CHILD CARE SUBSIDY CHANGES

Child Care Subsidy changes expected to drive interest in child care assets

Investment demand for alternative commercial real estate assets continues to surge. In this article we review some of the key government changes to the child care subsidy, that could drive demand higher.

The most recent Budget included two significant changes to the Child Care Subsidy (CCS):

- removal of the annual cap on the amount of CCS that can be paid for families with incomes above $190,015 (2021-22 terms), and
- increased the rate of CCS for families with more than one child aged under five years attending child care.

The CCS is means tested, with rates of payment based on family income, hours of care used, type of care used, and parents' or carers' level of work, training or study. The payment is paid directly to providers and delivered to families in the form of a fee reduction. An activity test determines the number of hours per fortnight a family is eligible to receive the CCS.

ANNUAL CAP REMOVAL 10 DECEMBER 2021

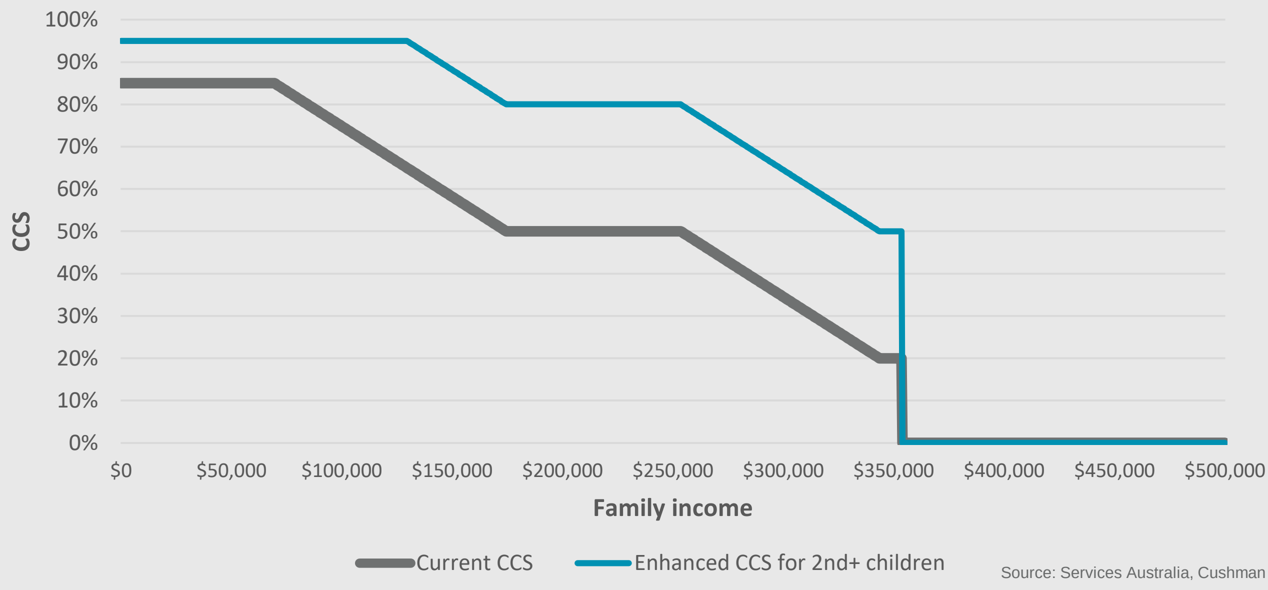
Previously families earning more than $190,015 (2021–22 terms) have an annual subsidy cap of $10,655 per child each financial year. From 10 December 2021 the annual cap was removed for all families who receive the CCS.

If a family has already reached the CCS annual cap before 10 December 2021 their CCS may have stopped. Services Australia will automatically reassess their CCS entitlement for this time and will back pay the CCS for affected sessions of care.

MULTIPLE CHILDREN IN CARE 7 MARCH 2022

From 7 March 2022, families with children aged five or under in care will get a higher subsidy for their second child and younger children. The CCS rate for eligible second and subsequent additional children will be the percentage amount worked out under the income test plus 30 percentage points up to a maximum of 95%. For example, where the second child would have been eligible for a CCS rate of 50% of the fee paid or hourly cap, they will receive a CCS rate of 80% of the fee paid or hourly cap, for the second child.

Chart 1 shows the new subsidy structure for eligible second and subsequent additional children.



Source: Services Australia, Cushman & Wakefield

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WHAT DOES IT MEAN FOR CRE?'

The new changes to the CCS are expected to have a range of economic and social benefits across the country that will flow to the commercial real estate market.

Increased demand for child care – the changes are expected to increase the rate of dual working parents, this will be driven largely by the cohort with 2 or more children under five, who previously didn't access care due to it being cost prohibitive or less attractive than caring for their children. This will lead to higher occupancies and increased incomes for centres, which will ultimately drive sale prices higher and increase the attraction of investment in child care assets. There will also be an increase in demand and opportunity for new centres, when current capacities are reached.

Increased female participation rate – driven largely from the above it is expected to push more people (largely females who are primary carers) into or back into the workforce post having children. This can lead to increases in GDP, increased disposable incomes and spending (economy stimulation), increased savings and superannuation balances. It can also reduce fiscal pressures associated with providing welfare to non-working care givers (as they are now in the workforce) and also later in life (increased super accumulation).

Overall, increasing women's workforce participation leads to better living standards for individuals and families, improves the bottom line of businesses and is a significant driver of national economic growth.

CASE STUDY

Family X has an income of $200,000 and currently has one child in care five days a week, 50 weeks of the year, with daily fees of $130. Currently they receive a 50% CCS capped at $10,655 per annum. With the removal of the annual subsidy cap their yearly out of pocket expense decreases from $21,845 to $15,995, saving $5,595

Family Y has an income of $200,000 and currently has two children under five in care five days a week, 50 weeks of the year, with daily fees of $130 per child. Previously they received a 50% CCS capped at $10,655 per annum per child. With the removal of the annual subsidy cap and higher subsidy rate for their second child, their annual out of pocket expenses decreases from $43,690 to $22,7500, saving $20,940.

The following table breaks down the above case study.

OUT OF POCKET EXPENSES

	Current CCS	Removed annual cap	Removed annual cap & enhanced subsidy	Total savings
Child 1	$21,845	$16,250	$16,250	$5,595
Child 2	$21,845	$16,250	$6,500	$15,345
Total	**$43,690**	**$32,500**	**$22,750**	**$20,940**

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