



**MINISTRY OF SOCIAL
DEVELOPMENT**
TE MANATŪ WHAKAHIATO ORA

The Ministry of Social Development's Childcare Assistance Products

2025 Early Childhood Education Funding Review Ministerial Advisory Group

Proactively Released

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Executive Summary

- 1 This paper provides a summary of the Childcare Assistance the Ministry of Social Development (MSD) provides and the rationale for this funding, to support the Ministerial Advisory Group's understanding of the make-up of the ECE funding.
- 2 Wider government funding for early childhood education and childcare services for children aged 0-5 years includes Ministry of Education (MoE) subsidies for Early Childhood Education (ECE), targeted Childcare Assistance for low- and middle-income families delivered via MSD, and through Family Boost tax credits administered by the Inland Revenue Department (IR). This paper focuses on MSD Childcare Assistance, and includes discussion of the ways in which it interacts with other government funding mechanisms.
- 3 Access to suitable and affordable childcare is a key factor in parents and caregivers being able to enter or remain in employment, education, or training. In general, research suggests that subsidies that reduce the private cost of childcare increase children's participation in ECE and have positive impacts on labour force participation and work hours.
- 4 MSD's funding makes up a small part of the overall spend for childcare costs - around \$183 million in the 2024/25 financial year, compared to \$2.7 billion funding by MOE.
- 5 MSD's primary form of Childcare Assistance for children under five is the Childcare Subsidy (CCS) which is payable in respect of children attending approved pre-school childcare. This is a targeted payment which takes account of a household's income and number of dependent children, and hours of childcare attendance.
- 6 MSD also provides other smaller, more targeted assistance programmes to support young parents, or to support training and education.
- 7 This paper also provides information about the Government's targets for reducing child poverty and the role that ECE and childcare funding can play in helping achieve progress towards them. Reducing childcare costs and supporting parental employment are also important poverty alleviation tools, particularly in the long-term and in the context of the Government's child poverty reduction targets.
- 8 Funding for childcare can contribute to reducing material hardship by increasing parents' and caregivers' labour market participation and also reducing household expenses. Access to and cost of ECE therefore plays a role in addressing these dimensions. Low-income families face the greatest barriers in relation to both access and cost of ECE. The vast majority of the childcare/ECE subsidies are universal, with only a small proportion targeted

to low-income families and/or focused on supporting affordability and access.

- 9 In 2022/23, MSD undertook a Review of its Childcare Assistance to identify ways to improve the affordability and accessibility of childcare. The objectives of the review were to:
 - improve the administration of MSD's Childcare Assistance
 - increase participation in early childhood education
 - increase labour market participation by parents/caregivers
 - improve the flexibility of settings to reflect current labour market demands and parental preferences, such as covering childcare costs during short gaps in employment
 - improve the adequacy of support to reduce the financial pressure for families, and
 - improve settings from a child wellbeing perspective.
- 10 As part of this work, on 1 April 2023 the income thresholds for Childcare Assistance (CCS and Out of School Care and Recreation (OSCAR) Subsidy) were increased to account for growth in the net average wage (a "catch-up" increase).¹ Until this point the income threshold had been frozen since 2010, which meant the thresholds had eroded significantly relative to general inflation and wages, and fewer families were eligible for support.
- 11 The objectives for the review are still relevant, as many of the issues identified in from the review have not yet been addressed. MSD is particularly interested to see improvements in the take up of Childcare Assistance and a reduction in administrative complexity.

¹ This was part of the Budget 2022 package, and through pre-commitments against Budget 2023.

Overview of the Ministry of Social Development

- 13 The Ministry of Social Development (MSD) is responsible for the oversight of New Zealand's social welfare system including the provision of employment services; income support for people with low or no income, students and superannuitants; housing support; community partnerships and programmes; social policy and investment advice; and child poverty reduction advice and support.

Employment services and support

- 14 A core objective for MSD is to support people into work. We proactively support people at risk of long-term benefit receipt to prepare for, find and retain suitable employment that improves their long-term wellbeing.

Income Support

- 15 New Zealand's income support system provides financial support for people who have insufficient income to meet their living costs due to unemployment, caring responsibilities, a health condition, or disability.
- 16 It is made up of many different payments for people in different circumstances. Payments are structured in three tiers of assistance and recipients can receive payments from different tiers.
- **The first tier** includes main benefits and superannuation payments, which are payments intended to cover the recipient's living costs, with the assumption that the recipient can also access second and third tier assistance if their main payment is not sufficient.
 - **The second tier** of assistance includes supplementary payments for people with specific ongoing costs, such as accommodation, disability, or childcare costs. It also includes Working for Families tax credits for families with children.
 - **The third tier** of assistance includes payments for people in immediate financial hardship who are unable to meet their essential living costs.
- 17 Childcare Assistance is a form of second tier or supplementary assistance. These payments are available to families regardless of whether they are receiving a main benefit, provided they meet the income test. Payments are made directly to the childcare provider.
- 18 The provision of Childcare Assistance supports parents and caregivers to find or retain paid employment, which is one purpose of the Social Security Act 2018 (the Act).
- 19 Further, the purpose of Childcare Assistance is defined in Section 76 of the Act "to provide targeted financial assistance to help certain people meet the costs of childcare". Section 424 of the Act authorises the making of

Regulations by Order in Council to prescribe the detailed matters relating to eligibility for Childcare Assistance. Part 6 of the Social Security Regulations 2018 sets out that detail.

Child Poverty Reduction

- 20 MSD also has a role through the child poverty reduction portfolio. The Child Poverty Reduction Act 2018 requires successive governments to set targets for reducing child poverty. Targets are required for reducing income poverty before and after housing costs, persistent poverty, and child material hardship.
- 21 The Government's key priority is reducing child material hardship. The Government's target, and the Minister for Child Poverty Reduction's Portfolio Target is to reduce the child material hardship rate to 11 percent by 2026/27 (from 13.4 percent in 2023/24).² The Government's approach to reducing material hardship is focused on supporting parental employment, by addressing barriers to employment and 'making work pay'. MSD is the lead agency for overseeing the Child and Youth Strategy and its child poverty priority to reduce child material hardship.³

What financial support for childcare costs does MSD provide?

- 22 The Minister for Social Development and Employment is responsible for the appropriations in Vote Social Development. The total appropriation for Childcare Assistance in Vote Social Development for the 2024/25 financial year is approximately \$183 million with a forecasted actual spend of \$170 million.
- 23 MSD's childcare assistance products in scope of the ECE Funding review are the:
 - Childcare Subsidy,
 - Early Learning Payment and
 - Guaranteed Childcare Assistance Payment.

² The most recent material hardship statistics from Statistics NZ.

³ MSD carries out its role through the Child Wellbeing and Poverty Reduction Group, which moved from the Department of the Prime Minister and Cabinet to MSD in April 2024.

Figure 1: Estimated actual expenditure for the 2024/25 financial year

	Childcare Subsidy	Early Learning Payment	OSCAR	TOTAL
2024/25	\$127,339	\$9,280	\$33,827	\$170,446

- 24 This pack includes a summary table of MSD's childcare assistance products that are in scope of the ECE Funding Review below. The rate of payment depends on the number of dependent children, hours of attendance and the parent or caregiver's gross household income. This is further illustrated by the client scenarios on pages 9 and 10.
- 25 Refer to **Appendix One** for further detail of these products.
- 26 MSD also administers the OSCAR Subsidy and Flexible Childcare Assistance, which are not in scope of the review. Further information on these products is available in **Appendix One**.

MSD's childcare assistance products in scope of the 2025 ECE Funding Review			
	Childcare Subsidy (CCS) <i>Targeted</i>	Early Learning Payment (ELP) <i>Tightly targeted</i>	Guaranteed Childcare Assistance Payment (GCAP) <i>Very tightly targeted</i>
Eligibility criteria	<ul style="list-style-type: none"> Be the principal or temporary principal caregiver of a dependent child⁴ Meet residency requirements Meet an income test Child is aged under 5 years OR Child is aged 5 years but not yet attending school (cohort entry) – (5 years and up to 28 days) OR Child is aged under 6 years if they qualify for Child Disability Allowance Child is attending an approved early childhood education programme or service for at least 3 hours a week⁵. 	<ul style="list-style-type: none"> Be the caregiver of a dependent child Meet residency requirements Be enrolled in a Family Start or Early Start programme run by Oranga Tamariki (Family Start) or Canterbury District Health Board (Early Start) Child aged between 18 and 36 months Child attends an approved early childhood education programme or service. 	<ul style="list-style-type: none"> Be the principal or temporary principal caregiver of a dependent child Meet residency requirements Be in receipt of Young Parent Payment and participating in activities to meet youth activity obligations⁶ Be aged 16 to 19 years, is included in their partner's main benefit and participating in activities to meet youth activity obligations OR Be single, aged under 18, at school and not getting a benefit OR Be aged 16 to 18 years, in a relationship, at school and not getting a benefit Child is aged under 5 years Child attends an approved early childhood education programme or service.
Number of clients currently receiving as at the end of April 2025	16,242 adults and 19,307 children.	1,122 clients.	162 adults and 165 children ⁷ .
Paid to	Provider (upfront)	Provider (upfront)	Provider (upfront)
Rates	The rate of payment of CCS depends on the number of children, and the level of income of the client and partner (if any) with a maximum of \$6.52 per hour per child (as at 1 April 2025). See Appendix One for the CCS income thresholds and maximum rates at 1 April 2025. The rates are adjusted every year on 1 April as part of the Annual General Adjustment. ⁸	The rate of payment is the lesser of the ELP rate and the actual fee charged, up to \$9.72 per hour per child (as at 1 April 2025). The rate is adjusted on 1 April every year as part of the Annual General Adjustment.	The rate of payment is the lesser of the GCAP rate and the actual fee charged, up to \$6.52 per hour per child (as at 1 April 2025). The rate is adjusted on 1 April every year as part of the Annual General Adjustment.

Age of child/children and hours eligible	Up to 50 hours a week	N/A	Up to 50 hours a week
0 to 17 months	Up to 9 hours a week if the person isn't working, studying or training, or doesn't have specific circumstances		
18 to 29 months		Up to 20 hours a week	
30 to 35 months		Up to 20 hours a week	
3 to 5 years old	Up to 50 hours a week if the child hasn't started school yet because: <ul style="list-style-type: none"> they don't start until the term after they turn 5 (cohort entry) they are getting Child Disability Allowance, and their child will start school when they turn 6 	N/A	Up to 50 hours a week if the child hasn't started school yet because they don't start until the term after they turn 5 (cohort entry)
Interactions	There is an interaction with MoE's 20 Hours ECE Subsidy. Clients who qualify for 50 hours a week of CCS and are receiving the MoE funded 20 Hours ECE subsidy can get CCS for hours not covered by the 20 Hours Subsidy but only up to 50 hours combined. The maximum total CCS would	CCS can be paid for a child who is receiving ELP, but only for the hours that MSD is not paying ELP for. Can only be claimed for hours not covered by the CCS and 20 hours ECE. Clients who are receiving the maximum of 20 hours ELP cannot also receive 9 hours CCS.	Cannot be granted if client is also receiving Childcare Subsidy (or Early Learning Payment). Generally, young parents eligible for GCAP will be better off getting 20 Hours ECE where their provider offers it. Young parents can choose to take up either 20 Hours ECE only or GCAP when they qualify or a combination of both, but generally not for the same hours.

⁴ If a client has a partner, they are generally expected to provide care for their child while the client is in employment, training, study or other employment. However, CCS can be paid for up to 50 hours per week where there is a good and sufficient reason why the partner cannot look after the child. These would include situations where the partner may be able to get an exemption from their work obligations. For example, where the partner is ill or is caring for someone who is ill.

⁵ An approved early childhood education programme or service includes an early childhood education and care centre (e.g. daycare, kōhanga reo, playcentre, kindergarten), home-based education and care service, hospital-based education and care service, and a certified playgroup.

⁶ Young Parent Payment is for 16 to 19-year-old young people who have a dependent child or children and are single or are, or have been, married, in a civil union, or in a de facto relationship.

⁷ An adult client may receive GCAP for more than one child.

⁸ The Annual General Adjustment adjusts benefits and most other financial supports from MSD to account for the cost of living (CPI).

	<p>be 30 hours per week or up to the total number of hours of their activity (including travel time). This means clients cannot claim the CCS for the same hours they're claiming 20 hours ECE.</p> <p>Generally, clients who are getting 20 hours ECE cannot get 9 hours CCS.</p> <p>If a client is charged home-based educator top-up payments, they can get CCS and 20 Hours ECE. If a client is getting 9 hours or more of 20 Hours ECE, the 9 hours of CCS can only be used for home-based educator top up payments.</p> <p>There is an interaction with IR's Family Boost policy⁹.</p> <p>FamilyBoost allows qualifying clients to claim for a portion of the ECE costs after subsidies have been applied. This means clients who qualify for CCS may have less or no fees remaining to claim for FamilyBoost (as they cannot claim for costs covered by CCS).</p>		<p>GCAP cannot be paid for the same hours 20 Hours ECE is paid except when home-based educator top up payments are charged for those hours.</p>
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⁹ FamilyBoost provides tax credit payments to families of pre-school children to partially offset the cost of ECE.

Client scenarios

Childcare Subsidy (CCS)

Sam and Tina¹⁰



Sam and Tina are parents to two children aged 2 and 3 years old.

Tina works 36 hours a week as a legal secretary. Sam works as a painter and his hours and income fluctuate depending on work availability.

They spend \$635.60 for 40 hours of childcare per week.

- Gross **annual income**:
 - \$115,538.65 (\$1,646.23 per week)
- Gross **hourly childcare costs**:
 - \$7.25 per hour for 2-year-old and
 - \$8.64 per hour for 3-year-old.
- The couple would be eligible for \$5.20 per hour, per child of Childcare Subsidy
- This covers \$416 per week
- Their weekly childcare costs after CCS would be \$219.60
- Sam and Tina can apply for FamilyBoost to have up to 25% of their excess childcare costs reimbursed (up to the maximum of \$75 per week).

Tim



Tim is a sole parent of two children aged 3 and 4 years old.

He works 40 hours a week at the local supermarket and earns minimum wage.

He spends \$816.40 for 40 hours of childcare per week for his children.

- Gross **annual income**: \$48,880.00 (\$940 per week)
- Gross **hourly childcare costs**:
 - \$8.64 per hour for 3-year-old and
 - \$11.77 per hour for 4-year-old.
- Tim would be eligible for \$6.52 per hour, per child of Childcare Subsidy
- This covers \$260.80 per week
- His weekly childcare costs after CCS would be \$555.60
- Tim can apply for FamilyBoost to have up to 25% of his excess childcare costs reimbursed (up to the maximum \$75 per week).

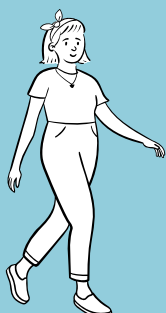
Both the couple; Sam and Tina, and Tim may be eligible for income-tested tax credits administered by Inland Revenue that make up Working for Families Tax Credits for low-income families.

¹⁰ Gross annual income and example costs taken from September 2022 article <https://www.stuff.co.nz/national/300696444/i-cant-afford-to-work-free-childcare-is-a-myth-and-costs-for-parents-are-high>

¹⁰ 40 hours per week is assumed.

Early Learning Payment (ELP)

Ana



Ana is a student and the primary caregiver of one child, aged 18 months. They are enrolled in a Family Start programme.

Ana's child is attending an approved early learning education programme with Te Rarawa Anga Mua for 32 hours per week at a cost of \$9.72 an hour.

Ana is getting a Student Allowance and receives \$604.62 per week.

Ana needs some extra support for her childcare costs and applies for the Early Learning Payment. Ana is eligible for the maximum amount of \$9.72 per hour, up to a maximum of 20 hours per week and can receive this until her child turns 3 years old. This covers \$194.40 a week.

The excess childcare costs to be paid by Ana is \$116.64 per week for her 18-month-old.

Ana may be eligible for income-tested tax credits administered by Inland Revenue that make up Working for Families Tax Credits for low-income families.

Guaranteed Childcare Assistance Payment (GCAP)

Ella¹¹



Ella is 18 and the sole parent of two children aged one and two. Ella receives the Young Parent Payment, at \$505.80 per week.

Ella is enrolled in a training course for 32 hours per week and is eligible for GCAP to cover childcare costs that support her to meet her youth activity obligations. Her children attend a ECE service for 37 hours because she also has 5 hours travel time. The cost of this childcare is \$7.00 per hour per child, to a total cost of \$518 per week.

Ella is eligible for 37 hours of GCAP at \$6.52 per hour to help pay for childcare. GCAP covers \$482.48 a week.

The excess childcare cost to be paid by Ella is \$35.52 per week for two children. Ella can apply for Family Boost to have up to 25% of her excess childcare costs reimbursed.

Ella may also be eligible for income-tested tax credits administered by Inland Revenue that make up Working for Families Tax Credits for low-income families.

¹¹ An assessment must be completed by MSD's Youth Services Support Unit to determine the actual amount that can be subsidised.

Why is MSD concerned with childcare costs?

- 27 Access to suitable and affordable childcare is a key factor in parents and caregivers being able to enter or remain in employment, education, or training.
- 28 There is a cost to government of benefit receipt. Currently, the cost of paying benefits to working-aged people is forecast to be \$9.952 billion in the 2025/26 financial year.
- 29 Up until 2018, the number of children in benefit dependent households fell steadily (from 213,000 in July 2013 to 168,000 in April 2018, a decrease of 45,000 children, or 21%). Over the past six years, the number of children has increased steadily, rising from 168,000 children in April 2018 to 233,000 children in December 2024 (64,000 children, or 38%). The number of children fell by around 5,000 children (-2%) from December 2024 to March 2025, but a similar seasonal dip has been observed over other years.
- 30 The increase has been mainly driven by growth in the number of children of Sole Parent Support (SPS) recipients¹². 70 percent of children in benefit-dependent households are in households supported by SPS.
- 31 Since the start of 2023, there has been an increase in the number of people on working-age main benefits.¹³ At the end of March 2025, there were 398,163 working-age people in New Zealand receiving a main benefit. This was up 27,912 or 7.5 percent compared to March 2024. With respect to Jobseeker Support, at the end of March 2025, 209,838 people were on this benefit, which was up 21,852 or a 11.6 percent increase in the past year.

Unemployment is generally detrimental to wellbeing, and engagement in suitable work is usually beneficial

- 32 The balance of evidence is that work can make working-age benefit recipients better off.¹⁴ These improvements range from financial stability, access to opportunities, social connectedness, and better health outcomes for those in work as well as their families. However, outcomes for any individual will depend on a range of factors including whether the work accommodates their individual work capacity or caring responsibilities, the nature of the job, and the financial gains from working.

¹² Sole Parent Support is a weekly payment that helps single parents find part-time work or get ready for future work.

¹³ For the purposes of employment and work readiness assistance, working-age means a person aged 18 to 64 years inclusive or 65 years or older if they are not qualified to receive New Zealand Superannuation.

¹⁴ Rea, D., Anastasiadis, S., Benny, V., Chokkanathapuram, A., Lee, W., Smith, C., and Vandenbroucke, B. (2019). Exploring new ways to measure wellbeing: benefit to work transitions – Working paper. Wellington, New Zealand.

- 33 There are different challenges for employment for different parents/caregivers. Partnered mother employment rates rose from around 70% over 2015 to around 80% over 2024 and early 2025. Prior to 2019, rates of employment for sole parents had been steadily improving, rising from around 58% in September 2015 to around 65% in September 2019, in line with reducing SPS numbers. Between 2019 and 2025, rates of employment for sole parents and sole mothers have fluctuated, with rates declining over 2024 and 2025.
- 34 Employment and socio-economic status are the main drivers of disparities in physical and mental health and mortality.¹⁵

Government Target: Fewer people on the Jobseeker Support benefit

- 35 In April 2024, the Government announced nine targets for agencies across the public service to achieve. MSD is the lead agency for Target 5: 'Fewer people on the Jobseeker Support benefit'.

<u>Target (by 2030)</u>	<u>Baseline (December 2023)</u>	<u>As at 31 March 2025</u>	<u>Progress from baseline</u>
140,000 people on the Jobseeker benefit	190,000	<u>209,800</u> (BEFU 25 Forecast for March 2025: 210,800)	+19,800

Barriers to work

- 36 Employment is the most likely reason for a person to exit benefit.¹⁶ However, some may face an extended period of unemployment while receiving the benefit, particularly where they have barriers to work. These barriers may relate to individual circumstances (e.g., lack of qualifications, health or disability issues, care responsibilities), poor financial incentives to work (e.g., high marginal tax rates, entitlement settings that can create "benefit cliffs"), or discouraging employer and labour market structures (e.g. discrimination, lack of suitable childcare, low availability of accommodation). These barriers may prolong spells of unemployment.
- 37 Addressing barriers to work is a critical part of encouraging participation in employment by parents and caregivers. Childcare is a primary barrier,

¹⁵ Government Inquiry into Mental Health and Addiction. (2018). He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction; New Zealand. New Zealand Health and Disability System Review. (2020). Health and Disability System Review—Final Report Pūrongo Whakamutunga; Health and Disability System Review: Wellington, New Zealand.

¹⁶ Ministry of Social Development. (2021). What happened to people who left the benefit system.

alongside other barriers such as transport (i.e., cost and availability), a lack of available work and/or a lack of skills or qualifications.

- 38 Childcare costs are generally the most significant in-work cost for families with children. Increasing access to suitable and affordable childcare is a key factor in low and middle-income parents and caregivers being able to enter or remain in employment, education, or training.
- 39 Supports to help people into work are likely to work best if childcare costs are fully subsidised for working families with the lowest incomes. This is because there is a relatively modest gap between benefit income and income in low-wage work for families with children.

Purpose of MSD's financial assistance for childcare

- 40 MSD's targeted funding for childcare is intended to:
 - Increase the labour market participation of parents by increasing the affordability of childcare
 - Reduce in-work poverty ('making work pay'), and
 - Encourage participation of children in ECE.
- 41 Reducing the cost of childcare is likely to have a positive effect on both the uptake of childcare and on labour market participation by parents. Providing more affordable childcare reduces pressure on household budgets, and supports parental labour market participation therefore contributing to the Government's child poverty reduction goals.
- 42 MoE funding is for the purpose of supporting child development to provide educational outcomes while supporting a strong foundation for learning and good life outcomes. This funding also functions to facilitate labour market participation.
- 43 Refer to **Appendix Two** for more detail on the evidence base for the role of Childcare Assistance in supporting labour market participation.

Financial support for childcare costs also impacts on material hardship and child poverty reduction

- 44 Early childhood education and childcare funding is also an important lever for reducing child poverty and material hardship, and for mitigating the impacts of childhood poverty on later life outcomes.
- 45 Material hardship is impacted by a number of interconnected factors. Of particular importance are total net income (from earnings, taxes and transfers), housing costs, the costs of basics such as food, power and fuel, and the additional costs that households face (e.g., childcare costs, debt, medical or disability-related costs). Funding for childcare can contribute to reducing material hardship by increasing parents' and caregivers' labour

market participation and also reducing household expenses. Access to and the cost of ECE therefore plays a role in addressing these dimensions. Low-income families face the greatest barriers in relation to both access and cost of ECE. The vast majority of the childcare/ECE subsidies are broadly universal, with only a small proportion targeted to low-income families and/or focused on supporting affordability and access.

- 46 **Appendix Two** contains more detailed evidence about the impact of childcare education and childcare funding on child poverty and material hardship.

What issues are MSD aware of in the provision of its financial support for childcare costs?

- 47 In 2022/23, MSD completed a review of its Childcare Assistance to identify ways to improve the affordability and accessibility of childcare.
- 48 The main issues identified by parents include:
- the current burdensome administrative arrangements
 - CCS rates have not kept pace with childcare costs
 - the low income thresholds mean that far fewer families are eligible for CCS than in 2010
 - the current settings are inflexible and are out of step with labour market realities
 - the interface with 20 Hours ECE is complex, and
 - current settings require many parents to pay for childcare hours that are not subsidised by either 20 Hours ECE or CCS.
- 49 More detail on the specific issues identified as part of that review are detailed below:
- 1) Take up of childcare assistance was found to be low, due to poor awareness of the assistance available from MSD. The 2022 New Zealand Income Support Survey of New Zealanders receiving income support, found that nearly half of respondents were not aware of CCS and OSCAR subsidies. Despite increases to income thresholds in 2023, there have been fewer children receiving childcare assistance compared to the successive forecasts of children from families who appear to have been eligible to receive support. Refer to **Appendix Three**.
 - 2) The administrative arrangements for assessing eligibility are time consuming and burdensome for parents and caregivers. The application process requires a 28-page paper-based form to be completed manually. This complexity is an additional factor that contributes to the low take-

up, disincentivising parents to seek this support. This has not been addressed and continues to be a barrier to take up of CCS by both beneficiaries and non-beneficiaries.¹⁷

- 3) The rates of subsidies had not kept pace with rising childcare costs.¹⁸
- 4) The income threshold settings at the time of the review meant that some low-income and most middle-income families were not eligible to claim assistance.
- 5) Administrative processes and settings are inflexible and are out of step with labour market realities – for example, the hours that formal childcare (and therefore CCS) is available do not align with non-standard working hours including evening and weekend work. Additionally, parents with a preference for informal or whānau and family-based care are unable to access most subsidies.

Take up rates and ease of administration remain key issues to be addressed

- 50 MSD considers that low take up and administrative barriers associated with targeted assistance are the biggest areas for improvement in providing childcare assistance.
- 51 The administration of Childcare Assistance could be improved by system changes such as:
 - Enabling MSD clients to apply for childcare assistance online
 - Review of entitlement for children in a family at once, rather than individually at separate points
 - Allowing childcare providers to access an online portal to submit verification of a child attending their centre, invoicing for the hours of attendance, and notifying of other relevant changes.
- 52 Administration improvements of this nature were costed by MSD in 2023 at an estimated \$43 million and were anticipated to take 21 months to complete.

¹⁷ A review of Childcare Assistance due to a change of circumstance (for example, a change in centre, income, hours, client takes up 20 Hours ECE, child leaves care etc) is an additional 8-page form which must be completed for each child.

¹⁸ The hourly subsidy rates for Childcare Assistance are indexed annually. Policy decisions were made (with effect from 1 April 2022) to increase income thresholds annually in line with net average wage growth. Prior to that, the thresholds had been frozen since 2010.

Appendix 1: Further detail of childcare assistance products administered by MSD in scope of the ECE Funding Review

Childcare Subsidy

Who is it targeted to?

- 1 Childcare Subsidy (CCS) is a targeted non-taxable payment for families with children aged under five years old (and up to age 6 in some circumstances), to help with the costs of childcare while parents or caregivers are working, training or studying and unable to look after their children. It is also available to parents and caregivers with specific circumstances, such as a serious disability or illness or if they are receiving Child Disability Allowance for their child.
- 2 The policy responsibility for accessing 9 hours of CCS for 'non-activity' is held by Oranga Tamariki and is intended to allow broad access to ECE for low-income families without it being tied to education, training or employment activities.

What is it for?

- 3 Travel time can be included in the assessment of CCS. The client's travel time is calculated from the time the child is dropped off/picked up at the centre or home-based care and the time the client arrives/departs work, study or training. However, the hours of travel included in the assessment of CCS must not be more than the maximum number of hours the client qualifies for. For example, if a client is getting 20 Hours ECE and qualifies for 50 hours a week subsidy, they can get CCS for attendance over 20 hours but only 50 hours combined, including travel time.

How does it work?

- 4 Individuals apply and MSD pays the subsidy directly to the childcare centre who then charges the parents the residual fee amount.

Expenditure

- 5 The estimated actual expenditure of CCS for the 2024/25 financial year was approximately \$127 million.

Childcare Subsidy income thresholds and maximum rates as at 1 April 2025

Number of children	Gross weekly income				
1	Less than \$1,099.00	\$1,099.00 to \$2,001.99	\$2,002.00 to \$2,168.99	\$2,169.00 to \$2,335.99	\$2,336.00 or more
2	Less than \$1,264.00	\$1,264.00 to \$2,302.99	\$2,303.00 to \$2,484.99	\$2,485.00 to \$2,669.99	\$2,670.00 or more
3 or more	Less than \$1,416.00	\$1,416.00 to \$2,568.99	\$2,569.00 to \$2,786.99	\$2,787.00 to \$3,003.99	\$3,004.00 or more
CS per hour, per child	\$6.52	\$5.20	\$3.64	\$2.03	\$0
CS per week, per child for 50 hours	\$326.00	\$260.00	\$182.00	\$101.50	\$0

Early Learning Payment

Who is it targeted to?

- 6 Early Learning Payment (ELP) is a targeted non-taxable payment to provide earlier access to early childhood education for families with specific needs.

How does it work?

- 7 Family Start and Early Start programmes have a number of components and families who are enrolled are assigned a family/whānau worker who will usually act as a liaison between the family and MSD. ELP is the only part of Family Start and Early Start that is administered by MSD.

What is it for?

- 8 Family Start is an early home visiting programme with a focus on tamariki and looks at the environment of the child, their whānau circumstances, and their safety. Early Start is a home visiting service developed in Canterbury for families/whānau with newborn babies where difficult situations have the potential to negatively impact on the life chances of children in their care.

Expenditure

- 9 The annual expenditure of Early Learning Payments in the 2024/25 financial year was \$9.28 million.

MSD administered Childcare assistance not in scope of the ECE Funding Review

Out of School Care and Recreational Subsidy (OSCAR)

- 10 This subsidy is available to:
- Low-and middle-income families
 - Children aged from 5 to up to 13 years
 - Up to the age of 18 years if the child is receiving Child Disability Allowance.
- 11 To help families with the costs of childcare before and after school hours, and during the school holidays while the parents are working, training or studying and unable to look after their children, or have specific circumstances, e.g. parent or caregiver has a serious disability or illness.
- 12 The estimated actual expenditure of OSCAR for the 2024/25 financial year was approximately \$33.8 million.

Flexible Childcare Assistance (FCA)

- 13 This subsidy is available to:
- Caregivers who are considered at risk of long-term benefit receipt and
 - participating in or entering into a specified employment activity for at least 3 hours a week and
 - have costs associated with **informal** childcare because they are unable to access formal childcare during those hours.
- 14 The number of clients receiving FCA (as at end of June 2024 to May 2025) is 135.
- 15 The total spend on FCA for the year ended June 2025 was approximately \$664,000.

Appendix 2: What does the evidence say?

The role of childcare funding in removing barriers to work, and increasing labour market participation

- 1 This section focuses on the role of childcare funding in supporting participation in employment, education or training by low and middle-income parents by increasing the affordability of childcare.
- 2 Childcare costs are generally the most significant in-work cost for families with children. Reducing the cost of childcare is likely to have a positive effect on both the uptake of childcare and on labour market participation by parents.

Childcare is a significant expense for parents

- 3 There is limited recent analysis of childcare costs in New Zealand,¹⁹ but comparisons with other countries suggests that New Zealand's childcare is one of the least affordable in the OECD for middle-income families. A typical couple both earning the average wage with two children spend 23 percent of their income on childcare,²⁰ according to the data from the OECD in 2020.
- 4 A Statistics New Zealand's 2017 childcare survey found 19 percent of parents working, or wanting to work, cited childcare being too expensive (as their main difficulty in getting childcare). This was behind the reason 'lack of available care at the times needed', at 38 percent. This impacts workforce participation, especially that of mothers.

Impact on work

- 5 The Statistics New Zealand's 2017 childcare survey found that more than two-thirds (68 percent) of parents who experienced difficulties getting childcare in 2017 also experienced work-related consequences due to those difficulties. For this group:²¹
 - 49 percent made changes to their usual work,
 - 23 percent turned down paid work,
 - 20 percent stopped searching for paid work,
 - 18 percent were prevented from making changes to their usual work, and

¹⁹ Information on fees is not collected nationally.

²⁰ Net childcare costs are the net reduction in family budgets resulting from the use of full-time centre-based care. It is calculated by comparing net income of a family that uses childcare and an otherwise identical family where no childcare services are used (for example, if the family can use unpaid informal care). Net childcare costs are calculated for both couples and lone parents assuming two children aged 2 and 3, both attending a childcare centre full-time. For this indicator, couples include one parent earning 67% of the average wage and the other earning minimum wage. Single parents earn 67% of the average wage. Source: [Net childcare costs | OECD](#)

²¹ Note parents may report more than one type of work-related consequence.

- 5.3 percent resigned from paid work.
- 6 This is supported by information collected through the 2022 New Zealand Income Support Survey. Around 24 percent of respondents with children aged under 14 said that during the last 12 months, they had not worked, or worked fewer hours than they wanted, because of the cost of childcare.
 - 7 Additionally, the 2022 Mako Mama – Mangopare Single Parents Project found that two thirds (66 percent) of the low-income single mothers who responded to the survey, who want some, or more, paid work said that needing to look after their child/children was what was getting in the way for them, with 37% also saying that they are unable to afford childcare.

Childcare costs can be a barrier to labour market participation

- 8 In general, research suggests that subsidies that reduce the private cost of childcare increases the childcare attendance of young children and have positive impacts on mothers' labour force participation and work hours.²² Recent research²³ indicates Māori and Pacific families are two or three times more likely to experience issues accessing childcare than Pākehā families. Cost was cited as a major factor, particularly for Pacific parents. In general, more disadvantaged families have more persistent issues with access to childcare. This is particularly true for low-income households.
- 9 Recognising childcare cost as a major barrier to paid work for mothers, in 2019 the Welfare Expert Advisory Group recommended the government review childcare subsidy rate adequacy and consider increasing income thresholds to provide greater subsidisation of childcare costs for low- and middle-income families (Welfare Expert Advisory Group, 2019). They also recommended improving take-up of childcare assistance by promoting greater awareness to working families.
- 10 Inability to access childcare has a detrimental impact on women's earnings and career opportunities. Research in 2022 by the Motu Economic and Public Policy Research Trust identified that the total annual value of wages lost by mothers with a child under three due to lack of childcare access is estimated to be \$116 million.
- 11 The inability to access childcare is also a key barrier for sole parents, especially women. Access to affordable childcare has also been cited as a key barrier to employment within the Māori and Pacific Employment Action plans.

²² Morrissey, Taryn (2017) *Childcare and parent labour force participation: a review of the research literature*. Review of Economics of the Household (201) vol 15: No. 1.

<https://link.springer.com/article/10.1007%2Fs11150-016-9331-3>

²³ <https://www.growingup.co.nz/growing-reports>

The role of childcare funding in meeting Government targets for reducing child poverty rates

- 12 This section provides information about the role that ECE and childcare funding can play in helping achieve progress towards the Government's material hardship portfolio target and child poverty reduction targets. Note when talking about childcare funding here it is broader than just the MSD funding, and includes the full scope of ECE funding.

Parental employment impacts on rates of material hardship and child poverty

- 13 Being in work impacts on the likelihood of experiencing material hardship. Data from MSD's Child Poverty Report finds that households with their main source of income from the government have much higher child material hardship rates than those with mainly market income. About 40 percent for beneficiary households, compared to around 8 percent for working households are in material hardship.
- 14 However, there are also high numbers of working households in material hardship, reflecting the large number of working households and the fact that being in work is not a guarantee of income adequacy. Around 55% of all children in material hardship are in working households and around 45% are in beneficiary households. This also reflects the fact that there are more working than non-working households.
- 15 The material hardship rate for children in sole-parent households is typically three to four times higher than for two-parent households. A major factor in this is the more limited potential for paid hours of employment in a one-adult household. Constraints on the ability of sole parents to share childcare responsibilities within the household is a significant limiting factor in their ability to take up paid employment.
- 16 The impact of the work intensity of households, including the number of adults working, on the likelihood of experiencing material hardship is shown in the following table. It also shows what percentage of overall child material hardship is comprised of different household types:

Household work intensity	Likelihood of experiencing material hardship	Contribution to child material hardship rates
Sole earner household (full time work)	14%	26%
Two+ earner households (with one+ in full time work)	6%	25%

Part-time earner only household	24%	10%
No earner households	42%	37%

Childcare and ECE costs also have an impact on household expenses

- 17 As canvassed above, childcare and ECE costs are a key area of expenditure for many households with children, including low-income households. Reductions in the cost of ECE to low and middle-income families could contribute to the Government's child poverty reduction targets by reducing household costs for families with young children. This would contribute to reducing material hardship, noting that material hardship is experienced across household income bands.²⁴

Low-income families face the greatest barriers in relation to both access and cost of ECE

- 18 Low-income parents have faced disproportionately higher increases in the cost of ECE and support has declined in real terms over time. They also tend to spend a greater proportion of their income on childcare. Data highlights that children from more socio-economically disadvantaged backgrounds participate in ECE at lower rates than children from less disadvantaged families. The vast majority of the childcare/ECE subsidies are universal, with only a small proportion targeted to low-income families and/or focused on supporting affordability and access. It is likely that a considerably higher proportion of the universal spend is accessed by middle- to higher-income families.
- 19 Research from Motu Economic and Public Policy Research in 2022 identified that access to childcare is strongly influenced by socioeconomic status – measured both by household income and deprivation index. Ante-natal unemployment and benefit receipt could also predict lack of access to childcare. It found that higher income, higher educated, predominantly European women are more likely to be accessing ECE than other groups, and for longer hours.²⁵

²⁴ Perry, Bryan (2024). *Child Poverty in New Zealand. Overview and Selected Findings*. Ministry of Social Development. Wellington, NZ. <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/research/child-poverty-in-nz/index.html>

²⁵ Sin, Isabelle (2022). *Access to childcare interim report 1: Who has difficulty accessing affordable childcare?*. Motu Economic and Public Policy Research. <https://www.motu.nz/assets/Uploads/Access-to-Childcare-note-FINAL.pdf>

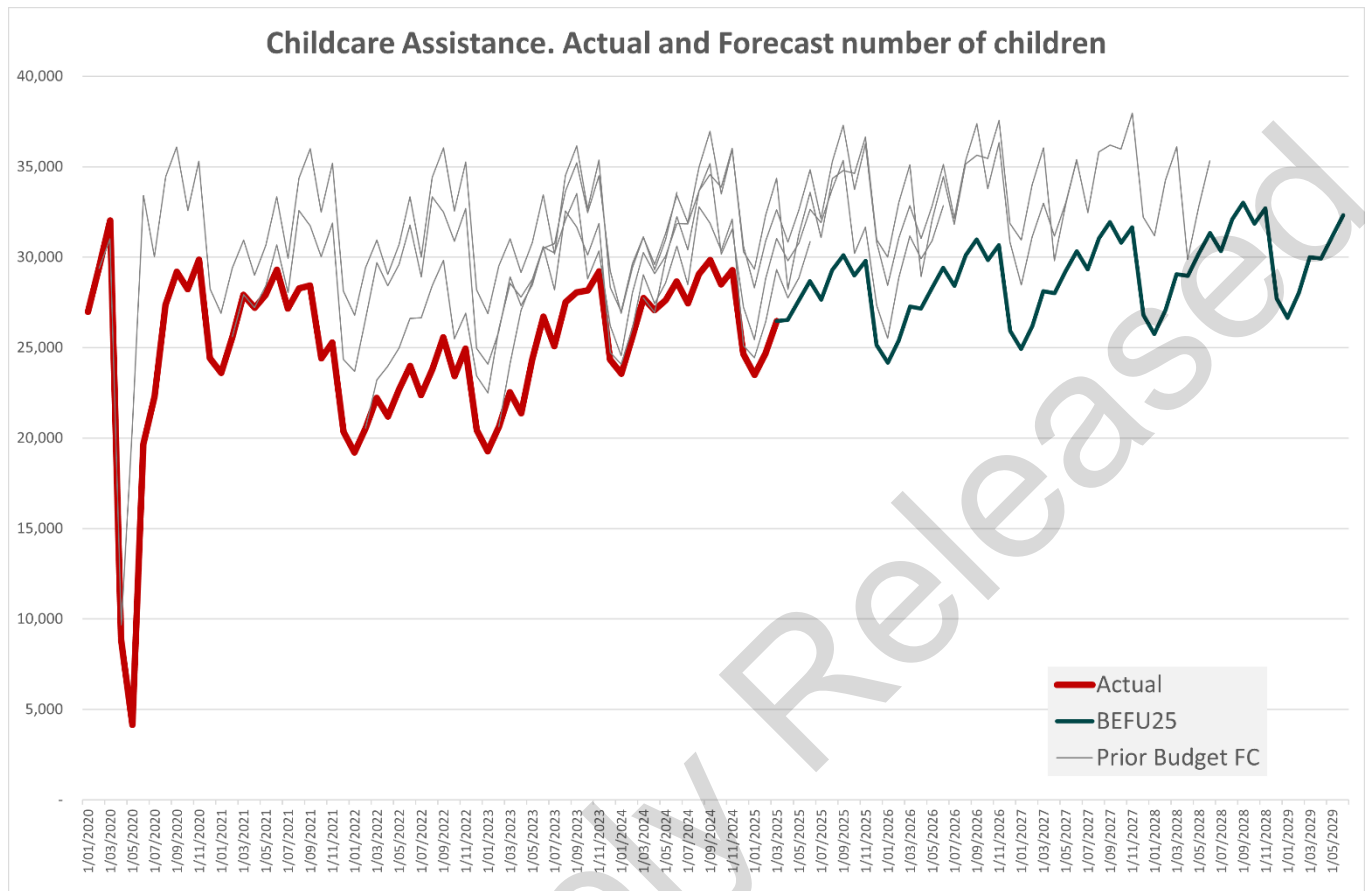
Childcare and ECE can influence labour market participation

- 20 Reductions in the cost of ECE to low-income families could contribute to the Government's child poverty reduction targets by increasing parental earnings through improved ability to participate in the labour market.
- 21 There is robust data and evidence on the impact of childcare costs on labour market participation, particularly for sole parents and mothers. Research finds that, while the effect of childcare costs on the labour supply of women is rather limited on average, it is much larger and more significant (greater elasticity) for sole mothers, mothers at the bottom of the income distribution, and for mothers with lower education levels.
- 22 MSD's 2022 New Zealand Income Survey found that approximately 25 percent of respondents with children said they had to work less or not work at all over the past 12 months due to the cost of childcare, and around 20 percent of respondents with children and a partner said that their partner had to work less or not work for the same reason. Just under 88 percent of respondents with children said that balancing work with any care responsibilities was important or very important when making decisions about paid work.

High quality ECE can mitigate the adverse impacts of child poverty and material hardship

- 23 Evidence indicates that participation in high quality ECE can help mitigate the negative effects of poverty and socio-economic disadvantage in the home, by supporting children to develop competencies and skills that provide a foundation for ongoing learning, development and wellbeing.

Appendix 3: Actual and forecast number of children receiving childcare assistance for the years 2020 to 2029



The grey lines depict previous Budget forecasts of the number of children anticipated to receive childcare assistance. These have been forecast to be higher than what has materialised [as depicted in red].

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