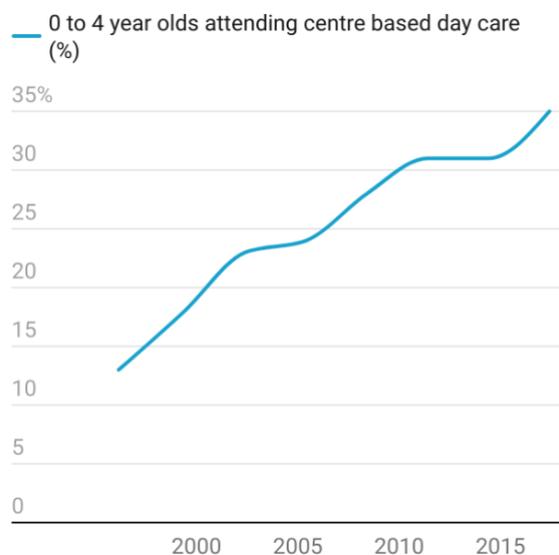
Total subsidies by service type (Q3 2020 to Q2 2021) and number of children by service type (Q2 2021)



Services delivered under the CCS use a parent subsidy-based model, where the subsidy is paid to the provider based on parental entitlement. This differs from direct funding of services more typically seen in the school sector. Unlike the school sector, providers can be for-profit and receive government funding. Access to subsidy also depends on meeting activity tests, with families who work more able to access more hours of subsidised childcare.

The use of the early learning system has increased along with wider demographic trends. Growing rates of female workforce participation have resulted in more children using the early learning sector. As Figure 2 shows, the percentage of children aged 0 to 4 years attending

**Figure 2: Demographic shifts have caused a massive increase in the usage of childcare [3]**



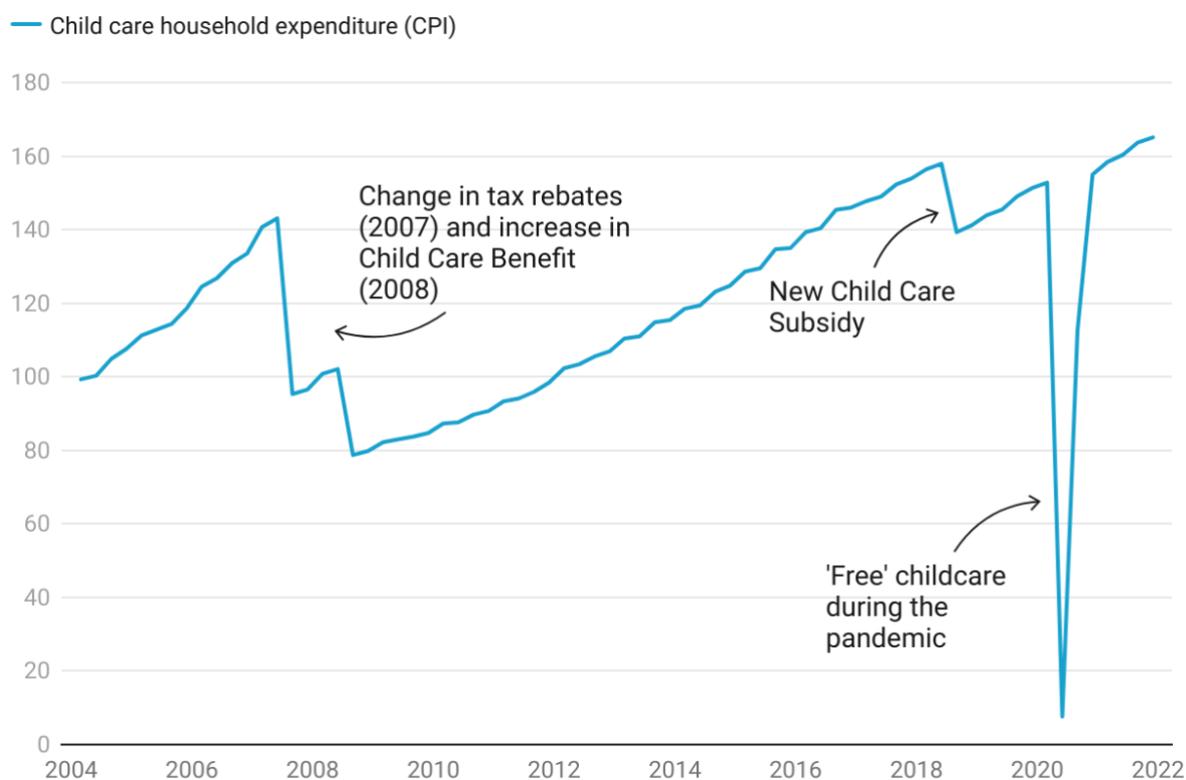
centre-based day care has risen from about 13% in 1996 to 35% in 2017 [3]. This enormous demographic shift has been facilitated by increased government support for the sector and a large increase in the number of early learning providers.

The main non-CCS component of the early learning sector is preschool (sometimes called prep, kindergarten or reception depending on the state or territory). Preschools are structured play-based programs delivered in the year or two before school. They are delivered by a range of providers such as schools, standalone preschools and long day care centres. Since 2008, the Australian Government has played a greater role in funding preschool through National Partnership Agreements.

## What has happened in early childhood education and care since the last election?

Like all parts of the education sector, the early learning sector has faced many challenges due to the pandemic. But because of its structure, it is only the early learning sector that has required government intervention – twice – to stop it from collapsing. In services covered by the Child Care Subsidy, funding is attached to attendance instead of enrolment, and requires some form of parental co-contribution. The pandemic meant many children did not attend childcare and without the subsidy, providers were unable to operate properly. The ‘free’ childcare policy implemented in the first wave of the pandemic during 2020, enabled the government to continue to pay providers to ensure they could function during periods of extended lockdowns. These payments resulted in a massive fall in the costs of childcare, as Figure 3 shows.

**Figure 3: Reforms to childcare have had temporary impacts on out-of-pocket childcare costs (CPI, 2011/12 = 100) [4]**



Rolling lockdowns across the country necessitated another series of rescue packages. These packages enabled providers to waive ‘gap fees’ and still receive the subsidy component of the Child Care Subsidy. Eligibility rules changed several times based on the location of the service and the reduction in the number of children attending a centre.

The impact of the pandemic overshadowed other policy developments in the early learning sector. The past three years have been the first full parliamentary term of the new childcare system, introduced in July 2018 following an extended period of consultation and design led by the Productivity Commission. Audits found the implementation and governance of the package by the Department of Education to be “largely effective” [8]. But there is more conjecture about the package’s ability to deliver affordable, accessible, high quality early childhood education and care [9]. The evaluation of the package noted tensions between the role of childcare as an enabler of workforce participation along with its other roles “in child development and as an instrument to address disadvantage” [5].

After a series of annual extensions, the Australian government also committed to longer-term funding of preschools in the 2021-22 Budget. The funding is contingent on state and territory governments agreeing to a “robust reform timeline” [10], aimed at increasing children’s attendance and school-readiness.

# What are the major issues?

## Costs of childcare

The most prominent issue in the early learning sector is the cost of services under the Child Care Subsidy. Providers set their own fees and government provides a subsidy based on family income. The Child Care Subsidy is means tested so that families who earn less receive a greater subsidy.

**Table 1: Factors affecting family childcare costs**

<b>Usage</b>	Using more days of childcare will increase costs.
<b>Type of service</b>	Centre based day care can be more expensive than other forms of childcare, such as family day care. Outside of school hours care is the cheapest.
<b>Income</b>	Families receive subsidies based on income so families who earn more have higher out of pocket expenses.
<b>Location</b>	Some services charge higher fees, especially those in more advantaged areas.
<b>Number of children</b>	More children in childcare increases the cost – an issue somewhat mitigated by the new subsidy arrangements.
<b>Activity</b>	The amount of subsidised childcare depends on how parents and carers meet certain activity tests, like working or volunteering.

Childcare costs vary enormously depending on use, family income, number of children, type of service and location. These variations combined with opaque data mean it can be difficult to represent the costs of childcare.

The Australian government highlights that the introduction of the new Child Care Subsidy system in 2018 brought down out-of-pocket costs. Overall, the evidence suggests that it has largely done so, and the new package has also redistributed the subsidies in favour of families who earn less. But the reduction in out-of-pocket costs seems to have been temporary and not enough to quell concerns about overall costs [4, 5, 9].

Median out-of-pocket expenses have fallen from \$2,957 to a still significant \$2,507 per annum with the introduction of the new package [5]. Mean costs are much higher

than the median, at \$4,394 per family, an indication of the very high costs on some families who use childcare more [5].<sup>1</sup>

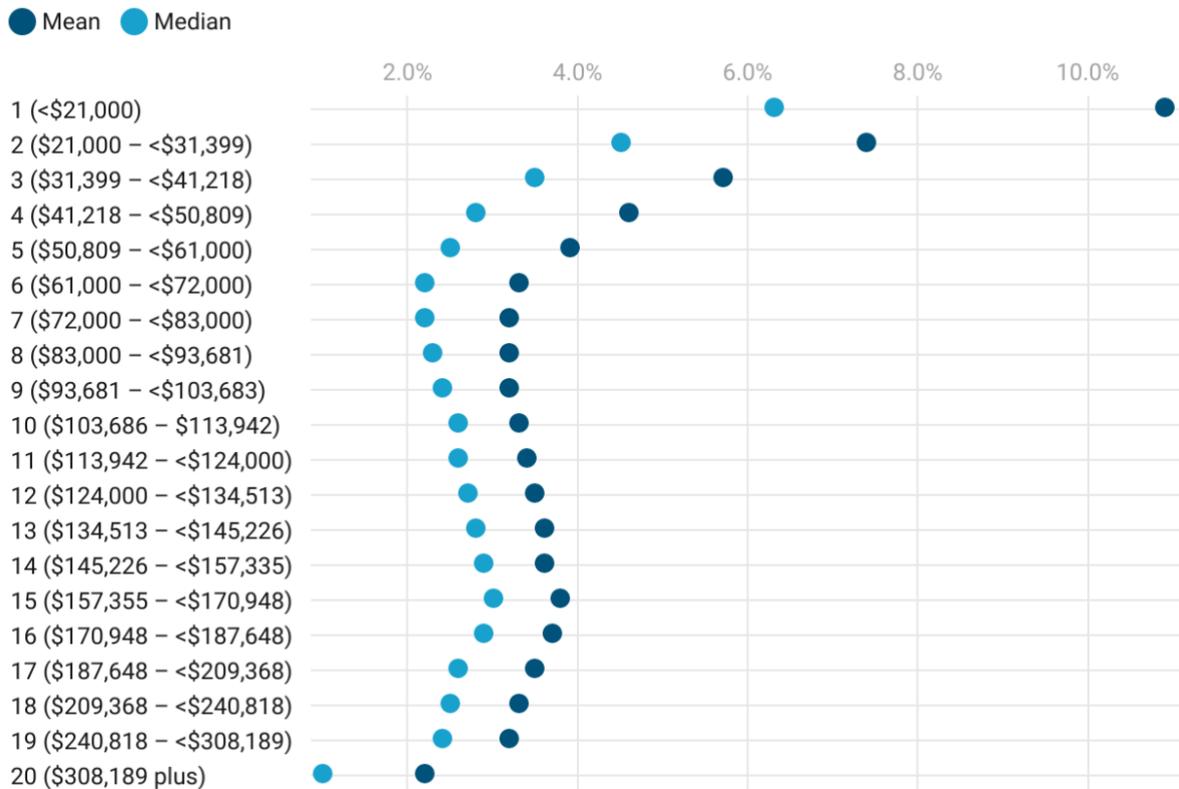
Mitchell Institute analysis of out-of-pocket expenses data tabled at Senate Estimates suggests that the average cost for the first child using centre-based day care, based on the average of 30 hours per week, is about \$5,000 per year [11]. This is more than the average fees for a non-government primary school.

This impact on the family budget can be enormous. Administrative data shows childcare costs are a significant proportion of family gross income, a proportion that will increase when considering family disposable (after tax) income.

<sup>1</sup> This data does not take into account changes to the Child Care Subsidy that took effect in 2022. These changes will alter mean and median costs as greater subsidies are now provided to families with more than one non-school aged child in childcare.

**Figure 4: Childcare costs can be a significant part of family incomes [5]**

Net child care costs as a percentage of gross family income by family gross income vigintile



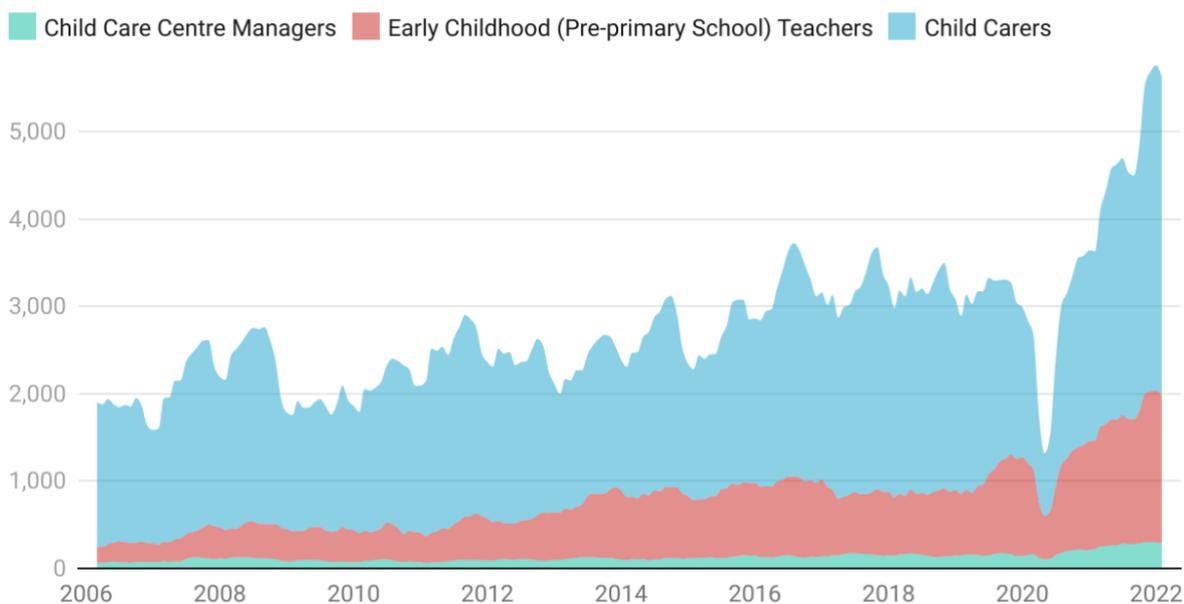
### Workforce issues

Like aged care, problems with low pay and staff retention plague the early learning sector. Attracting staff to the sector is increasingly difficult. The Australian government highlights its JobTrainer package, aimed at providing low cost or free vocational education and training, as evidence of investment in the 'skills pipeline' to ensure new childcare workers are entering the system. However, NCVER data shows that government funded full time equivalent enrolments in childcare related qualifications, while up from 2020, are at roughly pre-pandemic levels [12]. The wider issues of staff leaving the sector to work in better paid positions, such as at preschool or in the school sector, remain.

As Figure 5 shows, internet vacancies for childcare related occupations are well above historical levels.

**Figure 5: Vacancies in childcare occupations are at a record high [2]**

3 month average of internet vacancies



## Access

Geographic access is another major issue in the early learning sector. Recent Mitchell Institute analysis of centre-based day care shows that large portions of Australia suffer from lower levels of access to early learning services. About 35% of Australians live in regions classified as a 'childcare desert', where more than three children aged four and under are vying for every childcare spot.

There is less central planning of the location of childcare services compared to other parts of the education system. Providers choose where to operate and the government emphasises providing market information and encouraging demand through the subsidy arrangements. Mitchell Institute analysis shows this can result in less provision in more disadvantaged suburbs and more providers in more advantaged suburbs where they can charge higher fees.

Issues with accessing childcare are most acute in rural and regional areas. Of the 1.1 million Australians with no access to centre-based day care within a twenty-minute drive, almost all of these are outside Australia's major cities.

## Workforce participation

One of the many roles of ECEC is to support parental workforce participation, particularly for women. Affordable, flexible and accessible childcare increases the financial returns from employment for families and governments. Employment is also a key component of activity tests that enable families to access the Child Care Subsidy.

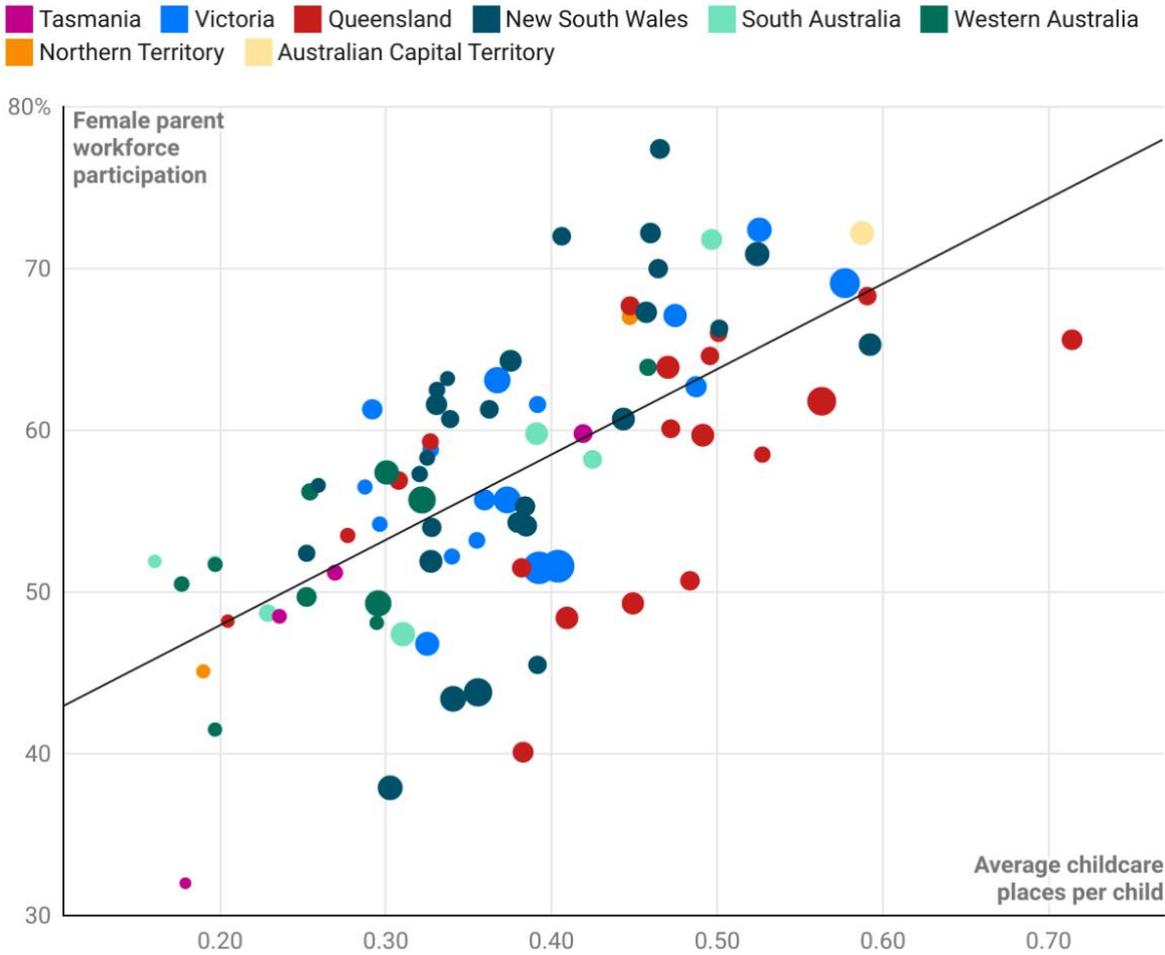
A key issue in ECEC has been the disincentives for parents to work because of the interplay with subsidies. Grattan Institute research highlighted how decreases in subsidy rates caused by earning more discouraged some parents from working extra hours [13]. Research by

Victoria University’s Centre for Policy Studies found that investment in childcare “almost pays for itself” because of the increase in tax revenue [14].

Research from the Mitchell Institute highlights the link between female workforce participation and the availability of childcare. Figure 6 shows the number of children per place, along with the workforce participation rate of mothers with children under the age of five years. This figure highlights how regions with greater access to childcare also have higher levels of workforce participation.

**Figure 6: Areas (SA4) with more childcare supply also have higher levels of mothers in the workforce**

Average number of centre based day care places per child and workforce participation rate of mothers with children aged under 5 years



The reasons for this correlation are complex. Greater levels of supply will be a response to more demand from working parents. But it is also possible that an inability to easily access childcare will affect decisions to participate in the workforce, particularly in regions with lower levels of supply.

## What are the parties offering?

The Coalition’s signature early learning policy involves a substantial increase in the subsidy families receive for the second non-school age child in childcare. This policy was announced in the 2021-21 Budget for an implementation date of July 2022, and then re-announced when the implementation date was brought forward to March 2022. Estimates from the Parliamentary Library show the extra subsidy will apply to about 250,000 of the 1.3 million families using childcare annually [15].

Labor is also offering higher subsidies. For the first child, their policy includes a 90% subsidy that declines by 1% for every \$5,000 a family earns over \$80,000. To ensure that no family will have higher costs under a Labor policy, Labor have also adopted the Coalition’s policy for higher subsidy rates for the second and subsequent child. Unlike the Coalition policy, the extra subsidy is also available for school aged children using outside school hours care. Labor claims that 96% of families will be better off under their policy than the current arrangements. Labor’s proposed changes to subsidies would be implemented in July 2023 [16].

The Greens’ education policy involves free education and for childcare this means covering 100% of the subsidy.

**Figure 7: All parties are offering subsidy increases compared to the last election**



Of the two major parties, Labor is offering the possibility of the most reform outside of subsidies. Labor is proposing a Productivity Commission review to implement a universal 90 per cent Child Care Subsidy for all families, a price regulation mechanism relating to childcare

costs and increased transparency of fee and revenue information from providers. But it is unclear how substantial this reform might be, and whether it would involve the possibility of moving away from the parental subsidy model. Labor have indicated that any outcomes of the proposed review would not be implemented in the next electoral term.

The Coalition is yet to make a commitment to structural reform.

The Greens policy would also require a large structural reform of the sector as they have a policy to phase out for-profit education providers. Currently 50% of childcare services are operated by private for-profit providers [17]. The Greens are also promising to extend universal preschool to children aged three and four years for 24 hours per week, and offering \$200 million to community and not-for-profit centres to increase licensed places [16].

## **Where are the electorates most affected by early childhood education and care issues?**

Perhaps it is the numbers that show why early childhood education and care is such a prominent election issue - there are more than 1.3 million families who use the Child Care Subsidy services every year and hundreds of thousands more who have children enrolled at preschool.

On average about 6,600 families use CCS in each electorate every quarter.<sup>2</sup>

Mitchell Institute analysis shows that the big issues in early learning will affect electorates differently.

For instance, difficulty in access is most prominent in regional and rural areas. Tasmania has the marginal electorates where issues relating to access are most acute. The electorates of Braddon and Bass – both Liberal held marginal seats – have some of the lowest levels of childcare accessibility in the country.

Areas with expensive childcare are more commonly found in Liberal held inner-suburban electorates. The electorates with the highest median childcare fees per hour are Wentworth and North Sydney in New South Wales, and Higgins and Goldstein in Victoria. These electorates are the subject of challenges from the ‘teal’ independents.

Data from the Australian Early Development Census (AEDC) reveals issues with a different set of electorates when examining child development. The AEDC measures the progress of children in the first year of school, and highlights the number and location of children starting school developmentally vulnerable in one or more domain. Mapping this data shows that outer suburban and remote electorates with disadvantaged populations have the largest proportion of children starting school developmentally vulnerable.

Appendix 1 of this document shows the three electorates in each state that rank the worst in terms of access, cost and child vulnerability.

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<sup>2</sup> There are variations in the reported number of families and children using Child Care Subsidy services depending on whether the data captures quarterly participation or annual participation. The Child Care Subsidy data used for the mapping in this report utilises quarterly information.

## **What are the likely battlegrounds?**

Labor has made 'care' (aged care, healthcare and childcare) a central component of its election campaign and the early learning sector is crucial to this focus. Cost of living pressures dominate the current political debate, and the affordability component of 'care' is where major parties will be attempting to establish their credentials.

As evidence of their support of the sector, the Coalition will likely use their signature policy of greater subsidies for families with more than one non-school aged child in childcare. However, because this policy has already been implemented, according to the Parliamentary Library covers about 20% of families using CCS services [15], and announced anew twice in the past twelve months, it is not clear how effective this will be.

Labor will highlight that their plan will improve affordability for many more families compared to the Coalition's policy. Because of the recent change to Labor policy to keep the higher subsidy rates for second and subsequent children, they can also claim that no family will be worse off. In perhaps a reversal of normal positions, there has already been criticism from the Coalition that Labor's policies give subsidies to the wealthiest Australian families [18].

The Greens plan for free childcare is the easiest to understand, even if it is unclear how it will be funded or achieved. The plan to stop funding for-profit providers may also have some traction considering the recent media on the wealth of for-profit childcare providers [19].

The focus on affordability can crowd out other issues in the sector. Difficulty in accessing childcare is a very important topic for non-metropolitan regions and the major parties are unclear about their responses. Issues relating to variations in access by location may be covered by Labor's Productivity Commission review. The Coalition is highlighting the funding of twenty regional childcare centres, a number too small to have a major nationwide impact on regional childcare availability, though likely to be very important to those regions who secure funding.

The debates about early childhood education and care are emblematic of wider issues about women, care, wages, and cost of living pressures. Unlike the higher education and vocational education and training sectors, there are much greater differences between parties. The complexity of the early learning systems leaves plenty of room for disputes to flare about who is best placed to deliver promises.

## Appendix 1

Access: Electorates with the lowest levels of access by state (1 is lowest access)

Rank	Electorate	Margin	Children per place
<b>New South Wales</b>			
1	New England	NAT 14.4% vs IND	3.96
2	Page	NAT 9.5%	3.81
3	Chifley	ALP 12.4%	3.68
<b>Victoria</b>			
1	Casey	LIB 4.6%	3.88
2	Gippsland	NAT 16.7%	3.49
3	Calwell	ALP 19.6%	3.42
<b>Queensland</b>			
1	Flynn	LNP 8.7%	4.25
2	Kennedy	KAP 13.3% vs LNP	3.66
3	Maranoa	LNP 22.5% vs ON	3.37
<b>South Australia</b>			
1	Grey	LIB 13.3%	6.09
2	Barker	LIB 18.9%	4.19
3	Spence	ALP 14.1%	3.78
<b>Western Australia</b>			
1	O'Connor	LIB 15.4%	5.21
2	Durack	LIB 13.5%	4.76
3	Hasluck	LIB 5.9%	4.07
<b>Tasmania</b>			
1	Lyons	ALP 5.2%	5.94
2	Braddon	LIB 3.1%	4.04
3	Bass	LIB 0.4%	3.32
<b>Northern Territory</b>			
1	Lingiari	ALP 5.5%	4.26
2	Solomon	ALP 3.1%	2.24
<b>Australian Capital Territory</b>			
1	Fenner	ALP 10.6%	2.24
2	Bean	ALP 7.5%	2.17
3	Canberra	ALP 17.1%	1.26

**Cost: Electorates with highest childcare fees by state (1 is most expensive)**

Rank	Electorate	Margin	Median fee per hour
<b>New South Wales</b>			
1	Wentworth	LIB 1.3% vs IND	\$ 14.45
2	North Sydney	LIB 9.3%	\$ 13.80
3	Bradfield	LIB 16.6%	\$ 13.40
<b>Victoria</b>			
1	Higgins	LIB 3.7%	\$ 12.95
2	Goldstein	LIB 7.8%	\$ 12.75
3	Macnamara	ALP 6.1%	\$ 12.75
<b>Queensland</b>			
1	Griffith	ALP 2.9%	\$ 11.25
2	Brisbane	LNP 4.9%	\$ 11.10
3	Ryan	LNP 6.0%	\$ 10.75
<b>South Australia</b>			
1	Sturt	LIB 6.9%	\$ 11.15
2	Boothby	LIB 1.4%	\$ 11.05
3	Adelaide	ALP 8.2%	\$ 11.05
<b>Western Australia</b>			
1	Curtin	LIB 13.9%	\$ 12.35
2	Perth	ALP 3.2%	\$ 11.70
3	Tangney	LIB 9.5%	\$ 11.60
<b>Tasmania</b>			
1	Bass	LIB 0.4%	\$ 10.25
2	Clark	IND 22.1% vs ALP	\$ 10.00
3	Braddon	LIB 3.1%	\$ 9.75
<b>Northern Territory</b>			
1	Solomon	ALP 3.1%	\$ 10.00
2	Lingiari	ALP 5.5%	\$ 6.95
<b>Australian Capital Territory</b>			
1	Canberra	ALP 17.1%	\$ 12.25
2	Fenner	ALP 10.6%	\$ 12.00
3	Bean	ALP 7.5%	\$ 11.85

**Child vulnerability: Electorates with the highest proportion of children starting school developmentally vulnerable in one or more domain by state (1 is most vulnerable)**

Rank	Electorate	Margin	Children developmentally vulnerable (%)
<b>New South Wales</b>			
1	Fowler	ALP 14.0%	32.0%
2	Chifley	ALP 12.4%	28.5%
3	Parkes	NAT 16.9%	28.4%
<b>Victoria</b>			
1	Calwell	ALP 19.6%	32.0%
2	Gippsland	NAT 16.7%	26.8%
3	Fraser	ALP 18.1%	26.1%
<b>Queensland</b>			
1	Kennedy	KAP 13.3% vs LNP	31.5%
2	Hinkler	LNP 14.5%	31.3%
3	Herbert	LNP 8.4%	30.7%
<b>South Australia</b>			
1	Spence	ALP 14.1%	32.0%
2	Grey	LIB 13.3%	28.9%
3	Barker	LIB 18.9%	26.6%
<b>Western Australia</b>			
1	Durack	LIB 13.5%	28.1%
2	Brand	ALP 6.7%	26.5%
3	Burt	ALP 5.5%	26.2%
<b>Tasmania</b>			
1	Lyons	ALP 5.2%	26.9%
2	Braddon	LIB 3.1%	25.0%
3	Bass	LIB 0.4%	23.9%
<b>Northern Territory</b>			
1	Lingiari	ALP 5.5%	46.1%
2	Solomon	ALP 3.1%	29.9%
<b>Australian Capital Territory</b>			
1	Fenner	ALP 10.6%	27.8%
2	Bean	ALP 7.5%	26.7%
3	Canberra	ALP 17.1%	25.0%

## 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.

## About this document

This document aims to provide a concise overview of the major policy issues in the 2022 Australian federal election. It is a part of a series outlining policy issues across the education sector.

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## Suggested citation

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