

NZ childcare affordability is the worst in the world, Government discovers ^[1]

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Childcare in New Zealand is the least affordable in the developed world and worse than the Government knew when it began work on overhauling a childcare subsidy for parents, new documents reveal.

Fee hikes by early childcare providers, combined with minimal Government funding increases over the past decade, and the rising cost of living, mean New Zealand now has the least affordable childcare based on the most recent analysis, from 2021.

Educators say a boost in the billions – akin to the \$5b invested in Australia, where childcare is more affordable than here – is needed to keep fees down and a struggling early childhood education sector afloat.

But clarity around where funding goes and how it is used is needed first, to avoid lining the pockets of commercial operators.

“The Government have never cared about the line of sight to the fees, but they’re what’s making it less affordable,” Te Rito Maioha Early Childhood Education NZ chief executive Kathy Wolfe says. “It’s a vicious cycle for a parent.”

The OECD data most often cited, put together in 2018, puts us among the most unaffordable. But the New Zealand data in that analysis was based on an out-of-date Ministry of Education survey from 2013, briefing documents released to Stuff under the Official Information Act show.

An analysis by the Ministry of Social Development as part of its childcare assistance review found childcare is more unaffordable for a couple in New Zealand than anywhere else, at 35% of annual income. For a single parent New Zealand was the second least affordable, behind the United Kingdom.

Further analysis based on fee schedules on provider’s websites showed a “wide variability” in fees charged nationwide, with the average \$6.89 an hour.

Fees were highest in Wellington at \$8 an hour, with \$7.90 in Auckland, \$5 in Hawke’s Bay and \$3.70 in Marlborough. The average cost per week was \$190, highest in Auckland at \$223, Wellington at \$203 and Waikato at \$178.

The Government committed to reviewing these subsidies after recommendations from the 2019 Welfare Expert Advisory Group.

In its analysis, MSD found major issues with the subsidy, including that almost a third of parents didn’t know about it or that they were eligible, and that working parents receiving it had halved to 10,000 in the past decade.

The briefings to Minister of Social Development Carmel Sepuloni reveal the extent of the failure of successive Governments in monitoring how much early childcare providers are charging parents, or provide clarity around where taxpayer dollars go.

Around \$47.3m per year will be pumped into Ministry of Social Development-delivered childcare subsidies, which Sepuloni told Stuff will make child care assistance “near-universal”, for single parents, mostly women, and help more working couples.

The increase to income thresholds and the amounts paid is expected to make 7400 more children eligible for support ranging from \$6.03 per hour to \$1.88.

This is between an 18-43% increase, set to take effect in April 2023.

Lack of access to childcare is one of the biggest barriers to women working, and parents and social services agencies are welcoming the changes.

“It’s focused money that goes into the families that are really feeling the pressure,” says David Hanna, director of Wellington’s Wesley Community Action.

“The cost of childcare is one of the biggest barriers for people moving into work, and I think this will really tip the scale.”

Birthright Chief executive Leanne Inder said it was a “welcome and timely boost” for single parent families, where 86% of primary

caregivers were women. More than a third of single mums said they couldn't afford childcare, she said.

But critics say it does not solve systemic issues in early childhood education (ECE), which restrict children's access to high quality early learning. "It's not even a drop in the ocean, it's maybe a quarter of a drop," said Wolfe, of Te Rito Maioha.

"The whole system needs an overhaul to sustain quality and care in education, and it's still not addressing barriers to access – this is a very small and limited number of parents and children."

Around 195,000 children were currently enrolled in some form of ECE.

An investigation by Stuff has found issues driving affordability include an antiquated funding system made up of a patchwork of policies – one of which sees two-year-olds get subsidised far less than other ages – and a largely unmonitored marketplace, which drives up the prices paid by families.

The majority of early childcare providers are now privately operated, and the Ministry of Education doesn't keep track of how much parents are being charged.

Almost \$2 billion in Government funding goes towards ECE, the majority of these in subsidies paid to providers by the Ministry of Education, who fund hours per child. (MSD funding is \$145.4m of this.)

Providers are not routinely audited by the ministry.

The last time the Ministry of Education tried to find out what fees were being charged, the response rate was so low – reflecting the reluctance of for-profit providers to pass on information to their funder and regulator – it abandoned the attempt.

"The private providers have the big muscle and economy of scale to charge fees, and charge quite high fees, but this exacerbates the tenuous position of community services – pushing them out or closing them down because they can't afford to stay open," Wolfe said.

Over time inequities in the funding model, years of funding freezes and inadequate funding of pay parity have led to teacher shortages and a sector in chaos, she said.

Early Childhood Council's Simon Laube, who represents private operators, said funding increases had barely covered the cost of inflation over time, impacting the financial viability of cash-strapped centres.

The MSD subsidies would barely touch this, he said.

"This is the Government response to the fact centres were already putting up their fees, so centres that were sitting on the fence will not sit on it now. But the fees are going up because they can't afford to pay their costs. They don't want to put them up."

The Ministry of Education said the levers used to reduce fees charged to parents were subsidies. Services had to provide "audited financial declaration information" each year, and could have funding withheld if they didn't, it said.

The dream of universal access

Parents across all income levels spoken to by Stuff for an investigation into the state of childcare say they struggle to find and afford it, with some thrown into debt, unable to work, or being forced into precarious jobs and situations.

In Wellington, historian Frith Finch, 32, and postgraduate research student adviser Matthew, 33, are paying \$360 a week for their daughter Loretta, aged 2½, to attend daycare four days a week. They earn more than the \$109,000 before tax to qualify for even the lowest level of MSD subsidy, of \$1.88 an hour.

They will have no assistance until Loretta turns three, when they will qualify for the universal 20 hours subsidy, reducing their fees to \$229 for a four-day week. Their provider "seemed expensive" and wasn't their first choice, but they waited on the list at their preferred centre for more than a year, Finch said.

Childcare costs have had a huge impact on their budget and were questioned by their mortgage adviser when it came time to buy their first home, Finch said. "It makes sense to target the support where it's needed most, but the cost is astronomical."

Educators agree the kind of investment seen in Australia was needed here, but a review into the way the sector was funded needed to be undertaken first. "More funding to support access is good, but the problem is who is going to benefit from that? The sector is saying they're struggling to survive, and it's not enough, but we don't have a very clear picture on the reality of the private sectors' ability to cope," Auckland University of Technology school of education professor Andrew Gibbons said.

In the days following Prime Minister Jacinda Ardern's subsidy announcement, investors PMG Funds were spruiking the taxpayer funding as a good reason to invest in the childcare sector, which provided "reliable, secure returns over time".

Both couldn't be true, Gibbons said. "The Government has to figure out why there are competing stories."

Retaining the status quo, which was poorly-paid teachers and a lack of affordable and accessible services, showed the lack of care for women and children in this country, Gibbons said. "Honestly, it reminds me of *The Handmaid's Tale*."

How does taxpayer funding for ECE work?

Parents can find relief from increasing childcare fees in two ways – by applying for a childcare subsidy from MSD, or through the 20 hours ECE subsidy when their child turns 3.

They can not claim both subsidies for the same hours, so most have to make part-payments.

Most middle-income parents could not previously get the MSD subsidy, as their combined income was too high for the cap of around \$76,000 for one child and \$87,000 for a two-child family. And tangled bureaucracy meant low-income parents, primarily single mothers, either could not or did not apply for it, or had problems receiving it.

The 20 hours is a universal subsidy, and is not income tested. Parents, educators and academics have called for this subsidy to be extended to under 3s, and for historical anomalies in funding – which sees 2-year-olds funded less than any other age group – to be fixed.

Education Minister Chris Hipkins has said closing this funding gap is his priority, and that a review was under way to see if more targeted funding is needed to improve pay and conditions for teachers and support community centres, while not adding to the profits of big commercial chains.

Minister for Women Jan Tinetti told Stuff in October she had ordered a review into levers that would best improve childcare affordability.

In an interview, Sepuloni said increasing childcare subsidies was a “really smart policy,” which would address one of the biggest in-work costs for families. A review still under way would work on making these more accessible, she said.

“This was to address the cost of living challenges that whānau were facing, the workforce shortages that they are facing, and to encourage participation in ECE.”

The policy was “never going to respond to all the challenges,” the sector faced, such as pay parity, which was currently being addressed by Education Minister Hipkins, she said. “This was not the policy to do that. This was to support the families who need help to actually take up work.”

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