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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 benefit from these services, supporting a healthier, fairer and more productive society.

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Cover image

Cover image by Luis Arias via Unsplash.
Introduction

The reality of family and work life has changed substantially over the past three decades, and many argue that despite significant reform, our early childhood education and care (ECEC) system is not adequately supporting children and parents to thrive and fully engage in life.

Since the 1980s, women’s employment rates in Australia have increased dramatically – from around 50 to nearly 70 per cent (Australian Bureau of Statistics, 2001 & 2020). Since 2000, the proportion of children aged 0 to 5 years attending childcare has increased from around 30 to 45 per cent, with participation rates up to 64 per cent for three-year-olds (Productivity Commission, 2001 & 2021).

Despite government subsidies that meet up to 85 per cent of childcare costs, depending on a family’s economic circumstances, childcare is still a significant cost for many families. While means-tested subsidies have reduced costs for the most disadvantaged families, they can be crippling for many.

In many cases, this results in parents – often women – deciding not to work, or working fewer hours than they would like to (Woods, Griffiths & Crowley, 2021). In some cases, it results in parents deciding not to use early childhood education and care services, meaning children are not benefitting from the developmental benefits of early learning.

But exactly how much parents spend, how this compares with other major household expenditure, and how much is too much, are all open questions. Too often, these questions are being answered with anecdotal evidence and inadequate data that does not cover the breadth of family circumstances, is outdated, or provides limited insight into the problem.

This paper reviews available data on expenditure and affordability, and presents new analysis of household expenditure data to understand how much Australian families are spending on early childhood education and care, as a proportion of their disposable income.

In the US, affordability of childcare for low-middle income households is determined by a benchmark of no more than seven per cent of family disposable weekly income. Our analysis finds that around 40 per cent of Australian families are spending more than the seven per cent threshold of their disposable weekly income on early education and care expenses. Our analysis suggests that for about 386,000 Australian families, childcare is unaffordable.

While low and medium income families receive the greatest subsidies, these families can afford the costs the least because of their lower household disposable incomes.

The evidence is overwhelming that good quality early childhood education and care delivers huge benefits to families, to society and to the economy. However, with childcare remaining unaffordable to so many, Australia is unable to fully capitalise on the benefits that good quality childcare brings.
Key Points

- When measuring affordability of early childhood education and care, it is important to consider expenses in relation to total household disposable income.
- When using an international affordability benchmark of no more than 7% of household disposable income spent on childcare, early childhood education and care is unaffordable for about 386,000 families, or 39% of all families who use the childcare system.
- While the Australian Government provides greater support to families who earn less, these are the families who can afford childcare the least because of their lower household disposable incomes.
- Modelling of the impact of changes to subsidy rates announced by the Australian Government in May 2021 shows that childcare affordability will improve for many families with two or more children who are not yet at school. However, when using an international affordability benchmark of no more than 7% of household disposable income spent on childcare, early childhood education and care would still be unaffordable for about 336,000 families, or 34% of all families with childcare expenses.
- Australia should establish ways to measure childcare affordability that take into account the cost of childcare as part of household budgets.
How is ‘affordable’ defined and measured?

In Australia, there is no standard measure of childcare affordability. However, it is possible to explore metrics of affordability for other types of household expenditure and stress. Looking at other areas of expenditure is useful for two reasons. Firstly, it can set a benchmark for what expenditure items might be considered significant to merit substantial research on affordability. The second benefit relates to the methodologies themselves, which are readily available and could be assessed and potentially adapted to better understand childcare affordability.

One area of expenditure that has been thoroughly examined is energy affordability. The Australian Energy Regulator (AER) examines income, electricity usage and retailer offers to provide an overall picture of changes to electricity affordability for households. It looks at prices and household usage, compared with concessions, retailer offers and household income. AER found that in 2019, low-income households spent between 4.8 per cent and 7.6 per cent of disposable income on electricity. By comparison, average income households spent between 2.6 per cent and 3.9 per cent (AER, 2019).

Another well-examined area is rent and mortgage stress. Housing affordability is expressed as the ratio of housing costs to gross household income (AIHW, 2020). Housing costs include rent payments, rate payments, and mortgage payments. Lower-income households (in the bottom 40 per cent of Australia’s income distribution) are likely to experience housing stress if they spend more than 30 per cent of their gross income on housing costs. This is referred to as the 30/40 indicator and can be measured against gross or equivalised disposable household income (Australian Housing and Urban Research Institute, 2019).

Compared with housing and energy costs, childcare affordability has been less well explored in Australia, despite childcare being a significant household cost for many families. No affordability threshold or range is currently used as it has been for other categories of household expenditure. As a result, discussion on what is affordable and what is not lacks clear parameters and so it tends to be defined very differently, or not at all.

It is possible to explore the relative impact of childcare costs on the household budget using information from the Household, Income and Labour Dynamics in Australia (HILDA) survey. The HILDA survey is completed each year and surveys about 17,000 individuals and over 7,600 households (Summerfield et al., 2020). The HILDA survey contains detailed data on household income and expenses, such as childcare. Of the more than 7,600 households surveyed, approximately 1,000 have recorded childcare expenses.
Figure 1 below compares early childhood education and care expenses with two important areas of the household budget. These two areas are annual household expenses on utilities such as electricity and gas bills, and groceries.
**Figure 1: Percentage of families with annual ECEC expenses above household expenditure on clothing, utilities, transport and groceries**

<table>
<thead>
<tr>
<th>Expenses Compared</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spend more on childcare than clothing (for all members of household)</td>
<td>83.3%</td>
</tr>
<tr>
<td>Spend more on childcare than utilities</td>
<td>83.1%</td>
</tr>
<tr>
<td>Spend more on childcare than transport (fuel, public transport and vehicle maintenance)</td>
<td>69.9%</td>
</tr>
<tr>
<td>Spend more on childcare than groceries</td>
<td>30.6%</td>
</tr>
</tbody>
</table>

**Source:** DSS, 2020. Note: percentage of families with recorded childcare expenses in HILDA survey. Childcare expenses include formal and informal childcare and preschool.

This figure shows that, of all families with recorded household expenditure on childcare, about 83% are spending more on early childhood education and care than they are on utilities or clothing, 70% are spending more on early childhood education and care than transport, and about 31% are spending more on early childhood education and care than they are on groceries.

Using the population weights contained in the HILDA survey, this suggests that about 815,000 families are spending more on early childhood education and care than they are on utilities or clothing, 685,000 families are spending more on early childhood education and care than transport, and about 300,000 Australian families spend more on early childhood education and care than on groceries.

This figure helps demonstrate the significant impact of childcare expenses on household budgets. However, despite this significance, commonly accepted benchmarks for childcare affordability are missing in Australia.

Internationally, there are examples of benchmarks and measures to measure childcare affordability. Once such example is the US, which has established an affordability benchmark for childcare, originally set at ten per cent of a family’s income, and subsequently revised to seven per cent. This benchmark is not included in legislation but is in the preamble to the rules, thereby carrying substantial weight (US Department of Health and Human Services, 2016). Organisations advocating for children, women and families have undertaken community- and state-level analysis on childcare costs against this benchmark, including using methods recognising that affordability is highly contingent on family income (Azuma et al, 2020).

The benchmark of no more than 7 per cent of disposable income spent on childcare provides a useful measure to explore affordability in Australia. Further analysis in this paper will use available data sources to determine how expenditure on childcare by Australian families compares with this 7 per cent benchmark.
How much do Australian families spend on childcare?

Understanding how much Australian families spend on childcare is complicated by several factors. One important factor is that childcare usage varies by family. Families who use childcare more regularly will generally have higher expenses than those who use childcare less frequently. Another factor is income. Those families who earn less generally receive more in government subsidies. Childcare providers also set their own fees, which means that costs to families often vary by location.

The most up-to-date data on childcare expenses is published quarterly by the Australian Government. This data is useful, but somewhat limited when it comes to assessing spending on childcare by families. One limitation is the focus on average use, which obscures higher levels of usage by many families. For instance, in December 2020 the average weekly hours for one child in childcare was 24.8 hours (DESE, 2021). However, many families use childcare much more than the average.

For instance, a standard full time week is 50 hours at childcare and most centres charge families for 50 weeks per year. The annual cost for families who use childcare in such a manner is high. For instance, for a family on a combined income of $170,000 with two children in childcare 50 hours per week, the annual out of pocket expenses would be up to $26,000 (Hurley et al, 2020). These costs as a proportion of household disposable income are likely to be a source of economic stress to many families.

One final factor in assessing costs to families is variation in costs over time. Childcare costs have fluctuated over the past decade, particularly in response to the introduction of the Child Care Subsidy (CCS) in 2018. Median hourly expenditure on formal child care for children not yet at school rose in real terms fairly consistently between 2002 and 2017, but declined in 2018 (Wilkins et al, 2020). The decline between 2017 and 2018 was considerably larger for single parents, falling by 18.2%, compared with 4.1% for couple parents.

However, there are indications that improvements in affordability following introduction of the CCS may be short-lived. Since the 1990s, we have seen a pattern of reform resulting in reduced costs to families, followed by a steady increase in costs, and further reform to address affordability and fairness (Baxter et al, 2019: 13).

To explore this change, Table 1 shows changes in the consumer price index (CPI) for childcare expenses published by the ABS. This table shows data from March 2015 to March 2021 and helps understanding of changes to the price of childcare over the past five years.
Table 1: Consumer Price Index (CPI) for childcare across capital cities and Australia, March 2015 to March 2021

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Sydney</th>
<th>Melbourne</th>
<th>Brisbane</th>
<th>Adelaide</th>
<th>Perth</th>
<th>Hobart</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar-2015</td>
<td>125.6</td>
<td>135.1</td>
<td>128.9</td>
<td>125.2</td>
<td>128.3</td>
<td>128.2</td>
<td>128.6</td>
</tr>
<tr>
<td>Jun-2015</td>
<td>126.9</td>
<td>135.9</td>
<td>129.2</td>
<td>125.5</td>
<td>129.3</td>
<td>128.5</td>
<td>129.5</td>
</tr>
<tr>
<td>Sep-2015</td>
<td>130.2</td>
<td>141.4</td>
<td>135.9</td>
<td>135.3</td>
<td>137.7</td>
<td>131.6</td>
<td>134.7</td>
</tr>
<tr>
<td>Dec-2015</td>
<td>130.5</td>
<td>141.7</td>
<td>136.3</td>
<td>135.7</td>
<td>138.0</td>
<td>132.0</td>
<td>135.0</td>
</tr>
<tr>
<td>Mar-2016</td>
<td>135.0</td>
<td>146.6</td>
<td>138.8</td>
<td>144.0</td>
<td>140.6</td>
<td>133.6</td>
<td>139.3</td>
</tr>
<tr>
<td>Jun-2016</td>
<td>135.4</td>
<td>147.9</td>
<td>141.5</td>
<td>145.9</td>
<td>141.0</td>
<td>134.0</td>
<td>140.4</td>
</tr>
<tr>
<td>Sep-2016</td>
<td>140.2</td>
<td>150.9</td>
<td>147.5</td>
<td>150.2</td>
<td>149.2</td>
<td>136.1</td>
<td>145.4</td>
</tr>
<tr>
<td>Dec-2016</td>
<td>140.5</td>
<td>152.2</td>
<td>148.2</td>
<td>151.6</td>
<td>149.6</td>
<td>136.7</td>
<td>146.0</td>
</tr>
<tr>
<td>Mar-2017</td>
<td>141.1</td>
<td>156.0</td>
<td>149.8</td>
<td>152.9</td>
<td>150.4</td>
<td>139.4</td>
<td>147.7</td>
</tr>
<tr>
<td>Jun-2017</td>
<td>143.4</td>
<td>156.4</td>
<td>150.3</td>
<td>155.0</td>
<td>150.7</td>
<td>141.1</td>
<td>149.0</td>
</tr>
<tr>
<td>Sep-2017</td>
<td>145.8</td>
<td>159.8</td>
<td>156.9</td>
<td>155.3</td>
<td>155.6</td>
<td>144.5</td>
<td>152.3</td>
</tr>
<tr>
<td>Dec-2017</td>
<td>147.8</td>
<td>160.9</td>
<td>157.6</td>
<td>160.2</td>
<td>156.9</td>
<td>144.1</td>
<td>153.9</td>
</tr>
<tr>
<td>Mar-2018</td>
<td>149.8</td>
<td>165.5</td>
<td>158.4</td>
<td>160.6</td>
<td>159.8</td>
<td>147.6</td>
<td>156.4</td>
</tr>
<tr>
<td>Jun-2018</td>
<td>151.7</td>
<td>166.2</td>
<td>160.1</td>
<td>161.3</td>
<td>161.1</td>
<td>148.4</td>
<td>157.9</td>
</tr>
<tr>
<td>Sep-2018</td>
<td>140.1</td>
<td>134.4</td>
<td>144.6</td>
<td>140.7</td>
<td>142.5</td>
<td>131.5</td>
<td>139.3</td>
</tr>
<tr>
<td>Dec-2018</td>
<td>140.8</td>
<td>135.5</td>
<td>151.0</td>
<td>142.5</td>
<td>145.0</td>
<td>132.5</td>
<td>141.2</td>
</tr>
<tr>
<td>Mar-2019</td>
<td>142.0</td>
<td>140.7</td>
<td>153.6</td>
<td>144.6</td>
<td>147.3</td>
<td>133.3</td>
<td>143.9</td>
</tr>
<tr>
<td>Jun-2019</td>
<td>142.9</td>
<td>144.4</td>
<td>154.2</td>
<td>146.6</td>
<td>148.4</td>
<td>133.8</td>
<td>145.4</td>
</tr>
<tr>
<td>Sep-2019</td>
<td>145.3</td>
<td>149.4</td>
<td>158.2</td>
<td>148.3</td>
<td>153.0</td>
<td>136.5</td>
<td>149.0</td>
</tr>
<tr>
<td>Dec-2019</td>
<td>148.3</td>
<td>151.1</td>
<td>160.6</td>
<td>150.1</td>
<td>154.4</td>
<td>138.5</td>
<td>151.3</td>
</tr>
<tr>
<td>Mar-2020</td>
<td>149.3</td>
<td>153.3</td>
<td>161.7</td>
<td>151.5</td>
<td>156.3</td>
<td>140.5</td>
<td>152.8</td>
</tr>
<tr>
<td>Jun-2020</td>
<td>7.5</td>
<td>7.7</td>
<td>8.1</td>
<td>7.6</td>
<td>7.8</td>
<td>7.0</td>
<td>7.6</td>
</tr>
<tr>
<td>Sep-2020</td>
<td>129.0</td>
<td>49.7</td>
<td>138.5</td>
<td>133.1</td>
<td>137.4</td>
<td>123.4</td>
<td>112.6</td>
</tr>
<tr>
<td>Dec-2020</td>
<td>152.3</td>
<td>153.4</td>
<td>165.3</td>
<td>153.4</td>
<td>157.9</td>
<td>142.1</td>
<td>155.0</td>
</tr>
<tr>
<td>Mar-2021</td>
<td>157.6</td>
<td>154.5</td>
<td>168.4</td>
<td>154.5</td>
<td>159.4</td>
<td>143.6</td>
<td>158.4</td>
</tr>
</tbody>
</table>

Source: (ABS, 2021)

This table shows that the price of childcare fell after the introduction of the CCS in 2018. It also fell dramatically in June 2020 when the Australian Government introduced free childcare in response to the coronavirus pandemic. However, outside of these important changes, this table suggests that childcare care costs have continued to rise steadily.
What proportion of families’ income is spent on childcare?

The following analysis looks at three key sources to assist in understanding how much families spend on childcare as a proportion of their household income. The first source is Productivity Commission reports on annual out of pocket costs on childcare, with the most recent data referring to 2020. The second source is OECD reports on net childcare costs for all OECD countries. The third source is data from the HILDA survey, published in 2020.

The Productivity Commission reports on average out of pocket costs as a proportion of household disposable income for families with selected incomes based on the use of part-time childcare (30 hours - typically three days - per week) for one child. This percentage would double for a family with two children in part time care. Table 2 below shows the results based on the Productivity Commissions analysis.

Table 2: Out of pocket costs for families with one child in 30 hours child care, as a proportion of weekly disposable income, 2020

<table>
<thead>
<tr>
<th>Gross annual family income</th>
<th>$35,000</th>
<th>$95,000</th>
<th>$155,000</th>
<th>$215,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of children</td>
<td>One</td>
<td>Two</td>
<td>One</td>
<td>Two</td>
</tr>
<tr>
<td>2020</td>
<td>4.7</td>
<td>9.4</td>
<td>4.6</td>
<td>9.2</td>
</tr>
<tr>
<td>2019</td>
<td>4.5</td>
<td>9.0</td>
<td>4.6</td>
<td>9.2</td>
</tr>
<tr>
<td>2018</td>
<td>7.9</td>
<td>15.8</td>
<td>6.8</td>
<td>13.6</td>
</tr>
<tr>
<td>2017</td>
<td>7.5</td>
<td>15.1</td>
<td>6.6</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Source: Productivity Commission, 2020. Note that family income brackets are for gross family income, while proportions are calculated as a proportion of disposable income.

Table 2 above shows that average out of pocket costs fell as a proportion of family disposable income for many income groups, especially from 2018 and 2019. This was when the Australian Government introduced the CCS, and suggests that the CCS has resulted in improved affordability for families on lower incomes over the past four years, with costs remaining steady or increasing for middle-high income families.

OECD data provides more data on family expenditure, looking at the proportion of household disposable income low-middle income families spend to have two children in full time childcare. The main drawback of OECD data is that it lags behind the release of national data and indicators can be based on data that is several years old. It is useful, however, to compare with other data points, and because it focuses on higher level costs for lower income families, rather than averages.

The OECD data shows that following a peak of household expenditure in 2018, which included six months each of pre- and post-CCS, the proportion of household income spent on childcare has dropped from a high of 20-25 per cent to 14-18 per cent for families on low
and middle incomes. Table 3 displays net childcare costs for working parents with children in full time childcare, as a proportion of family income.

**Table 3: Net childcare costs for working parents with children in full-time childcare, as a proportion of household income**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Couple with two children, both earning average wage</td>
<td>17%</td>
<td>16%</td>
<td>20%</td>
<td>25%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Couple with two children, earning 67% of average wage</td>
<td>15%</td>
<td>14%</td>
<td>16%</td>
<td>22%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Couple with two children, earning minimum wage</td>
<td>15%</td>
<td>14%</td>
<td>16%</td>
<td>20%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Single parent earning 67% of average wage with two children</td>
<td>14%</td>
<td>15%</td>
<td>18%</td>
<td>22%</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>

**Source:** OECD, 2021.

Table 3 shows a similar trend for low-middle income families that appears in the Productivity Commission data. This data suggests that the means-tested element of the CCS seem to be working relatively well when it comes to the policy objective of increasing affordability for the most disadvantaged families. Nonetheless, many average income families with two children are spending up to 19 per cent of their household income on childcare.

HILDA data also shows that the means-tested element of the CCS results in families who earn less having lower out of pocket expenses.

Figure 2 uses HILDA data to examine the median annual out of pocket expenses on early childhood education and care by gross annual household income.²

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¹ While this appears to be the case, the impact of the CCS has not been sufficiently evaluated to conclusively demonstrate this. The Australian Institute for Family Studies (AIFS) was contracted to evaluate this reform, but data collection in 2020 was ceased due to COVID-19 related restrictions and AIFS was asked to conclude the evaluation without 2020 data.

² Variables used in this analysis are: hifditp DV: Household financial year disposable total income ($) [imputed] Positive values [weighted topcode], ccactci DV: Annual child care total cost ($) [estimated], hhwth DV: Household population weight, hifetp DV: Household financial year gross total income ($) [imputed] Positive values [weighted topcode]
Figure 2: Median annual out of pocket early childhood education and care expenses by gross annual household income

Source: DSS, 2020. Note: Childcare expenses include household expenses for formal and informal childcare and preschool.

This figure shows that the lower the household income, the lower the median out of pocket childcare costs. For instance, families in households with a gross income of less than $70,000 per year pay a median of $2,880 each year in childcare costs.

By contrast, families with a gross household income over $200,000 per year pay a median of $8,000 in childcare costs.

However, as discussed previously, it is important to contextualise out of pocket costs in terms of its impact on the household budget. To do this, Figure 3 uses HILDA data to show out of pocket expenses on childcare as a proportion of household annual disposable income. This figure displays the number of households, using the population weights provided in HILDA. This enables a better understanding of the number of families with different out of pocket childcare costs. This figure also highlights the number of households exceeding the international affordability benchmark of 7% of household disposable income on childcare in red.
This figure shows there are approximately 386,000 Australian households who currently have expenses above the 7% affordability threshold, or 39.4% of families who use childcare. For many families these costs are significant, with 107,000 households, or 10.9% of households who use childcare, estimated to have childcare expenses that exceed 15% of total household disposable income.

As the childcare subsidy varies by how much a family earns, it is also important to explore childcare affordability by different income groups. Figure 2 shows that lower income families have lower median costs. However, while families who earn less have lower childcare costs, they are also the families who can afford such costs the least.
Figure 4 shows childcare costs as a proportion of annual household disposable income. The figure also highlights the proportion of families exceeding the 7% affordability threshold, which are coloured yellow and red.

**Figure 4: Childcare costs as proportion of annual household disposable income, by household annual gross income**

This figure shows lower and middle income families spend a higher proportion of their household income on childcare compared to higher income families. For instance, about 48% of families with an annual gross household income of less than $70,000 pay more than 7% of their household disposable income on childcare costs. About 43% of families with an annual gross household income between $125,001 and $150,000 pay more than 7% of their disposable income on childcare costs.

By contrast, for families with annual gross total household income of over $200,000, 34% pay more than 7% of their household income on childcare costs.

Our analysis substantiates ongoing analysis by the OECD, and demonstrates that a significant proportion of families on low-middle incomes are spending more than seven per cent of their household income on ECEC, after subsidies are applied.
What is the impact of recent policy announcement on childcare affordability?

In May 2021, the Australian Government announced reforms to the childcare subsidy rates. Starting on 1 July 2022, these reforms will:

- increase the subsidy available to families with more than one child aged five and under in childcare, and
- remove the $10,560 cap on the Child Care Subsidy, for those families with an annual income above $189,930 per year.

The Australian Government states that these reforms will provide more support to approximately 250,000 families. Nearly 1 million families use childcare every year in Australia, which suggests that about 700,000 families will not benefit from these changes.

The main component of these changes is the increase in subsidy rates for families with more than two children in childcare. Under the reforms, for the second and subsequent child in care the subsidy increases by up to 30 percentage points, capped at 95%. Older children using after school care are not eligible for any extra subsidy.

To understand how the number of children in a family affects childcare affordability, Figure 5 uses HILDA data and breaks down the proportion of household disposable income spent on early childhood education and care by the number of children who are not yet at school.

**Figure 5: Proportion of household disposable income spent on early childhood education and care by number of children who are not yet at school**

<table>
<thead>
<tr>
<th>Number of Children Who Are Not Yet at School</th>
<th>0 to 3 per cent</th>
<th>3 to 7 per cent</th>
<th>7 to 15 per cent</th>
<th>Over 15 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than two children who are not yet at school</td>
<td>30%</td>
<td>30%</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>Two or more children who are not yet at school</td>
<td>10%</td>
<td>32%</td>
<td>43%</td>
<td>15%</td>
</tr>
</tbody>
</table>

**Source:** DSS, 2020. Note: Childcare expenses include household expenses for formal and informal childcare and preschool.

Figure 5 shows that 58% of families with two or more children who are not yet at school spend above 7% of their household income on childcare. This compares to 34% of families with fewer than two children who are not yet at school.

Using HILDA data, it is possible to estimate the impact of this policy announcement on childcare affordability for families with more than two children who are not yet at school. To do this, the new subsidy rates were applied to families who were using formal childcare with two or more children who are not yet at school. This analysis involved using household annual gross income to determine the per child cost of childcare before subsidies, and then applying new subsidy rates as outlined by the Australian Government. This analysis does not take into account changes in usage of childcare caused by increased subsidies.

The results of this analysis are shown in Figure 6 below.
Figure 6: Proportion of household disposable income spent on childcare by number of children who are not yet at school using the new subsidy rates announced in May 2021

This figure shows that the new subsidy rates will improve the affordability of childcare for many families with two or more children under the age of five. However, for 36% of families with two or more children who are not yet at school, childcare will remain unaffordable.

In terms of the overall impact of the changes on affordability, the analysis of the HILDA data suggests that the number of families exceeding the 7% affordability threshold will decrease by approximately 50,000. However, this suggests that for about 336,000 Australian families, or about 34% of families who use childcare, it will continue to be unaffordable.
What is the impact of COVID-19 on affordability?

COVID-19 saw huge fluctuations in early childhood education and care attendance rates not only due to lock-downs, but also due to the temporary introduction of free childcare, the re-introduction of fees, and the economic shock experienced within families. In addition to demonstrating the vulnerability of the sector, this experience raised red flags around the issue of affordability for families.

Several data points are helpful in assessing the extent to which financial shocks have affected the ability of families to afford and remain engaged with childcare during this period. The first is Productivity Commission figures on the number of parents and carers in Australia who are not in the workforce and cite childcare service-related reasons as the main factor. In 2020, 98,800 parents were in this position, up slightly from 2019, but lower compared with the previous three years (Productivity Commission, 2021).

Another indicator is usage of the Additional Child Care Subsidy (ACCS), which is available to families experiencing disadvantage for a number of reasons, including transition to work and temporary financial hardship. It demonstrates impact on a small number of families rather than the general population, but is indicative of the number of families struggling to remain engaged in early childhood education and care, and experiencing serious difficulty with affordability.

Table 4 shows the number of children and families accessing the Additional Child Care Subsidy from December 2019 to December 2020.

### Table 4: Number of children and families accessing Additional Child Care Subsidy, December quarter 2019 to December quarter 2020

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of children accessing ACCS due to Temporary Financial Hardship</td>
<td>1,430</td>
<td>5,340</td>
<td>N/A</td>
<td>7,770</td>
<td>9,070</td>
</tr>
<tr>
<td>Number of families accessing ACCS due to Temporary Financial Hardship</td>
<td>970</td>
<td>3,920</td>
<td>N/A</td>
<td>5,500</td>
<td>6,410</td>
</tr>
</tbody>
</table>

**Source:** DESE, 2021. Note: Due to the temporary measures implemented as part of the Australian Government’s ECEC COVID-19 relief package, data for June quarter 2020 is not available.

This table shows a substantial increase in children and families accessing the ACCS due to financial stress. In the December quarter 2020, 9,070 children from 6,410 families accessed ACCS for temporary financial hardship. This was up from 1,430 children from 970 families in the December quarter 2019 (DESE, 2020). This represents a large increase in families experiencing serious financial hardship impacting on their ability to access childcare.

High quality and affordable childcare could be a driver of post-COVID economic recovery, if Australia gets the policy settings right (Wood et al., 2021). It would also provide support and stability to young children as they transition from early learning into school, after a period of intense disruption and difficulty (Noble et al, 2020). Additionally, it would provide women – who have been disproportionately impacted by the negative effects of COVID – with essential support to recover from the setbacks of 2020.
The bottom line

Debate on childcare affordability to date has been bogged down in anecdotal evidence and statistics that focus primarily on the level of subsidies, rather than affordability for families. In the absence of an Australian affordability threshold, we undertook analysis of modelled and actual family expenditure, and examined this in relation to the US affordability threshold, taking into consideration approaches used to measure the affordability of other household costs in Australia.

Our analysis finds that low-middle income families, despite attracting the greatest subsidies, remain the ones who can afford childcare the least. Indeed, childcare remains unaffordable for about 39% of all families and 48% of low-income families. This suggests that early childhood education and care is unaffordable for about 386,000 Australian families.

Childcare in Australia is unaffordable. As a result, children are missing out on early learning and development opportunities. Parents – most often mothers – are constrained in their ability to achieve the work and parenting balance they need, and that works best for their families. And the Australian economy is failing to leverage the full potential and capacity of working parents, which could support an estimated $11 billion boost annually to GDP (Wood et al, 2021).
References


KPMG. (2020). The child care subsidy: Options for increasing support for caregivers.


