

Soaring childcare costs eat into family budgets ^[1]

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Source: Brisbane Times

Format: Article

Publication Date: 10 Feb 2015

AVAILABILITY

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EXCERPTS

Petrol is cheap, home loan interest rates are at rock bottom. But there remains one glaring exception to the relief in living costs many consumers are experiencing at the moment: the expense of childcare.

Average childcare costs rose more than 5 per cent last year and this is only the latest case of cost growth well ahead of inflation.

Concern about this price surge, and shortages in many areas, have even prompted Prime Minister Tony Abbott to ditch his parental leave scheme and instead focus on changes to the childcare system, including its costliness.

So, how much have childcare costs really risen in recent years? And what is the government likely to do about it?

Well, despite several policies that have helped to ease the out-of-pocket costs, childcare costs have indeed risen far more quickly than the consumer price index over the past few decades. If not for government support payments, the cost of childcare would have increased nine-fold since 1982, the Productivity Commission reckons.

As this week's graph shows, our childcare costs are also higher than in many comparable countries.

It is not yet known what policy changes the government has planned in response. However, Mr Abbott has signalled it will soon take action, and its thinking is based on the Productivity Commission's final report on the issue, which is not yet public.

But if the draft report is anything to go by, this could involve some tough choices.

Controversially, the Commission's draft report suggested the current subsidies be more targeted - meaning the highest income earners would get less.

At the moment, all working parents, regardless of their income, can receive 50 per cent of childcare costs of up to \$7500 a year, through the childcare rebate. The childcare benefit is also provided to some, though this is means-tested.

There is a strong economic case for means-testing family payments such as these, so that people on very high incomes get less taxpayer help and those with lower incomes get more, and are therefore more likely to be employed.

So, the Commission's draft report raised the idea of a sliding scale for support. Under its preferred model, households with a combined income of \$60,000 a year would receive 90 per cent of their childcare costs, while those earning \$300,000 would get back 30 per cent.

It would mean families with combined incomes of up to \$160,000 would receive a higher rate of assistance than they do today, while those earning more than that would get less help from the government.

There are less contentious changes that could be made too. The current combination of the childcare rebate and the benefit is complex, making it hard for many families to figure out how much support they will receive. Simplifying these payments would certainly make sense.

The more difficult decision is likely to be whether the government is willing to cut support for the better-off.

Region: Australia and New Zealand ^[3]

Tags: budget ^[4]

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