



## **Importance of childcare for productivity and economic growth**

As Australia seeks to rebuild its economy, we need to capitalise on the productivity of our entire workforce by minimising barriers to workforce participation. Every worker who is offered a job should be able to take up that job. Every worker who is offered a shift should be able to take up that shift. And every worker who is offered a few extra hours of work should have an incentive to work those extra hours. The Federal Government can build a system that enables so many people, mainly women, to work and strengthen the economy.

An unintended consequence of the Child Care Subsidy (CCS) is that while primary carers are supported in taking up part-time work, they face high barriers to taking up full-time work. In contrast, the childcare relief package puts everyone in a position to take up as much work as possible, including full-time work.

We support continued investment in the childcare relief package. This would deliver real benefits in workforce participation, productivity and economic growth.

The proposed further investment in the childcare relief package is within the existing forward estimates for the CCS and therefore does not add to the fiscal burden created by the COVID-19 pandemic.

It delivers benefits for parents, workers and industry:

### **Benefits for workers**

- Available, affordable and importantly *flexible* early childhood education and care;
- Those who are re-entering the workforce, seeking work, considering increasing their hours or days of work or taking on a second job, can make this choice quickly, knowing their household will be better off financially; and
- Continuation of the current support package will strengthen household budgets and allow growth in household spending.

### **Benefits for industry**

- Businesses have access to a full talent pool;
- Employers maintain the strong connection with their employees; and
- As job opportunities regrow, businesses need to be able to access the best skills.

**This investment is good for Australia's recovery, for business, for households, the economy and the wider community.**



## The risks of an immediate reversion to the Child Care Subsidy at end-June 2020

The Child Care Subsidy (CCS) is a valuable component of Australia's tax and transfer system, and since July 2018 has provided increased subsidies to lower- and middle-income families compared to the benefit payments and rebates that it replaced.

However, the interaction of the family income-based CCS taper with the rate of withdrawal of other government transfer payments, such as Family Tax Benefit (FTB), contribute to the magnitude of what has become known as the Workforce Disincentive Rate (WDR). The WDR is the percentage of income from taking on an extra day's work that a person loses to income tax and Medicare levy, withdrawn FTB, reduced CCS and increased out-of-pocket childcare costs.

### Example 1<sup>1</sup>

A parent earning the FTE of \$40,000 per annum (around the national minimum wage), whose spouse is also earning \$40,000 per annum, would take home only an extra \$7.80 an hour upon increasing work days from three to four (WDR = 64 per cent), and an extra \$3.40 an hour upon increasing working days from four to five (WDR = 84 per cent).

### Example 2

A parent earning the FTE of \$80,000 per annum, whose spouse is earning \$80,000 per annum, would take home only an extra \$8.30 an hour upon increasing work days from three to four (WDR = 81 per cent), and an extra \$6.40 an hour upon increasing working days from four to five (WDR = 85 per cent).

### Example 3

A parent earning the full-time equivalent (FTE) of \$100,000 per annum, whose spouse is earning \$100,000 per annum, would take home only an extra \$13.70 an hour upon increasing work days from three to four (WDR = 75 per cent), and **go backwards by \$11.50 an hour** upon increasing working days from four to five (WDR = 121 per cent).

As Australia seeks to rebuild economic capacity now that the public health crisis appears increasingly under control, there is a question as to whether we can afford to return to a CCS structure where workforce participation (particularly for women) is inhibited by WDRs commonly in excess of 75 per cent, and by WDRs of over 100 per cent, which can affect thousands of families.

The Prime Minister's media release of 2 April 2020 stated that the temporary ECEC relief package would cost around \$1.6 billion over three months. The 2019-20 Federal Budget papers forecast an average quarterly CCS spend for 2020-21 of \$2.15 billion. Therefore, there is scope to extend this relief package within the forward estimates' boundaries.

**An extension of the current ECEC relief package to 28 September 2020 would allow time for consideration of alternative CCS structures for the future that would produce lower WDRs and lower barriers to workforce participation.**

---

<sup>1</sup> All examples assume two children in long day centre-based care. Example 1 assumes hourly cost of approximately 80 per cent of the CCS cap, Examples 2 and 3 assume cost equal to the CCS cap.