Childcare inquiry

Final report

December 2023

Acknowledgment of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

Australian Competition and Consumer Commission
Land of the Ngunnawal people
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

Data notes:

The results of these studies are based, in part, on data supplied to the ABS under the *Taxation Administration Act 1953*, *A New Tax System (Australian Business Number) Act 1999*, *Australian Border Force Act 2015*, *Social Security (Administration) Act 1999*, *A New Tax System (Family Assistance) (Administration) Act 1999*, *Paid Parental Leave Act 2010* and/or the *Student Assistance Act 1973*. Such data may only be used for the purpose of administering the *Census and Statistics Act 1905* or performance of functions of the ABS as set out in section 6 of the *Australian Bureau of Statistics Act 1975*. No individual information collected under the *Census and Statistics Act 1905* is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements.

Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to MADIP and/or BLADE data under Section 16A of the *ABS Act 1975* or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the *Census and Statistics Act 1905*, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation.

Terminology in this report:

The ACC has used the term 'childcare' in this report, reflecting that we have been directed to examine provided childcare services and not standalone preschools/kindergartens, however, we acknowledge that language such as 'early childhood education and care' may better reflect the role of early childhood educators and teachers and be preferred by some people in the sector.

The ACCC has also used the term 'children with disability' throughout this report, however, we acknowledge that the community has diverse preferences for identifying disability.

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Contents

Glossary

Aboriginal Controlled Community Organisation	An organisation that delivers services and is governed by and connected to the community in which it delivers services.
Activity test	An assessment of the combined hours of work, training, study, recognised voluntary work or other recognised activity undertaken by a family. The activity test is used to determine the number of hours of subsidised childcare a family is entitled to.
Additional Child Care Subsidy	A payment that provides targeted fee assistance to households and children facing barriers in accessing affordable childcare in certain circumstances.
Australian Children's Education and Care Quality Authority (ACECQA)	The national body established under the National Law to support states and territories to deliver best-practice regulation of childcare and ensure national consistency in improving quality outcomes for children.
BLADE	Australian Bureau of Statistics' Business Longitudinal Analysis Data Environment.
Centre based day care	Childcare that is provided in licensed or registered centres. It can include any pattern or arrangement of care provided in this setting but is primarily focussed on children up to 6 years of age. This term incorporates childcare such as long day care and occasional care.
Child Care Subsidy	Government assistance to help households with the cost of childcare.
Childcare	Any service providing or intending to provide education and care on a regular basis to children under 13 years of age
Disability and/or complex needs	May include children with disability and/or with needs who require or will benefit from specific considerations or adaptations. This terminology is intended to be broad and inclusive of those children who may not identify as having a disability. We acknowledge that some specific supports required by children with disability may not be considered 'complex'.
Daily fee	The daily fee charged for childcare services. This is calculated by total fees charged divided by the total days charged.
Early childhood teacher	An educator with an approved early childhood teaching qualification.
Educator	A person who provides care at a childcare service, in their own home or, in the case of in home care, in the child's own home.
Enrolments	The ACCC calculates enrolments figures based on the number of children who used approved childcare services at least once during the given period, irrespective of duration or frequency.
Family day care	A type of childcare that is usually provided in the home of an educator.

Hourly fee	The hourly fee of childcare services. This is calculated by dividing total fees charged by total hours charged.
Hourly rate cap	The maximum price up to which the Australian Government will subsidise childcare.
Households	Each Child Care Subsidy user is counted as a separate household. A child can belong to multiple households.
In home care	A flexible form of childcare where an educator provides care in the child's home. It is restricted to households who are unable to access other forms of childcare.
Large provider	A provider operating 40 or more services.
Medium provider	A provider operating 5 to 39 services.
National Law and National Regulations	The *Education and Care Services National Law Act 2010 and the Education and Care Services National Regulations 2011*, which set a national standard for childcare across Australia. In effect, the same law is applied in each state and territory but with some variation for the needs of each state or territory.
National Quality Framework	A jointly governed uniform national approach to the regulation and quality assessment of childcare services, including a national legislative framework that consists of the National Law and National Regulations; a National Quality Standard; and an assessment and rating system.
National Quality Standard	A national quality benchmark for childcare services covered by the National Quality Framework.
Nominal terms	Nominal terms refer to the current monetary value and does not adjust for the effects of inflation.
Out-of-pocket expenses	The expenses to households after taking into account the Child Care Subsidy (including any Addition Child Care Subsidy and excluding any subsidy amount withheld).
Outside school hours care	A service that provides childcare for before and after school hours and during school vacations for children who normally attend school.
Preschool	A service that provides an early childhood education program, delivered by a qualified teacher, often but not necessarily on a sessional basis in a dedicated service. Alternative terms used for preschool in other states and territories include kindergarten, pre-preparatory and reception. Standalone preschools are not approved services for the purposes of the Child Care Subsidy, and instead are co-funded funded by the Australian Government and state and territory governments.
Provider	A provider of childcare that has been approved under Family Assistance Law to receive and pass on the Child Care Subsidy on behalf of the Australian Government.
Real terms	Real terms measure prices that have been adjusted for inflation.

Remoteness Areas	Remoteness Areas divide Australia into 5 classes of remoteness which are characterised by a measure of relative geographic access to services. These classes are Major Cities, Inner Regional, Outer Regional, Remote and Very Remote.
Regulatory authority	The state and territory authority responsible for the administration of the National Quality Framework.
Service	A service of a provider, that has been approved under Family Assistance to receive and pass on the Child Care Subsidy on behalf of the Australian Government.
Session fee	This is calculated by dividing total fees charged by the total sessions charged.
Session of care	The period that a provider is charging a fee for providing childcare to an enrolled child.
Small provider	A provider operating 1 to 4 services.
Socio-Economic Indexes for Areas (SEIFA)	Combines Census data such as income, education, employment, occupation, housing and family structure to summarise the socio-economic characteristics of an area. This report uses the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD), which focuses on both advantage and disadvantage.
Statistical Areas	Geographic areas specified by the Australian Bureau of Statistics for special analysis. 'Statistical Area Level 2' (SA2).
Subsidised hours	Hours eligible for government assistance to help households with the cost of childcare.

Acronyms

ACCS	Additional Child Care Subsidy
CCS	Child Care Subsidy
CPI	Consumer Price Index
NQF	National Quality Framework
NQS	National Quality Standard
SEIFA	Socio-Economic Indexes for Areas
Organisation	
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACECQA	Australian Children's Education and Care Quality Authority
AIFS	Australian Institute of Family Studies
IPART	Independent Pricing and Regulatory Tribunal
NDIS	National Disability Insurance Scheme
OECD	Organisation for Economic Co-operation and Development

Executive summary

As the competition and consumer regulator, the ACCC has been directed by the Treasurer to conduct an inquiry into the market for the supply of childcare services.

In our examination, we have assessed how childcare markets and competition are working, and have considered the impacts of market outcomes as they affect different households across Australia. We have also assessed price changes that have resulted from Australian Government policies, including the recent changes to the Child Care Subsidy.

The ACCC finds childcare providers – both for-profit and not-for-profit providers – supply services for children and households across significantly different locations and care types, with households also facing appreciably different circumstances.

These range from children in inner metropolitan, often highly advantaged households, to children needing services in very remote locations, as well as children cared for under out of home care arrangements with a guardian. All can have vastly differing needs.

Our analysis and engagement with people throughout the community shows that while many childcare markets may be operating as could rationally be expected, market forces alone are not meeting the needs of all children and households.

In particular, childcare markets under current regulatory settings are not delivering on the key objectives of accessibility and affordability. For example, we have observed:

- Households with low incomes spend relatively more of their disposable income on out-of-pocket childcare expenses compared with other households.
- There tends to be a lower proportion of children from lower socio-economic advantaged areas enrolled in some form of childcare.
- There is a lower supply of childcare services in remote and very remote areas.
- First Nations children are less likely to be enrolled in childcare and their households face additional barriers to accessing formal childcare – reflecting both practical and cultural and historical factors.
- Family day care shows clear signs of contraction, which disproportionately affects culturally and linguistically diverse households, who often seek culturally inclusive childcare.
- Prices for in home care services, used by children and households for whom other forms of care are not suitable, have increased substantially in recent years, while at the same time the number of in home care services has fallen by half.

Our analysis also shows that educator labour force shortages are affecting all childcare markets, in terms of both the supply of childcare services and the costs to supply these services. Labour shortages are particularly pronounced for services in remote areas of Australia and in respect of educators working in family day care and in home care services.

The availability and quality of educators and staff delivering childcare services has a significant impact on the quality, reputation and profitability (through influencing occupancy) of a service. Stable tenure and continuity of staff also contributes to service viability.

We find that affordability of childcare services improved immediately following the Cheaper Child Care reforms that took effect in July 2023.

The initial impact of the changes to the Child Care Subsidy rates has been positive for childcare users, reducing out-of-pocket expenses for all types of care. For centre based day care, the average reduction in out-of-pocket expenses was 11.0%; for outside school hours care it was 8.8%; for in home care it was 12.0% and for family day care the reduction in out-of-pocket expenses was 13.8%.

Out-of-pocket expenses generally decreased for all households across the household income distribution, with the reduction proportionately largest for the lowest income decile group. Households in this income group still spent the largest proportion of their estimated disposable income on childcare.

Our inquiry finds that historically when subsidies increase, out-of-pocket expenses decline initially but then tend to revert to higher levels. This is because subsequent fee increases erode some of the intended benefit for households over time.

Further to this, our inquiry finds that that the design and implementation of the Child Care Subsidy (including its hourly rate cap) has had only limited effectiveness in placing downward pressure on fees and constraining the burden on taxpayers.

In particular, the hourly rate cap does not act as an effective signal of high prices. Providers of centre based day care consider many factors other than the cap when setting daily fees, including competitors' prices, households' willingness and ability to pay, and costs.

Once households have taken the decision to use childcare, and how much to use, they choose between different centre based day care services and their prices within the context of prevailing prices in local markets. Households also use informal measures of quality as key considerations once the decision to use childcare is made.

For slightly different reasons, we also find the hourly rate cap has had limited influence on prices for family day care, outside school hours care and in home care, as well.

In seeking to support the early childhood education and care sector, there is a range of objectives that governments may wish to pursue.

This includes affordability of and access to childcare for households; the provision of quality educational and developmental outcomes for children; supporting workforce participation for parents and guardians; and encouraging and recognising the contribution childcare educators make to children's lives and development.

The findings of the ACCC's inquiry – informed by detailed cost and pricing data along with extensive community engagement – suggest that a single policy approach that achieves all of these desired outcomes for all children and households is unlikely to be possible.

Childcare services and supporting government policies (across different levels of government) are highly interconnected. A change to one aspect of the system can have wide-ranging impacts across the sector.

A mix of different regulatory measures and government support is likely to be required to meet the needs of different types of children and households in a range of different locations and circumstances across Australian society.

Policy measures that continue to apply a 'one size fits all approach' across the sector will leave some communities under-served, unserved or without adequate and appropriate access to childcare services.

We find that the highly localised nature of childcare markets; the way parents select services based on availability and informal assessments of quality; and providers' supply decisions mean that in practice there are a range of market configurations and outcomes. They can broadly be characterised as geographic and local areas, as well as certain cohorts of childcare users that are:

- **adequately served,**
- **under-served, or**
- **unserved.**

The ACCC's view is that these different types of markets will require a different mix of government interventions if governments' objectives and the needs of local communities and particular cohorts of users are to be met.

Current interventions have a demand-side focus but additional measures may be required. While demand-side subsidies improve the purchasing power of consumers, we find that the use of such demand side subsidies can result in the market being further incentivised to supply childcare services to the areas with the greatest demand and willingness or capacity of households to pay.

To ensure there is supply of childcare services in areas that have very high costs to supply and would otherwise be considered unprofitable or unviable, supply-side subsidies should be considered. Such supply-side subsidies can be diverse in design and implementation.

Supply-side funding is directed towards assisting providers with the costs of supplying services. It can be demand oriented, such as providing funding to a provider on a 'per child basis', or it can entail block funding such as a grant or other bulk payment for capital or operating expenses.

The range of market types – in particular in areas *under-served* and *unserved* – and the need to develop appropriate government measures to suit the needs and characteristics of local communities **strongly suggests some form of broad government stewardship for childcare markets across the sector is warranted**.

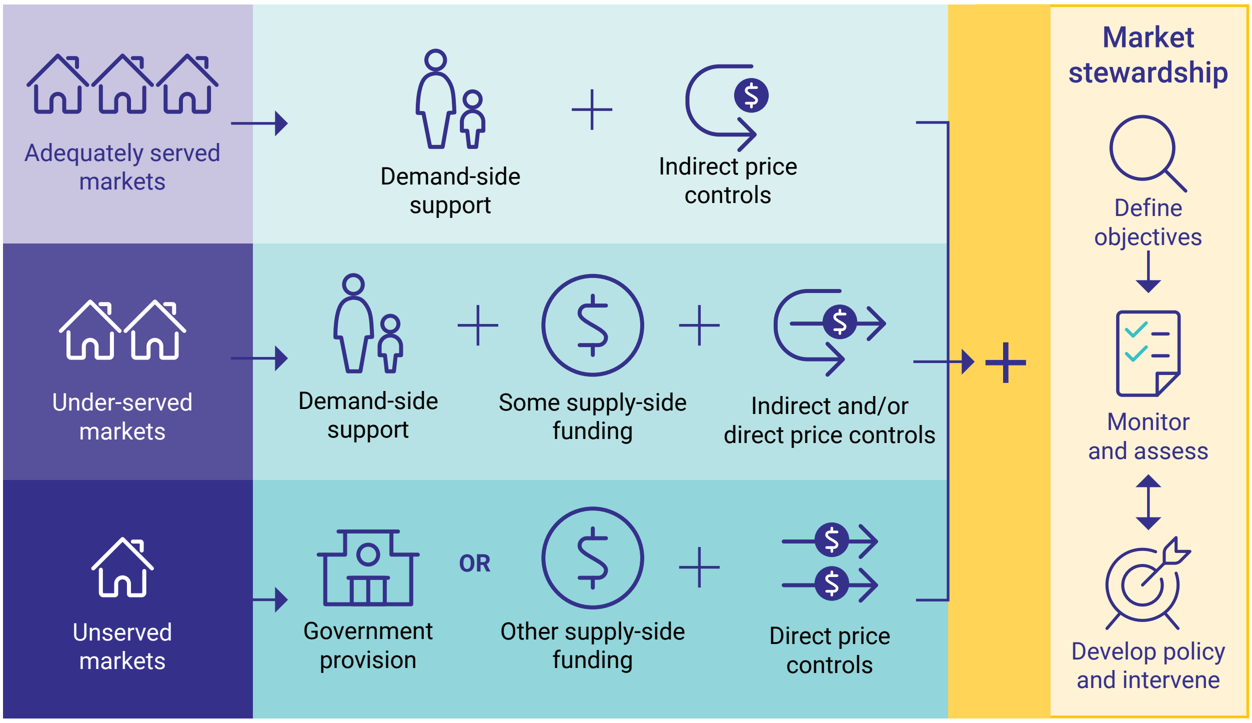
Figure 1 sets out an approach to delivering childcare services across the different identified market types.

- For **adequately served markets**, demand-side support would remain as the primary type of intervention, with some strengthening of market monitoring arrangements (with a credible threat of further regulatory intervention).
- For **under-served markets**, such as areas with limited availability of places or households with children with disabilities or complex needs, it is likely that a mix of models will be needed. This could include a switch from reliance on demand-side subsidies to also include some supply-side funding, whether through government or non-government providers to support the provision of services, alongside complementary regulation (including price and other non-price regulation).
- For **unserved markets,** there may be a potential role for government to support the direct delivery of services. This could be done through the government provision or supply-side funding to a non-government provider to enable delivery of a service, accompanied by necessary complementary regulation or other requirements on providers.

As has been noted elsewhere, stewardship-type roles can be particularly relevant to care-based economies as competition-driven market incentives and dynamics do not always work to achieve efficient outcomes in care and support markets.[1]

1 Australian Government, Department of Prime Minister and Cabinet, June 2023, Draft National Strategy for the Care and Support Economy, p 45.

Figure 1: Types of Australian childcare markets and recommended regulatory arrangements



In making this recommendation, the ACCC acknowledges that market stewardship can mean different things in different contexts, and stakeholders will doubtless have different ideas of what stewardship should involve for the childcare sector.

Based on our extensive cost and pricing data collection and analysis, our stakeholder roundtables and consultation, and the extensive feedback we received on the draft recommendations and findings in our September interim report, our view is that a market stewardship role will need to be broad. It will need to consider the sector and interactions across it as a whole, in order to effectively monitor and shape different childcare markets across the country.

We consider a market steward role should be designed and implemented with a view to taking a holistic approach to the sector. Such a role should be broader than just developing and monitoring compliance with any direct or indirect pricing mechanism. The ACCC recommends that a market stewardship role – undertaken by an appropriate body, to be determined – should encompass active oversight and management of issues relevant to the childcare sector, including:

- regular market monitoring of local area market characteristics and trends
- periodically determining and applying the most appropriate form of government support (including which type of subsidies may be warranted), as well as complementary regulatory measures
- monitoring and assisting in managing local area market workforce issues
- regularly monitoring and supporting providers to ensure they can meet their quality requirements, government objectives and expectations of the community
- developing appropriate measures and monitoring outcomes of government regulation and subsidy against each stated policy objective.

Our final report outlines a total of **31 findings** and makes **8 recommendations** which are outlined below.

The ACCC extends its deepfelt appreciation to many thousands of parents and guardians, educators, providers and other stakeholders who have made such a substantial contribution to this inquiry.

Findings and recommendations

The ACCC makes a total of 31 findings and 8 recommendations in this report.

Findings

1. Childcare services in Australia provide education, care and developmental support to a diverse range of children and households in significantly different locations and situations.
2. Childcare markets under current market settings are not delivering on accessibility and affordability for all children and households across Australia.
3. Childcare markets in Australia can broadly be described as adequately served, under-served and unserved.
4. A single approach to government regulation and intervention ('one size fits all') is unlikely to deliver government objectives or meet community expectations across all childcare markets in Australia.
5. Childcare services and government support and regulation (across different levels of government) are highly interconnected. A change to one aspect of the system can have wide-ranging impacts across the sector. Issues and policy responses cannot be considered in isolation and must be assessed across the whole childcare sector.

Prices

6. Childcare fees across all services have grown faster than inflation and wages since the introduction of the Child Care Subsidy.
7. Outside school hours care licence agreements likely constrain fee growth.

Costs and profits

8. Labour is the main driver of cost for supplying childcare, accounting for 69% of the total costs for centre based day care services and 77% of total costs for outside school hours care services. Labour costs have increased significantly, especially for large centre based day care providers over the last 5 years.
9. Land and related costs are the other significant driver of cost for centre based day care providers.
10. Not-for-profit providers appear to face lower land costs than for-profit providers, but these savings are invested into labour for centre based day care services.
11. Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and greatest socio-economic advantage.
12. On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.
13. Occupancy is a key driver of revenue and therefore profits and viability.

14. On average, margins are higher:
    a. for for-profit providers of centre based day care than not-for-profit
    b. in Major Cities and more advantaged areas
    c. for services with higher quality ratings.
15. The ability to attract and retain staff is a key determinant of perceived quality, which affects the profitability and viability of a service.

Competition

16. Parents' and guardians' demand for centre based day care is driven by a complex combination of factors. Where a choice of services is available, parents and guardians look to prevailing market prices, however informal measures of quality are key considerations.
17. Providers' supply decisions are influenced by expectations of viability, which are heavily influenced by demand for childcare in an area. When considering current or expected future demand, the demographics of an area (many of which are related to relative socio-economic advantage) and existing supply are key factors providers take into account.
18. Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets. These are more pronounced in regional and remote locations, and impacts are exacerbated for suppliers serving communities or children experiencing disability, complex needs and/or disadvantage.
19. The nature of competition reflects the unique demand and supply factors in childcare markets.
    a. For centre based day care, price plays a less influential role once households have chosen how much childcare to use and found available services. Where providers compete to attract and retain children and families, they do so on the basis of quality.
    b. For outside school hours care, providers compete on price and quality for the opportunity to operate a particular service. Because children generally attend the outside school hours care service attached to their school, parents and guardians choose between using the service (if it has availability and they are happy to pay the service fee) or finding alternative care (such as informal care).
    c. For family day care, a preference for this type of care is based on its specific service characteristics – including a home-like environment, small number of children cared for and consistency of a single educator. Once a household has decided to use family day care, they will consider similar factors to centre based day care when choosing a service (with location, availability and quality more influential than price). If there is limited availability or parents and guardians are not satisfied with quality of services available, they may consider centre based day care as an alternative.
    d. For in home care, strict eligibility requirements mean it is only available where other forms of care are not suitable or accessible. Where a household is eligible and a provider is available, price is the primary consideration with households choosing between using in home care at the service price or not using the service at all.

Family day care and in home care services

20. The numbers of family day care services and in home care services have reduced significantly across Australia since 2018.
21. Reductions in the number of family day care services has a disproportionate impact on culturally and linguistically diverse households and on households in less advantaged areas.
22. There is little financial incentive for family day care and in home care educators to enter or remain in the sector, as effective wages are below comparable award rates for other forms of childcare.
23. The level of funding under the hourly rate cap for in home care is inadequate. The family day care hourly rate cap is also unlikely to be sufficient to adequately cover costs and recompense educators.
24. The in home care sector is unlikely to appropriately serve all the children and households it is intended to.

Impact of the price regulation mechanisms

25. The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and constraining the burden on taxpayers. The hourly rate cap does not act as an effective signal of high prices.
    a. For centre based day care, providers consider many other factors when setting daily fees besides the hourly rate cap. These include competitors' prices, households' willingness and ability to pay, and costs, as well as the activity test and households' out-of-pocket expenses.
    b. For outside school hours care, most services are priced well below the hourly rate cap. Fees are often determined over a longer period of time and defined in licence agreements, and not necessarily re-evaluated each year. As such, the hourly rate cap generally does not have much bearing on provider pricing decisions.
    c. For family day care and in home care, there is a high share of services charging above the hourly rate cap, which likely reflects the costs of providing these services exceeds the hourly rate cap.
26. Centre based day care providers are often optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.
27. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.
28. The website StartingBlocks.gov.au is not widely used by parents and guardians. It relies on services to provide information and this information can be out of date or not supplied. The website administrator, ACECQA, does not receive data on session length so cannot publish the session length on the StartingBlocks website. This significantly limits parents' and guardians' ability to estimate out-of-pocket expenses and easily compare fees between services.

International comparisons and price regulation models

29. OECD data indicates centre based day care in Australia from 2018 to 2022 was relatively less affordable for households than in most other OECD countries.
30. There appears to be a trend across OECD countries towards supply-side subsidies to cover providers' costs of provision.
31. As a condition of supply-side funding, some Australian states and territories are requiring providers not to increase fees more than is reasonably necessary, and imposing reporting and monitoring requirements.

Recommendations

The ACCC makes the following recommendations based on our analysis and findings about childcare markets in Australia. In our September interim report, we published draft findings and recommendations and sought feedback on our proposals from stakeholders. The final recommendations take account of this feedback.

Proposed refinements to existing system

Recommendations 1 to 4 set out suggested improvements we recommend be made to the existing regulatory arrangements for childcare markets.

The interconnectedness of government supports and policies mean consideration needs to be afforded to the impacts of changes across the sector and relevant markets, and on different cohorts of parents, guardians and children.

Recommendation 1

The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its early childhood education and care policies and supporting measures, including the price regulation mechanism.

Recommendation 2

The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and hourly rate cap, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:

a. Determining an appropriate base for the hourly rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs. As part of this, the family day care and in home care hourly rate caps should be reviewed and consideration given to increasing them. This should ensure providers can adequately cover costs, including appropriate labour costs.

b. Changing the hourly rate cap to a daily rate cap for centre based day care services to improve price transparency. There would need to be more detailed exploration of the incentives and consequences of such a change, including consideration of setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality. In particular, the need to ensure flexibility of operating times for households or children with disability and/or complex needs should be considered.

c. Removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to disadvantaged children (for example, households with low incomes or in disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.

d. A stronger role for governments to monitor providers' prices, costs, profits and outcomes, supported by a credible threat of regulatory intervention to place downward pressure on fees.

Recommendation 3

The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents' and guardians' information needs – balanced against the costs of collecting and publishing information.

This could include:

a. considering the frequency, granularity and scope of information submitted by childcare providers and published, to ensure currency and relevance for parents and guardians

b. focusing on collecting and publishing information that assists parents and guardians to accurately estimate out-of-pocket expenses and relevant information to assist parents and guardians assess quality factors

c. incorporating input and advice from the Behavioural Economics Team of the Australian Government, or other behavioural economist

d. ensuring information is appropriately and effectively publicised to parents and guardians.

Recommendation 4

The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.

Reforms that require broader policy considerations for more fundamental change

Recommendations 5 to 8 relate to broader design changes to the childcare system.

Recommendation 5

The Australian Government should design policy options to better meet the needs of children and households for whom in home care services are intended to serve.

Recommendation 6

a. The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.

b. Consideration should be given to identifying alternative approaches for First Nations households to access the Child Care Subsidy (and other childcare entitlements). This should recognise the current lack of flexibility in the system to take account of, for example, kinship care arrangements. It should also recognise and account for the barriers that can exist to stop or inhibit First Nations households engaging with Centrelink or Services Australia, such as practical documentation or evidence barriers and historical and cultural barriers associated with past trauma.

Recommendation 7

A market stewardship role should be considered for government, by both Australian and state and territory governments, to monitor, regulate and shape childcare markets to ensure they deliver government objectives.

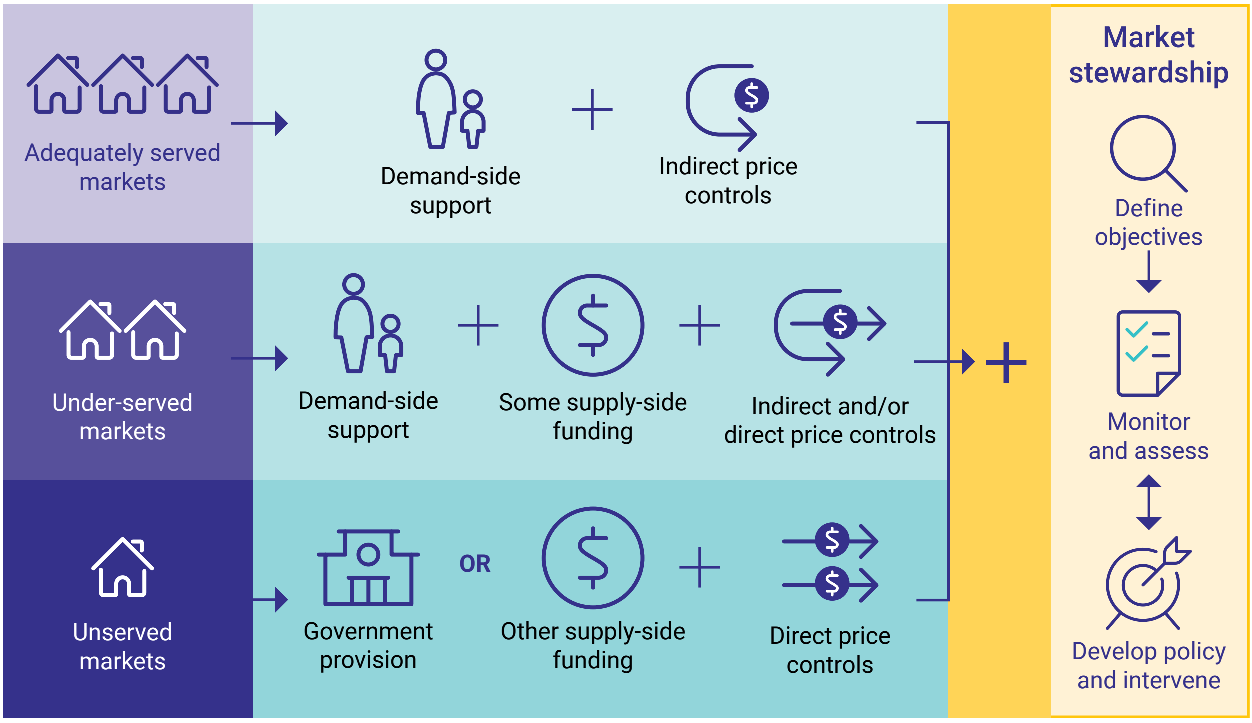
A key part of this role should be identifying under-served or unserved markets and cohorts of childcare users. The stewardship role should also encompass consideration of appropriate interventions, whether through demand-side subsidies or supply-side subsidies, or a mix, as well as any complementary regulatory measures that may be necessary.

Recommendation 8

The ACCC supports further consideration of the benefits and challenges of supply-side subsidies (particularly as a longer term consideration) coupled with other more direct forms of market intervention, as appropriate.

Key Infographics

Types of Australian childcare markets and recommended regulatory arrangements



Impact of the Cheaper Child Care reforms

NATIONAL AVERAGE FEES AND OUT-OF-POCKET EXPENSES
SEPTEMBER QUARTER 2023

Centre based day care	Family day care	Outside school hours care	In home care
$133.96 Daily fee per child	**$95.45** Daily fee per child	**$31.62** Session fee per child	**$318.71** Daily fee per family
▲ **10%** From Sept qtr 2022 to Sept qtr 2023	▲ **8%** From Sept qtr 2022 to Sept qtr 2023	▲ **7%** From Sept qtr 2022 to Sept qtr 2023	▲ **8%** From Sept qtr 2022 to Sept qtr 2023
$44.42 Daily out-of-pocket expense per child	**$25.89** Daily out-of-pocket expense per child	**$12.25** Session out-of-pocket expense per child	**$58.20** Daily out-of-pocket expense per family
▼ **8%** From Sept qtr 2022 to Sept qtr 2023	▼ **9%** From Sept qtr 2022 to Sept qtr 2023	▼ **9%** From Sept qtr 2022 to Sept qtr 2023	▼ **1%** From Sept qtr 2022 to Sept qtr 2023

Around 1 in 5 centre based day care services charge above the hourly rate cap – 42% of large for-profit services are above the cap and 15% of large not-for-profit services

Around 1 in 3 family day care services charge above the hourly rate cap

Childcare prices in 2023

NATIONAL AVERAGE FEES
SEPTEMBER QUARTER 2023

Centre based day care	Family day care	Outside school hours care	In home care
$133.96 Daily fee per child	**$95.45** Daily fee per child	**$31.62** Session fee per child	**$318.71** Daily fee per family
▲**10%** From Sept qtr 2022	▲**8%** From Sept qtr 2022	▲**7%** From Sept qtr 2022	▲**8%** From Sept qtr 2022
▲**4%** In real terms	▲**2%** In real terms	▲**2%** In real terms	▲**2%** In real terms

TRENDS IN AVERAGE FEES
SEPTEMBER QUARTER 2022 TO SEPTEMBER QUARTER 2023

The average daily fee for centre based day care increased:

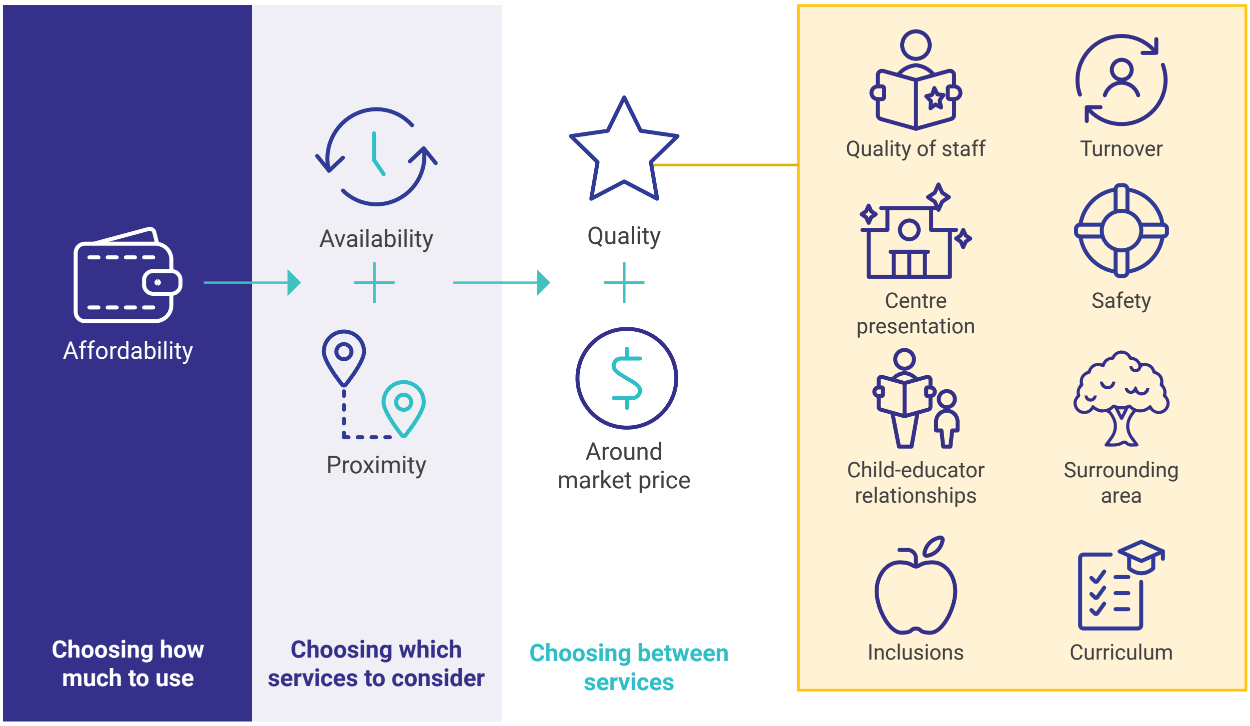
▲10% more for **for-profit providers** compared to ▲8% for **not-for-profit providers**

▲14% more in **very remote Australia** compared to ▲10% for **major cities**

▲10% more for **households with low incomes** compared to ▲8% for **households with higher incomes**

Parents' and guardians' decision-making process when choosing childcare

CHOICE MAP FOR CENTRE BASED DAY CARE



1. Overview of childcare markets

1.1 Key points

- Childcare plays a vital role in Australian society – benefitting children by introducing education and care which supports development from a young age, and also enabling parents and guardians to work, volunteer, train or study. At scale, the ability for parents and guardians to work, volunteer, train or study has important productivity benefits for the broader Australian economy.
- The Australian households and children who require childcare are diverse. Childcare services are provided to children and households in highly urbanised areas and from highly advantaged circumstances, through to households in very remote locations and with specific needs or requirements.
- The role price plays in childcare markets depends on the decision parents and guardians are making. It is a key factor in parents and guardians deciding whether, and how much, formal childcare they will use. However, after that, parents and guardians may place greater weight on availability in local markets and the quality of services. We have also observed very limited price variation within local area markets. Centre based day care providers often compete on quality, and price to a prevailing local area market level, based on parents' and guardians' willingness and capacity to pay.
- Childcare markets are operating as could be expected under current policy settings. Childcare consumers and providers respond rationally to supply, demand and profitability considerations. However, the dynamics of childcare markets and current price regulation mechanisms are resulting in outcomes that are not meeting the expectations of everyone in the community or the objectives government has for the childcare sector.
- In particular, there are under-served or unserved childcare markets across Australia, arising from inadequate provision of childcare services to certain communities. We have observed underserved areas or cohorts that include:
  - households in remote areas
  - households in less advantaged or low socio-economic areas
  - households with children with disability and/or complex needs
  - First Nations children and households
  - culturally and linguistically diverse children and households
  - households with children aged 0–2.
- Inadequate supply of childcare to these groups is likely due to expectations of low profitability or viability, and may also be influenced by higher costs of service.
- There has been a decline in availability of family day care services, which has reduced flexibility and options in the market, particularly for households that are culturally and linguistically diverse, in remote areas, in areas of disadvantage, or that work non-standard hours.

- There has also been a decline in in home care services, reducing accessibility for households that cannot access other types of care.
- We find operating margins at centre based day care services located in Major Cities and in advantaged areas are generally strong. This appears to be encouraging supply in these areas, particularly for for-profit providers. However, profitability can vary significantly within markets depending on occupancy levels. Most childcare entities or businesses do not appear to be making excess profits, and approximately 25% of childcare providers structured as companies are making almost no profit or at a loss.
- Costs have risen significantly from 2018 to 2022, in particular for centre based day care where costs have grown faster than inflation. The increase in costs over time has primarily been driven by labour costs. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for higher costs in the areas of most remoteness and greatest socio-economic advantage. We also find that there are additional costs associated with delivering services to children with particular characteristics and requirements. Increased costs of supply in certain areas or to certain cohorts, particularly if coupled with low expectations of profitability, may disincentivise supply to those markets.
- The sector has a serious workforce shortage, which acts as a barrier to more suppliers entering or expanding their operations in childcare markets. As labour is a key driver of costs, increasing costs associated with attracting and retaining staff can highly impact service profitability and viability. Staffing constraints and high labour costs are more acute for suppliers serving regional and remote locations, households in areas of disadvantage, children with disability and/or complex needs, First Nations communities and 0 to 2 year olds.
- The design and implementation of the Child Care Subsidy and StartingBlocks.gov.au have had limited influence on supply and consumer behaviours, limiting the extent to which they have achieved the intended objectives. They have had limited impact in placing downward pressure on prices and constraining the taxpayer burden over time.
- Current Australian Government market interventions have a demand-side focus, but for some markets and areas there would be benefit in consideration alternative or additional measures, including supply side measures, to better support outcomes.
- The priority objectives (including relative priority) that the Australian Government seeks to achieve from the childcare sector must be clearly articulated. Regulatory mechanisms and pricing interventions must be designed and implemented in line with these objectives and their relative priority. In a care economy like childcare, there is a need for active government stewardship of markets to achieve desired social and economic objectives across a range of markets.

This report is the ACCC's final report as part of our inquiry into childcare services in Australia. The report provides the ACCC's observations about childcare markets and addresses matters in the Treasurer's direction. The key points in each chapter and our findings and recommendations draw on analysis from our June and September interim reports, as well as new supplementary analysis and stakeholder feedback included in this report.

This chapter summarises the ACCC's key observations on how childcare markets function. In line with the ACCC's purpose and objectives as the competition and consumer regulator, this chapter focuses on the impact that childcare markets, competition and price regulation mechanisms are having on consumers – that is, Australian children and households.

This chapter is structured as follows:

- Section 1.1 sets out key points made in this chapter.
- Section 1.2 sets out the background to our inquiry and the areas of focus as per the inquiry directions.
- Section 1.3 summarises the key characteristics of childcare markets that the ACCC has observed throughout the inquiry.
- Section 1.4 discusses childcare markets and outcomes.
- Section 1.5 provides detail on the prevalence of under-served or unserved markets across Australia, arising from inadequate provision of childcare services to certain cohorts or regions.
- Section 1.6 outlines the ways in which current price regulation mechanisms have not delivered on their stated objectives, or other ways in which they have adversely impacted consumers' affordability and accessibility.
- Section 1.7 outlines the ACCC's views about the need for the Australian Government to clearly articulate the objectives (and any relative priority between objectives) of childcare policy, and the likely outcomes from stewarding the sector.

1.2 Background to the inquiry

The Treasurer, the Hon Dr Jim Chalmers MP directed the ACCC to conduct an inquiry into the market for the supply of childcare services (Appendix 1).

Under the direction, the ACCC was required to consider the following 4 childcare services, each of which are eligible for the Child Care Subsidy payment:

- centre based day care – care based in a licensed or registered centre and primarily for children aged between 0 and 6 years
- outside school hours care – services which offer short sessions of care for school-aged children, immediately before and/or after school hours, and/or longer sessions during school holiday periods
- family day care – care provided by an individual educator and typically provided in the educator's own home. Care is provided for a small number of children, compared to centre based day care
- in home care – care for children for whom other forms of care are not suitable or accessible. This may arise where households have challenging or complex needs, or due to geographic isolation including rural and remote areas.

Standalone preschools and kindergartens, which are co-funded by the Australian Government and state and territory governments and not eligible for Child Care Subsidy, are not within the scope of this inquiry. Where issues in delivering preschool and kindergarten programs can inform our analysis and recommendations for childcare services, we have considered them but only to the extent necessary to inquire within the scope of our direction. Informal care by friends and relatives are also not within the scope of this inquiry. However, we acknowledge both preschool and kindergarten programs and informal care arrangements impact choices regarding care types that are subject to our inquiry.

Centre based day care accounts for the largest share of childcare services in Australia, about 62.5% of services in 2022 (more than 9,200 services). This is followed by outside school hours care which accounts for about 34.5% of services, family day care with about 2.8% of services, and in home care representing about 0.2% of services.

Given the significance of centre based day care within the sector, it has been a key focus of our inquiry. We have also examined outside school hours care in some depth. Additionally, while family day care and in home care make up a small proportion of the overall sector, we have included specific analysis and findings about these services, as we recognise they are particularly important to many households.

Our report draws on a large range and volume of data as well as the views of a broad range of stakeholders with experience and interest in the supply of childcare services. Details of the process undertaken by the inquiry, including our consultation with relevant stakeholders and the sources of information we have used, is described in Appendix 2 'Inquiry Process'. Chapter 8 also summarises the most recent stakeholder feedback and input we have received.

1.3 Key characteristics of childcare markets in Australia

Childcare plays a vital role in Australian society. Over one million Australian households used childcare in 2022, and most households with children use childcare at some point in their lives.

Childcare benefits children by introducing education and care in a safe environment, which supports children's development from a young age. Childcare is also important for parents and guardians, enabling them to work, volunteer, train or study to support income, career development and other contributions to the community. At scale, the ability for parents and guardians to work, volunteer, train or study has productivity benefits for the Australian economy.

Childcare providers supply services for children and households in significantly different situations – from highly urbanised, highly advantaged households, to providing services to children in very remote locations and with vastly different needs.

The various elements of childcare services and government supports (across different levels of government) are also highly interconnected. Changes to one aspect of the system, for example, an element of a childcare subsidy or a change in educator wages, can have wide-ranging and diverse impacts across the sector. It means issues and policy responses cannot be considered in isolation.

There are a range of objectives that governments seek to achieve in supporting the provision of childcare services in Australia. These can include:

- affordability of, and access to, childcare for households
- provision of quality educational and developmental outcomes for children
- supporting workforce participation of parents and guardians
- valuing childcare educators' and early childhood teachers' contributions to children's and parents' and guardians' lives and development, as well as Australian society more generally
- outcomes and equity for all children and households
- value for money for taxpayers (including the impact on taxpayers over time).

Our analysis indicates that which of these objectives is emphasised and how they may be traded off can have a significant impact on the outcomes for children and households, and the sector, in practice.

As such, a single policy approach that achieves desired outcomes for all children and households is unlikely to be possible. A mix of different measures and supports is likely to be a more suitable approach to meet the needs of different types of children and households in a range of different locations and circumstances.

1.3.1 Not all markets are adequately served

Based on our analysis, as well as information gathered from stakeholder feedback, childcare markets are broadly operating as could rationally be expected, with childcare suppliers and consumers behaving rationally in response to supply, demand and profitability considerations. However, the dynamics of childcare markets based on current settings are unlikely to meet all community and government expectations and objectives.

We find that the highly localised nature of childcare markets, the way parents and guardians select services based on availability and perceptions of quality, and providers' supply decisions (often driven by an area's demographic features) means that there are a range of different market outcomes. These can be broadly described as markets that are:

- adequately served,
- under-served, or
- unserved.

These categories are discussed in further detail in chapter 7. These different types of markets will typically require a different mix of government regulation and support to achieve government's objectives and meet the needs of the local community as well as the expectations of the broader community.

In particular, we note that under-served and unserved markets can arise as a result of limited supply to a specific geographic area (for example, remote and very remote areas) or because of limited supply to a specific community based on the characteristics and specific needs of children and households which is not specific to geographical areas. The government response and policy intervention for these under-served and unserved communities will likely depend on whether inadequate provision of childcare is occurring due to location, or the specific needs of the child and household, or an intersectionality of both.

The range of market types and the need to develop appropriate government measures to suit local communities' needs and characteristics, means that there is a clear requirement for some type of stewardship of childcare markets. This is reflected in recommendation 7 of this report.

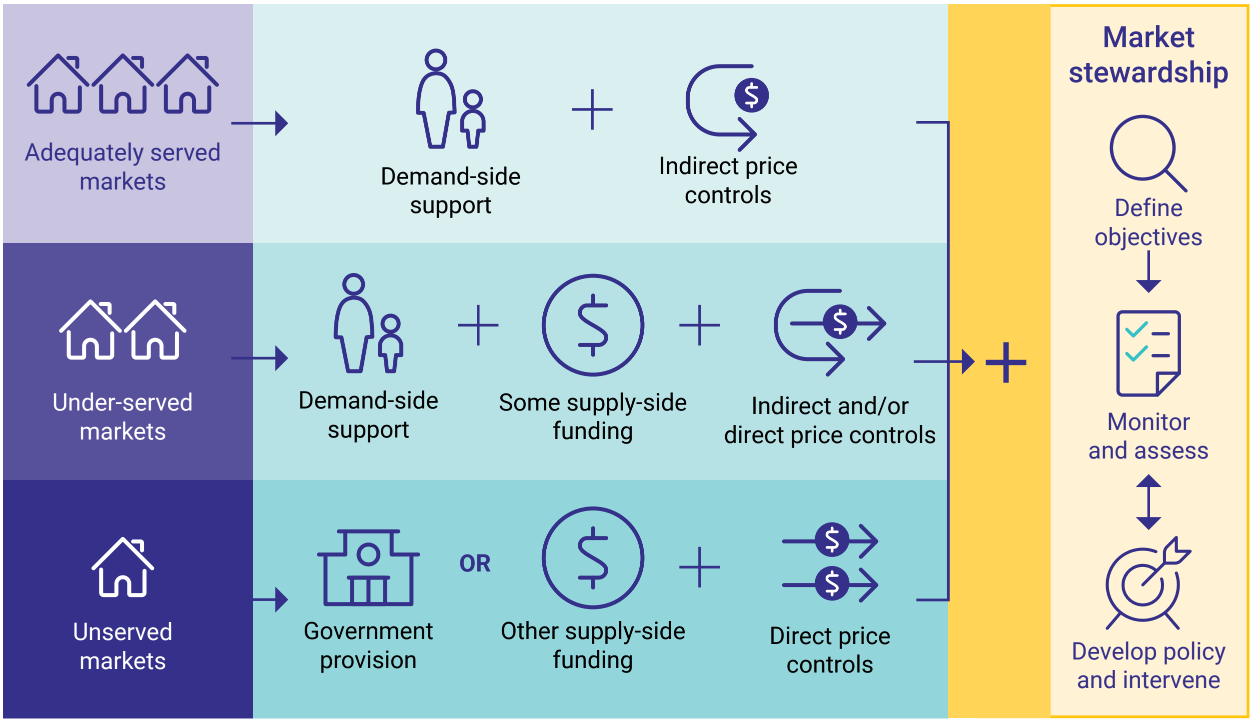
Stewardship-type roles can be particularly relevant to care-based economies, as 'competition-driven market incentives and dynamics don't always work to achieve efficient outcomes' in care and support markets.[2] Other care economies, such as aged care and disability support services, have observed similar issues to childcare, such as the emergence of under-served or unserved markets. While the concept of market stewardship can be interpreted in different ways, in this context the ACCC considers the stewardship role should be broader than merely developing, implementing and monitoring compliance with any price regulation mechanisms. It should encompass a more active role in clearly pursuing government objectives to be achieved from the sector, and oversighting, monitoring and shaping childcare markets. This includes creating incentives that shape market

2 Department of the Prime Minister and Cabinet, Draft National Strategy for the Care and Support Economy, May 2023, p 45.

behaviour towards desired outcomes of the sector.[3] Market stewardship is discussed in more detail in chapter 7, but in summary, roles may include:

- regular market monitoring, including identifying how local area markets are functioning and changing
- periodically determining and applying the most appropriate form of government support (including which type of subsidies may be warranted), as well as complementary regulatory measures, tailored to the characteristics of local area markets (such as adequately served, under-served or unserved, as illustrated in figure 1.1)
- price monitoring and oversight of compliance with regulatory requirements
- monitoring and assisting in managing local area market workforce issues, including with locally-targeted interventions
- regularly monitoring and supporting providers to ensure they can meet their quality requirements, government objectives and expectations of the community
- developing appropriate measures and monitoring outcomes of government regulation and subsidy against each stated policy objective.

Figure 1.1: Types of Australian childcare markets and recommended regulatory arrangements



1.3.2 Childcare markets are highly localised

As discussed throughout our June and September interim reports, markets for childcare services are typically very localised. The median distance parents and guardians travel to a centre based day care service in Major Cities is about 2 kilometres. In Inner Regional and Outer Regional Australia, parents and guardians travel slightly further. The median distance parents and guardians travel in Remote and Very Remote Australia is shorter, likely reflecting that towns are small and with large distances in between.

3 Department of the Prime Minister and Cabinet, Draft National Strategy for the Care and Support Economy, May 2023, p 45.

Centre based day care services typically compete within a 2 to 3 kilometre radius, and the median number of centre based day care operators within each 2 to 3 kilometre radius is 5 to 10. Relatedly, households tend to use and compare childcare services within a small radius of their home.

Our analysis indicates there is some limited substitutability between centre based day care and family day care.[4] Further, we understand from the results of our English language parents and guardians survey, that a high proportion (71%) of parents and guardians using family day care said location was among their top 5 most important factors, equal with availability.[5]

In contrast, children typically attend the outside school hours care service attached to their school, meaning parents and guardians do not have a choice of provider.[6] Therefore, availability and affordability are the key decisions. This has implications for competition, given providers do not compete with other providers to attract children to their service, and instead compete for the right to run a service.

For in home care, services are provided in the child's home, and are often subject to availability of an educator who lives locally or is prepared to travel, making distance and local availability equally important.

1.3.3 Childcare has aspects of an 'experience good' and 'credence good'

Childcare is inherently an 'experience good', given many consumers are unable to properly assess its quality until after their child is enrolled and begins attending a service. Childcare also has characteristics of a 'credence good'. Even after some time using a service, many parents and guardians may never fully determine its quality as it is the child using the service.[7]

Parents and guardians care about the quality of a service, making this a key decision-point when considering their childcare options. However, it appears many households are not aware of or do not place high importance on data published on StartingBlocks.gov.au or the National Quality Standards ratings when choosing a service.[8] Instead, in person visits and word of mouth (including recommendations from family and friends, and online reviews) play an important role in parents' and guardians' decisions when selecting a service. In the case of outside school hours care, parents and guardians tend to place less importance on quality when selecting a service because their children typically attend the service attached to their primary school.[9] And, availability and affordability are likely to be more acute issues for households considering in home care.

Parents' and guardians' perceptions of quality is also a key factor in any decision to switch providers. The most common reason for why parents and guardians switched centre based day care and family day care services was because they were not happy with quality, with price appearing to play a lesser role.[10] Relatedly, the importance parents and guardians place on established relationships with the service and between their child and educators, can create a high cost of changing services.

4 ACCC, Childcare Inquiry June interim report, June 2023, p 71.

5 ACCC, Childcare Inquiry June interim report, p 59.

6 ACCC. Childcare Inquiry June interim report, p 64.

7 Further detail on the 'experience good' and 'credence good' characteristics of childcare services is discussed in our September interim report.

8 ACCC, Childcare Inquiry September interim report, September 2023, pp 91–97.

9 ACCC, Childcare Inquiry September interim report, pp 114–116

10 ACCC, Childcare Inquiry September interim report, p 113.

1.3.4 The role of price in childcare markets depends on the decision being made

For households

As discussed throughout our interim reports, affordability is typically a key threshold question for households and the price of childcare significantly impacts how much childcare households use. However, for centre based day care and family day care, price appears to have less impact on which service a household chooses.

Once households have decided how much childcare they can afford to use, location, availability and perceived quality are the next most important considerations for most households.[11]

Where there is a choice of providers, households appear to look for a service that is priced around the prevailing market price in their local area (not too high or too low) and which delivers value for money, taking into account quality.

For some households in under-served markets, actually finding a childcare place (or available educator, in the case of family day care and in home care) is a key factor as they may have no or very limited choice, resulting in price playing no real role in their decision.

Given the highly localised nature of competition in childcare markets, it is common that fees for various childcare services converge within geographic areas, so the financial benefit of switching is likely to be small and unlikely to outweigh the emotional and time costs of locating and supporting children to transition to a new service. Further, as the Child Care Subsidy subsidises the true cost of fees and cushions the impact of price and price increases, households can be less sensitive to small variations in price than in other markets.

Although this generally holds true for households, lower income households are likely to be more responsive to price changes as increases in out-of-pocket expenses have a disproportionately larger impact on their household income.

In contrast to other service types, for outside school hours care, children generally attend the service associated with their school. As such, demand for outside school hours care is primarily price driven, and parents and guardians decide between using the service or not using it.

For providers

Centre based day care providers consider prices of nearby competitors and will seek to price at similar levels to its competitors.[12] Location of services, demographics, government policy (including the hourly rate cap), households' expectations and price sensitivity can also have an influence on price. Additionally, for-profit providers may seek to maintain profitability and consider their own profit level when setting fees.

Factors differ somewhat for outside school hours care, as providers often compete to supply a primary school for a specified contract length, and there are limitations on price increases set under state regulatory arrangements.[13]

Many family day care and in home care services employ educators as independent subcontractors, and these educators typically set the fees paid by parents and guardians.

11 Further detail on the role of parents' and guardians' decision-making in relation to childcare was contained in chapter 2 of the September interim report.

12 ACCC, Childcare Inquiry September interim report, pp 107–108.

13 Further discussion on price competition for providers of centre based day care and outside school hours care is in chapter 2 of the September interim report.

1.3.5 The sector has a serious workforce shortage, which significantly impacts supply and costs of childcare

Labour is the single biggest cost to providers across all service types we examined and has increased significantly between 2018 and 2022.[14] The increasing costs of attracting and retaining staff are driving increased supply costs, resulting in some markets being unviable as outlined above. This is particularly the case in remote Australia, where reported higher numbers of staff vacancies and turnover, use of contractor staff and overtime costs to fill vacancies are common.

Workforce shortages are also a key supply constraint for providers, acting as a barrier to expanding or entering new markets.[15] Further, many providers unable to meet educator-to-child ratios are forced to offer fewer places than they are licenced for.[16]

Skilled, caring educators and teachers are fundamental to the successful delivery of quality education and care. Staffing availability naturally impacts the quality, reputation, viability and profitability of services.

Workforce shortages are widely reported across the industry, with many considering this to be one of the most significant challenges facing the sector. Factors that appear to be contributing to workforce shortages and educator burnout include:

- less attractive pay and conditions than in other similar industries such as primary school teaching
- increasing responsibilities and burdens on educators
- the common need for staff to allocate unpaid personal time to study for required qualifications (also affected by current cost of living pressures)
- the ongoing impacts of COVID-19 (which has reduced the supply of workers from overseas).

We have heard from the sector that improving workforce pay and conditions are crucial for supporting recruitment and retention of staff in the childcare sector, and recommendation 4 of this report suggests that governments further consider how existing regulatory frameworks support the attraction and retention of educators and workforce in the early childhood education and care sector.

Relatedly, the sector has commenced supported multi-employer bargaining through processes under the Fair Work Act. The Productivity Commission has considered in further detail the workforce challenges facing the childcare sector. Additionally, Jobs and Skills Australia has recently commenced a capacity study on the workforce needs for Australia's early childhood education and care sector.

In considering increases to pay and conditions, the sector and government will need to consider broader potential implications on fees and affordability – noting that labour costs are the main driver of the cost of service provision.

After labour costs, we find that land and related costs are the other significant driver of costs for centre based day care providers, likely driven by demand alongside higher costs in development. Costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for areas of most remoteness and most socio-economic advantage.

For both labour and land and related costs, regulatory obligations (including meeting educator-to-child ratios, qualification and physical environment requirements) influence these costs.

14 ACCC, Childcare Inquiry September interim report, pp 42–49. Detailed discussion of provider costs is contained in chapter 1 of our September interim report and chapters 4 and 6 of this report.

15 ACCC, Childcare Inquiry September interim report, pp 104–105.

16 ACCC, Childcare Inquiry September interim report, p 106.

1.4 Reform is needed to meet government and community objectives

The sector is widely viewed as a safe and strong investment with returns backed by a government safety net. Although costs have increased faster than inflation between 2018 and 2022 for centre based day care[17] and profitability across the sector is highly variable, the sector is generally considered profitable. In particular, large centre based day care and outside school hours care providers appear to be profitable and financially viable on average, and margins do not appear excessive in aggregate over the period 2018 to 2022.[18]

Providers respond to demand and the likelihood of profitability in making their supply decisions. Providers compete on their service offerings, perceptions and ratings of quality, and they set prices having regard to competitors' prices, the cost of supply, and parents' and guardians' willingness and capacity to pay. Providers' supply decisions and pricing can also be highly dependent on the underlying costs of providing childcare services in different areas and for varying qualities of service.

Parents and guardians consider childcare options against the backdrop of career, work and study decisions (including the wages they expect to earn), and other care options for their children.

These dynamics are indicative of a market that is operating as could rationally be expected under current settings. However, relying only on market dynamics and the design and implementation of current price regulation mechanisms, has resulted in deficiencies or unintended consequences that do not achieve all the desired or expected objectives of an early childhood education and care framework. In particular, we observe the following:

- Under-served or unserved markets across many areas of Australia – arising from inadequate provision of childcare services to certain cohorts or areas (also referred to as 'thin markets'). Inadequate supply may be driven by low expectations of profitability or viability and/or high costs of service provision in these areas or to particular cohorts.
- Reduced price sensitivity and price competition, and less flexibility within centre based day care. Households appear to look for a service priced around the prevailing market price and which delivers value for money (taking into account quality), and providers compete more on quality to attract and retain households. This results in little price variation within local markets, although prices can have high variance between markets.
- Households with the lowest incomes spend a greater share of disposable income on childcare and are disproportionately impacted by the Child Care Subsidy activity test, which acts as a barrier to access and affordability.
- A continuing decline of family day care and in home care services which is important for those households that require or prefer those services, including in remote, culturally linguistically diverse and disadvantaged communities.
- Barriers to understanding or accessing the Child Care Subsidy, in particular for First Nations and culturally and linguistically diverse communities.
- A focus on supporting demand for childcare services without targeted supply-side support to meet demand.

We have also observed significant labour force shortages that are affecting all childcare markets and providers in Australia, with these impacts being felt most acutely in under-served and unserved

17 ACCC, Childcare Inquiry September interim report, p 50. Based on our analysis of large providers' data. Costs for outside school hours care have risen generally in line with inflation.

18 In this report we find that approximately 25% of childcare providers structured as companies are making almost no profit or suffering a loss. Sector profitability is discussed in further detail in chapter 4 of this report, and chapter 3 of our September interim report.

markets. Our analysis has also highlighted educators and staff have a significant impact on the quality and reputation of a service, which affects the service's ability to maintain and increase occupancy and as a result contribute to profitability and viability.

1.5 Market dynamics alone do not encourage adequate and equitable supply of childcare services to all communities

Providers' supply decisions are highly influenced by expectations of profitability and viability within a particular area or local market. We observe that providers place significance on an area's demographic profile to predict profitability and viability of childcare services.[19] Relevant demographic considerations include the area's age profile, household incomes, labour force participation (in particular, female workforce participation rates), family structures, and population growth rate. These considerations help providers predict the likely occupancy, which is a key driver of revenue and therefore, profitability and viability.

These types of considerations encourage supply of services to cohorts and areas where demand for childcare is highest, parents and guardians are willing and able to pay higher prices, and costs of service provision do not outweigh the prices that can be charged. These markets tend to be in more advantaged areas and in Major Cities where the opportunity to profit is greater. For example, we observed in June 2023 that the higher the number of competitors within a small 2 to 3 kilometre local area, the higher the prices for centre based day care.[20] We generally consider these to be 'adequately served' markets. However, this dynamic also means that there are instances where there is an undersupply of childcare services to some areas and cohorts. Households in these 'under-served' and 'unserved' communities may not have access to childcare options, or may be forced to use options that do not sufficiently meet their needs.

We note there are cases where providers will choose to supply services to markets and cohorts even though they have low expectations of profitability and viability. The supply of unprofitable services usually occurs where providers perceive an important social benefit to providing the service.

Many of these providers tend to be not-for-profit providers and tend to have multiple services, such that other services that do make a profit can support the operation of unprofitable services.

Relatedly, we find for-profit providers have higher margins for centre based day care,[21] increased their fees more and charge more than not-for-profit providers.[22] In the September quarter 2023, about 41% of large for-profit centre bases day care services charged an average hourly fee over the hourly rate cap, compared to 15% of large not-for-profit services. We also found that large not-for-profit centre based day care providers had lower land costs than for-profit providers and paid more of their staff above award wages than large for-profit centre based day care providers did.

The Productivity Commission's Draft Report found that for-profit providers continue to be responsible for almost all the growth in childcare services, while the number of not-for-profit providers has remained largely unchanged.[23] The significant growth of for-profit providers and their presence in Major Cities and more profitable areas may go some way to explaining the existence of under-served

19 ACCC, Childcare Inquiry September interim report, pp 101–102. Detailed discussion of providers' supply decisions are contained in chapter 2 of our September interim report and chapter 5 of this report.

20 ACCC, Childcare Inquiry June interim report, pp 90–92.

21 ACCC, Childcare Inquiry September interim report, pp 129–130.

22 Further discussion about for-profit and non-for-profit provider differences in average hourly fees, average daily fees and changes since the July Child Care Subsidy reforms is in chapters 2 and 3 of this report.

23 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, Canberra, November 2023, p 62.

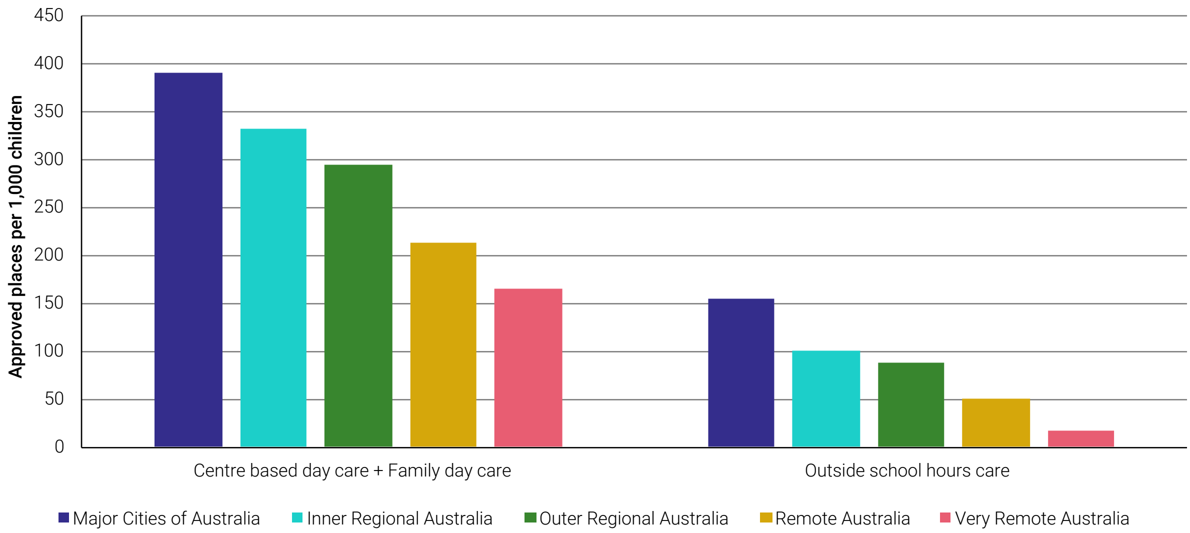
and unserved markets in other areas. There may be value in understanding the role of different types of providers in different markets in line with their business objectives and within a broader sector wide consideration of long-term policies, objectives and priorities for early childhood education and care.

The types of under-served and un-served communities we have identified as part of our inquiry are detailed below. Further discussion about cohorts that may face additional challenges in accessing childcare services is in chapter 5.

1.5.1 Remote and very remote communities

There are fewer childcare places available per child, on average, as areas become more remote. While the overall number of approved childcare places has grown by about 17% between 2018 and 2022, approved places in Remote Australia and Very Remote Australia has remained flat, even when accounting for population size.[24]

Figure 1.2: Approved childcare places per 1,000 children by remoteness, 2022



Note: Excludes in home care services as they are not assigned approved childcare places under the regulations.
Source: ACCC analysis of ACECQA and Department of Education administrative data.

Limited supply and availability is likely driven by the significantly higher costs associated with delivery for centre based day care services in remote areas than in Major Cities or Regional Australia. In particular, we find that labour costs for centre based day care are higher in remote areas and land costs are highest in Very Remote Australia.[25] We also find that staff vacancies as a share of staff headcount are highest in Remote Australia and Very Remote Australia.[26] As discussed in chapter 5, a high proportion of centre based day care services in remote areas obtain waivers from the Australian Children's Education and Care Quality Authority due to being unable to comply with particular staffing requirements. These trends, coupled with feedback from stakeholder roundtables and submissions, suggest that workforce shortages are more acute in remote areas, acting as a major barrier to supply in these areas.

In responses to the ACCC's English language parents and guardians survey, a lack of availability in alternative services was the main reason, by a considerable margin, that parents and guardians in

24 ACCC, Childcare Inquiry June interim report, pp 51–52.
25 ACCC, Childcare Inquiry September interim report, pp 73–74.
26 ACCC, Childcare Inquiry September interim report, p 75.

remote and very remote areas did not switch between services.[27] This supports the view that there is limited availability in those remote areas and little opportunity to switch between services – even if a household wants to.

We also find that remote areas have a higher proportion of services that are rated as 'Working Towards' or 'Significant Improvement Required' against the National Quality Standard ratings.[28] This may indicate that even where households are able to access childcare services in remote settings, the quality of those services may be lower and there may be less competition for services and choice for parents and guardians on the basis of quality.

Very Remote Australia experienced the largest growth in average fees since 2022, potentially exacerbating barriers to accessing care in those areas. Further detail about fee increases since 2022 is in chapter 3.

1.5.2 Households in less advantaged or low socio-economic areas

There tends to be a lower proportion of children from lower socio-economic advantaged areas[29] enrolled in some form of childcare,[30] and fewer centre based day care services available in remote[31] and less advantaged areas. This is likely attributable to low expectations of profitability in these areas.

Our analysis of data obtained from providers indicates that the cost of providing childcare is similar across all levels of socio-economic advantage, except for the most advantaged areas, which have slightly higher costs. However, providers consider demographic factors of an area, and seem to use its socio-economic profile to predict likely demand, parents' and guardians' willingness and capacity to pay, and expected profitability of an area.[32] Consistent with this, our English language parents and guardians survey indicated that respondents in the areas of lowest socio-economic advantage were the most likely to switch services because of fee increases,[33] and our analysis indicates that providers' average fees and profitability is generally higher in more advantaged areas.

Similar to the challenges faced in Remote and Very Remote communities, services operating in areas of lower socio-economic advantage have obtained more staffing-related waivers (discussed further in chapter 5). This indicates that workforce availability may be another constraint on supply in these areas. Additionally, areas of lower socio-economic advantage tend to have a higher proportion of services rated as 'Working Towards' or 'Significant Improvement Required' against the National Quality Standard rating.[34] This indicates that, in addition to access issues, households in areas of low socio-economic advantage are also likely to be more limited in their ability to access quality services.

27 ACCC, Childcare Inquiry September interim report, p 112.

28 ACCC, Childcare Inquiry June interim report, pp 49–50.

29 In determining the level of socio-economic advantage in an area, the ACCC has relied on the Australian Bureau of Statistics' Socio-Economic Indexes for Areas (SEIFA). SEIFA ranks areas in Australia according to relative socio-economic advantage and disadvantage (on a scale of 1–10) by geographic area. The indexes are based on information from the five-yearly Census, and combines Census data such as income, education, employment, occupation, housing and family structure to summarise the socio-economic characteristics of an area. Each area receives a SEIFA score indicating how relatively advantaged or disadvantaged that area is compared with other areas.

30 ACCC, Childcare Inquiry June interim report, p 47.

31 We note that socio-economic disadvantage correlates with the remoteness of areas, such that more remote locations are more likely to experience socio-economic disadvantage.

32 ACCC, Childcare Inquiry September interim report, pp 101–102.

33 ACCC, Childcare Inquiry September interim report, p 99.

34 ACCC, Childcare Inquiry June interim report, pp 49–50.

1.5.3 Children with disability and/or complex needs

We have heard from providers, parents and guardians, and other childcare sector stakeholders that the needs of children with disability and/or complex needs are not being met, nor are they adequately supported by existing mechanisms.

About 14% of participants to our English language parents and guardians survey reported that they have a child experiencing disability and/or complex needs.[35] Several of these respondents raised the challenge of finding (and sometimes maintaining) a place for their child, noting that there is a lack of qualified staff and inclusive services to care for children with disability or complex needs. Feedback at our parents and guardians roundtable also highlighted the challenges associated with finding inclusive childcare services with educators that have the skills and resources to support children with disability and/or complex needs.[36]

Providers of all sizes told us that sourcing appropriate skills and delivering quality support and care to children with disability and/or complex needs is challenging and comes with additional costs.[37] Key additional costs include engaging additional and/or specialised staff, providing training and development to equip staff to provide appropriate care, supporting staff with an employee assistance program, and using allied health services (for example occupational therapists, speech pathologists, child and family practitioners).

The Australian Government has acknowledged these higher costs of delivery through implementing the Inclusion Support Program. The payment provides funding to eligible mainstream early childhood education and care services to build their capacity and capability to include children with additional needs alongside their typically developing peers (including children with disability and/or complex needs).[38] However, the Inclusion Support Program is limited in the support it provides to services and households.

Feedback from providers suggests the amount of support available under the Inclusion Support Program is inadequate, relative to the high cost of sourcing appropriate staff and delivering appropriate services, as well as the administrative burden associated with applying and complying with funding requirements. This is supported by our analysis of costs which increased by over 27% between 2018 and 2022 for large centre based day care,[39] and was in line with inflation for outside school hours care.[40] Despite this, the Inclusion Support Program rates of funding available to eligible services has not changed over the same period, other than for the top up support payment available to eligible family day care services in certain circumstances.[41] The Productivity Commission also found that the Inclusion Support Program is insufficient and has a made a draft recommendation in its inquiry to increase the funding allocated to the program to ensure children have adequate support.[42]

We acknowledge that in considering how to better serve children with disability and/or complex needs governments should have regard to, among other things, Australia's Disability Strategy 2021–2031.

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35 ACCC, Childcare Inquiry June interim report, p 104.

36 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, pp 2–4.

37 ACCC, Childcare Inquiry September interim report, p 86.

38 Department of Education, Inclusion Support Program Guidelines Version 2.5, July 2023, p 6.

39 ACCC, Childcare Inquiry September interim report, p 50.

40 ACCC, Childcare Inquiry September interim report, p 51.

41 According to the Inclusion Support Program Guidelines, payments are available to eligible family day care services to support them include children with additional needs, with ongoing high support needs, and where including the child results in the educator being unable to enrol the maximum number of children as allowed under the National Law.

42 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, p 74.

1.5.4 First Nations children and households

First Nations children are less likely to be enrolled in childcare than non-First Nations children. Our analysis finds about half (51%) of 0 to 5 year old and 16% of 6 to 13 year old First Nations children attended childcare in 2022, which represents attendance that is 9 percentage points below the total Australian child population.[43] We also find that there may be additional costs to providing culturally informed care to First Nations children, including costs to engage with local community Elders to attend events and activities, additional training to staff to increase cultural competency, and upskilling staff with trauma-informed caring practices.[44]

Through our roundtables with First Nations stakeholders, we heard that the administrative process required to receive the Child Care Subsidy and enrol in a service can discourage First Nations communities from using formal childcare. Stakeholders expressed frustration at the barriers First Nations people face interacting with Australian Government services, and we acknowledge that the administrative systems and process may lack cultural sensitivity or flexibility in recognising the experiences of First Nations peoples. In particular, families who have had negative experiences or ongoing trauma in dealing with government departments and officials may be reluctant to provide information required for the Child Care Subsidy. Stakeholders noted that a demonstration of this was the uptake of childcare by First Nations families during the period of free childcare during the COVID-19 pandemic.[45]

We also heard that First Nations families are particularly reluctant to apply for the Additional Child Care Subsidy due to a concern that this flags vulnerability and may attract attention from the child protection system and create a real fear that children may be removed to out of home care.[46] First Nations stakeholders also noted that the current Child Care Subsidy system fails to recognise First Nations kinship care relationships in a timely way, hindering access to the subsidy.[47] This can be exacerbated where Child Care Subsidy debts can follow the child and can therefore impose a liability for carers for periods prior to the care arrangement commencing.

Stakeholders noted that another limitation of the current Child Care Subsidy system for First Nations children and communities is that even very low out-of-pocket expenses can be unaffordable for parents and guardians, particularly in remote and very remote areas where living costs (for example, food) can be very high. First Nations stakeholders also noted the need to provide additional wrap around services to support children's attendance (for example, transportation, allied health services).

This feedback and our market observations highlight that a one size fits all approach to childcare services and government support will not address the needs of First Nations children and communities, nor realise the Australian Governments' ambitions in the National Agreement on Closing the Gap.[48]

Recommendation 6 of this report aims to support improved and safe access to childcare services and Australian Government support for First Nations communities. Further discussion on affordability and access challenges for First Nations communities is in chapter 5.

43 ACCC, Childcare Inquiry June interim report, 2023, p 26.

44 ACCC, Childcare Inquiry September interim report, p 84.

45 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 2.

46 Out of home care refers to those instances where alternative accommodation is arranged for children and young people who are unable to live with their parents. In many cases, children in out of home care are on a care and protection order.

47 ACCC, Childcare Inquiry First Nations roundtable summary (in-person), 8 September 2023, p 4.

48 Coalition of Peaks, National Agreement on Closing the Gap, July 2020.

1.5.5 Culturally and linguistically diverse children

Australia has a large representation of culturally and linguistically diverse communities, each with their own cultural elements including language and customs. For childcare services to be inclusive, there must be an understanding of what quality looks like for different communities and households. Discussion at our culturally and linguistically diverse stakeholder roundtable indicates that these communities may be under-served. Stakeholders raised that there should be more guidelines and flexibility around what childcare providers can do to connect households with childcare services, and that further upskilling of staff is needed to be culturally responsive and support households and children.[49]

We note that some services may provide some additional support and engagement to households where English is not the primary language spoken at home, and where there may be difficulties in understanding, and therefore accessing childcare[50] but overall feedback from stakeholders suggests this is not the commonly the case across the sector.

Culturally and linguistically diverse parents and guardians may also find accessing the Child Care Subsidy difficult. Through responses to our translated surveys of parents and guardians, we observe a higher proportion of respondents indicating they do not receive a Child Care Subsidy when compared to respondents to the English survey (24% compared to 11%, respectively (refer to chapter 8). A possible explanation, as was discussed during the culturally and linguistically diverse stakeholder roundtable, could be that families from these backgrounds may have difficulty understanding or interacting with the Child Care Subsidy systems and requirements. There may also be working limitations that apply to certain visa holders, or people seeking asylum who are generally not eligible for the Child Care Subsidy.

As discussed further below, the decline in availability of family day care services may also disproportionately impact culturally and linguistically diverse households, who have a greater preference for use of family day care services.

Further detail on affordability and access challenges for culturally and linguistically diverse communities in chapters 5 and 6.

1.5.6 Centre based day care services for children aged 0 to 2

Through our parents and guardians survey, we heard that households, particularly with or expecting newborns, can feel frustrated that they have to put their child on multiple waitlists. Parents and guardians also noted that they often could not secure a place or a place on their preferred days at their preferred service, and that switching to a cheaper or more preferred service is not an option due to long waitlists.[51]

In our September interim report, we noted that it costs more to care for children under 3 years old due to educator-to-child ratios.[52] We also found that centre based day care services with more than 60% of charged hours for children under the age of 3 had higher total costs per charged hour compared to services with less than 30% of charged hours for children under the age of 3 (representing a difference of about $3 per charged hour). Most services had between 30% and 60% of their charged hours delivered to children under 3 years old, highlighting that services may be tightly controlling enrolments for this cohort in order to control costs.[53]

49 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, pp 3–4.

50 ACCC, Childcare Inquiry September interim report, p 84.

51 ACCC, Childcare Inquiry June interim report, p 64.

52 ACCC, Childcare Inquiry September interim report, pp 85–86.

53 ACCC, Childcare Inquiry September interim report, p 85.

Analysis of waitlist data from large centre based day care providers shows that children aged 0 to 2 account for the largest number of spots held by children on waitlists of large providers of centre based day care. This age group is also the only age group where the number of places held by children on waitlists exceeds the number of places offered, which is indicative of a high level of demand relative to supply for these places.[54] Chapter 5 provides more detailed discussion on the likely insufficient number of childcare places for 0 to 2 year olds.

1.5.7 The decline of family day care options

Since 2018, the number of centre based day care and outside school hours care services has steadily increased. However, the number of family day care services has declined. The number of hours charged by family day care services also indicates a downwards trend in utilisation since 2018.

While some of this decline is likely due to better fraud detection and prevention, the reduction in available family day care services is also likely attributable to low educator earnings, potential viability issues, and little financial incentive for family day care educators to enter or continue operating in the sector. The decline of family day care may be having a disproportionate and negative effect on remote, culturally and linguistically diverse and households in less advantaged areas, as well as households with parents or guardians that work non-standard hours. Detailed discussion on trends in the family day care sector and market implications is in chapter 6 of this report.

Remote, less advantaged areas, culturally and linguistically diverse and non-standard working hours households most affected by decline

The decline in family day care is more likely to impact households from culturally and linguistically diverse backgrounds, households with low incomes, households with parents or guardians that work non-standard hours, and those living in very remote areas. This is because these cohorts rely relatively more on, or have a higher preference for, family day care than other households.

Our analysis indicates that children from culturally and linguistically diverse households are proportionately more likely to use family day care than children where only English is spoken at home. We also find that areas of least advantage have a considerably higher share of family day care services than other areas.

Family day care is also more common in regional and remote areas, as a share of total number of the type of service, than centre based day care and outside school hours care. Further, National Quality Standard ratings are significantly higher for centre based day care and outside school hours care services than for family day care. However, we acknowledge this rating applies to a family day care service rather than an individual educator, and accordingly may be less reliable as an indicator of a particular educator's quality.[55]

Family day care services are considered to offer more potential flexibility in the hours of operation and session lengths educators can offer and negotiate with households. In line with this, previous research reports have found that family day care services more commonly charge per hour, offer relatively more sessions of care before 7am and after 7pm as a proportion of open services, and offer more sessions on weekends and overnight.[56] Although some decline in family day care services may be a result of improved fraud investigation and enforcement and a positive outcome, more broadly,

54 As noted in chapter 5, this analysis has some limitations because it only reflects large providers and likely overstates the level of unmet demand as the same child may be on multiple waitlists.

55 ACCC, Childcare Inquiry June interim report, p 48.

56 J R Bray, J Baxter, K Hand, M Gray, M Carroll, R Webster, B Phillips, M Budinski, D Warren, I Katz and A Jones, Child Care Package Evaluation: Final Report, Research Report, Melbourne: Australian Institute of Family Studies, August 2021, pp 146–147, 152–173; J Baxter, M Carroll, K Hand, M Budinski, C Rogers and J Smart, Child Care Package Evaluation: Early Monitoring Report, Research Report, Melbourne: Australian Institute of Family Studies, July 2019, p 50.

the decline of family day care options may reflect further reduction in flexible options for parents and guardians in the childcare system.

Child Care Subsidy and regulatory settings do not adequately support family day care

The Child Care Subsidy hourly rate cap is lower for family day care than for centre based day care and outside school hours care. The lower hourly rate cap for family day care was in part intended to reflect that the overhead costs of providing family day care are generally lower than for centre based day care and outside school hours care.[57]

We observe that family day care services have a high proportion of services charging above the hourly rate cap – about 34% in the September quarter 2023. The relatively high share of family day care services exceeding the hourly rate cap likely reflects the lower hourly rate than for other services, a large number of non-standard hours of care in the sector, and ultimately, a need to charge higher fees to remain viable and profitable in the sector. Further discussion of family day care fees and the impact of July Child Care Subsidy reforms is in chapters 2, 3 and 6.

However, as noted above and discussed in chapter 6, we find that family day care services and educators have low profitability and net income and there appears to be continued market exit. The stakeholder feedback we have received indicates that the Child Care Subsidy hourly rate cap may be too low to adequately ensure viability in the sector, incentivise supply of family day care services (including attracting and retaining educators). Family day care educators may have significant overheads that are comparable in nature to centre based day care or outside school hours care services, including property maintenance, cleaning costs, training and insurances. Family day care educators consulted as part of our inquiry also expressed concern that the National Quality Framework requirements can be burdensome for the small scale nature of Family Day Care operations, in particular new requirements to have completed their Certificate III or higher qualification rather than be 'working towards that qualification.'

In line with the above commentary, recommendation 2(a) recommends further consideration of the family day care hourly rate cap to be increased to better compete with alternative forms of employment for educators.

1.5.8 In home care is inadequate for households in most need

Similar to family day care, the number of in home care services has declined, from 56 services in 2018 to 37 services in 2022.[58]

In home care is a small and specialised sector that provides care in a family home for children in specific circumstances where centre based care, outside school hours care or family day care is unavailable or unsuitable. This can include households where parents or guardians are geographically isolated from other types of childcare services, the parent or guardian of the child work non-standard hours, the family or child has challenging or complex needs, or the household is experiencing challenging situations, and other childcare services are not able to meet the needs of the child or the household. Due to the restriction on eligibility, in home care is a service of last resort.

Several respondents to our English language parents and guardians survey noted the difficulties associated with qualifying for and using in home care.[59] Previous research reports also suggest that

57 Senate Community Affairs Committee, Answers to estimates questions on notice, Social Services Portfolio, 2015–16 Budget Estimates Hearing, SQ15-000524.

58 ACCC, Childcare Inquiry June interim report, p 43.

59 ACCC, Childcare Inquiry June interim report, p 66.

availability and affordability of in home care are acute issues for the sector.[60] Further discussion about the in home care sector is detailed in chapter 6.

The in home care program has also been the subject of review commissioned by the Department of Education in 2023, in recognition of challenges associated with access to, affordability of, and the delivery of quality in home care services.

Profitability of in home care providers is low even though fees are high

In home care is the most expensive of all care types, as it involves a specialised type of care. As discussed in chapter 3, the average daily fee for in home care increased 40% between September quarters in 2018 and 2023 (or $91.15 per family per day). Once adjusted for inflation, the average daily fee increased by $17% (or $44.44 per family per day).

Despite this high increase in fees, our analysis of available data on expenses and income suggests profitability and wages are low in the in home care sector. Providers consulted as part of our inquiry noted that it is not possible to viably grow in home care services, and stakeholders noted there are much better incentives to run other types of services that can generate more revenue, such as services provided under the National Disability Insurance Scheme.

Income data of in home care educators, particularly those engaged as contractors, also indicates very low average earnings.[61] Low earnings, coupled with the highly demanding needs of in home care service delivery such as travel, transport and/or highly specialised care within a household's own home, means the sector struggles to compete with other similar roles for workforce.

Low profitability for services and low income for educators, and better profitability prospects with other types of services, is a barrier to in home care educators and services entering, continuing or expanding delivery. This leaves many households that need in home care with inadequate access and availability. Many eligible households give up and cease to seek care or approval for funding, resulting in an increased reliance on informal supports. For example, we heard at our In Home Care Roundtable that the eligibility assessment process is slow, sometimes even resulting in providers offering care before households are approved for care.[62]

Child Care Subsidy does not adequately support in home care

Similar to family day care, we observe that a high share of in home care services (about 35% in 2023), charge above the hourly rate cap. Since 2018, the average hourly fee for in home care services has been consistently higher than the indexed hourly rate cap by a significant amount. Relevantly, in home care services were the only service type where the increase in subsidy from the Cheaper Child Care reforms was outstripped by the increase in service fees. The high prevalence of in home care fees that are over the hourly rate cap fees, and the consistent increase in fees despite increased subsidy is indicative of high costs of delivering in home care services and caring for families with individualised care needs. This was confirmed in a 2023 review of the in home care program by PwC for the Department of Education.[63]

In line with this, we note in recommendation 5 that the Australian Government should design policy options to better meet the needs of children and households for whom in home care services are intended to serve, and in recommendation 2(a) we note that the Australian Government may need to consider a significant increase to the in home care hourly rate cap. Further discussion of in home care fees and the impact of July Cheaper Child Care reforms is in chapters 2, 3 and 6.

60 J R Bray et al, Child Care Package Evaluation: Final Report, pp iv–ix.

61 We find that in home care services using an employee model had significantly higher average daily fees than services using the contractor model (discussed further in chapter 3), although services that employ educators directly made a loss, while services with a contractor model made a small profit (discussed further in chapter 6).

62 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 5.

63 Department of Education (commissioning PwC), Review of the In Home Care (IHC) program Final Report, August 2023.

We note that in home care services have a much higher share of Additional Child Care Subsidy usage relative to all childcare services. However, in home care services are also more likely to require households to pay for additional expenses beyond the daily fee, including loadings for working non-standard hours, or travel, accommodation and meal expenses for educators, particularly those servicing geographically isolated families. These additional expenses likely lead to further affordability issues for households, as they are not covered by government subsidies.

1.6 Design of the current price regulation framework is deficient

As part of our inquiry, the ACCC considered 2 key government interventions intended to influence childcare prices, either directly or indirectly. These comprise the following:

- Child Care Subsidy – through which the Australian Government subsidises the price of childcare paid by households. The subsidy amount a household receives is determined by the following:
  - the income test, where the subsidy percentage starts at 90% and reduces as household income increases
  - the activity test, where the number of subsidised hours of childcare depends on the number of hours that parents and guardians either work or engage in an approved activity (like study or volunteering)
  - the hourly rate cap, through which the Australian Government sets a limit on the extent to which it subsidises the price of childcare paid by households. A household's income-dependent subsidy rate is applied to the hourly rate cap for each hour of subsidised care the household is entitled to under the activity test. The maximum subsidy rate is 90%,[64] meaning most households make a co-contribution to the cost of care.
- StartingBlocks.gov.au – a website with information targeted at parents and guardians to promote the benefits of early childhood education and help parents and guardians to choose a service to enrol their child into.

The Regulation Impact Statement for the Jobs for Families Child Care Package (2015) stated that the hourly rate cap should: 'send a strong message about what a 'high fee' service is and places downward pressure on fee increases as families will not be subsidised for the gap between the hourly fee cap and higher fees. This will help restrain Government expenditure over time'.[65] It also stated that a 'co-contribution can encourage parents to be conscious of the fees charged and help keep downward pressure on child care fees'.[66]

In practice, we observe that the design and implementation of these price regulation mechanisms has had only a limited influence on market behaviours. They have had limited effectiveness in exerting downward pressure on fees and constraining the burden on taxpayers.

64 Other than for Additional Child Care Subsidy recipients who receiver higher amounts.

65 Department of Education and Training, Regulation Impact Statement – Jobs for Families Child Care Package, November 2015, p 54.

66 Department of Education and Training, Regulation Impact Statement – Jobs for Families Child Care Package, p 54.

1.6.1 Increasing fees erode the benefit of increasing Australian Government spending

Since the introduction of the Child Care Subsidy in 2018, the amount of Australian Government funding has increased significantly and was about $11.1 billion prior to the introduction of the Cheaper Child Care reform changes in 2022–23, according to the Department of Education's reported actual expenditure (chapter 2). At the same time, childcare fees for all service types have, on average, increased faster than inflation and faster than the wage price index.[67] This increase in fees may at least in part be the result of the increased costs of providing childcare that we observe in our analysis, and detailed in the September interim report. For example, for centre based day care, labour costs increased by 28% between 2018 and 2022, which is greater than the increase in the wage price index over the same period.

While fees have increased, the out-of-pocket expenses for households have increased at a much slower rate due to increases in subsidies from the Australian Government. In our June interim report, we found that when adjusted for inflation, the average out-of-pocket expenses have been relatively stable, and have in fact decreased for centre based day care and outside school hours care since 2018.[68]

The Cheaper Child Care reforms that took effect in July 2023 increased the family income limit for eligibility for Child Care Subsidy from $356,756 to $530,000 per year and increased the maximum Child Care Subsidy rate from 85% to 90%. At the same time, the hourly rate cap was also increased in line with inflation, as it is every year. The Australian Government is now contributing the greatest share of childcare fees it has since the introduction of the Child Care Subsidy in 2018.

As discussed in chapter 2, from June to September 2023, the average out-of-pocket expense for households decreased between 8.8% and 13.7%, depending on the service type, reflecting the initial impact of the Cheaper Child Care reforms that took effect in July 2023. This means overall, the affordability of childcare improved following the Cheaper Child Care reforms.

However, when we compare the annual change in the average out-of-pocket expense (between the September 2022 quarter and the September 2023 quarter) there is less of a reduction in the average out-of-pocket expense. This is due to the impact of inflation and increases in average fees that exceed the indexation of the hourly rate cap over this period, and as such, have reduced some of the benefit of the reforms.

As discussed further in chapter 3, the average fee for all types of childcare services rose in 2023 (by between 7.2% and 9.8% in nominal terms).[69] The average daily fee for centre based day care increased by 9.8% and this increase was higher than the annual indexation of the hourly rate cap in July 2023.

As noted above, and consistent with our analysis in the September interim report, the increase in fees may in part be due to the increased costs of providing childcare, and we do not observe excessive profits in aggregate across the sector. We also note that the minimum award wage for childcare workers increased by 5.75% from 1 July 2023, representing a major cost increase for providers.

Regardless, the trend we observe is that when government subsidies increase, out-of-pocket expenses decline sharply in the immediate term, but then quickly revert to levels preceding the subsidy change. Fees may rise more freely in the childcare sector as households are less sensitive to price changes because the Child Care Subsidy offsets some of the additional expense for households, and due to the experience and credence good characteristics of childcare services. If current regulatory settings remain, it is likely that the trend of affordability gains through increased subsidy being eroded by increases to fees, will recur.

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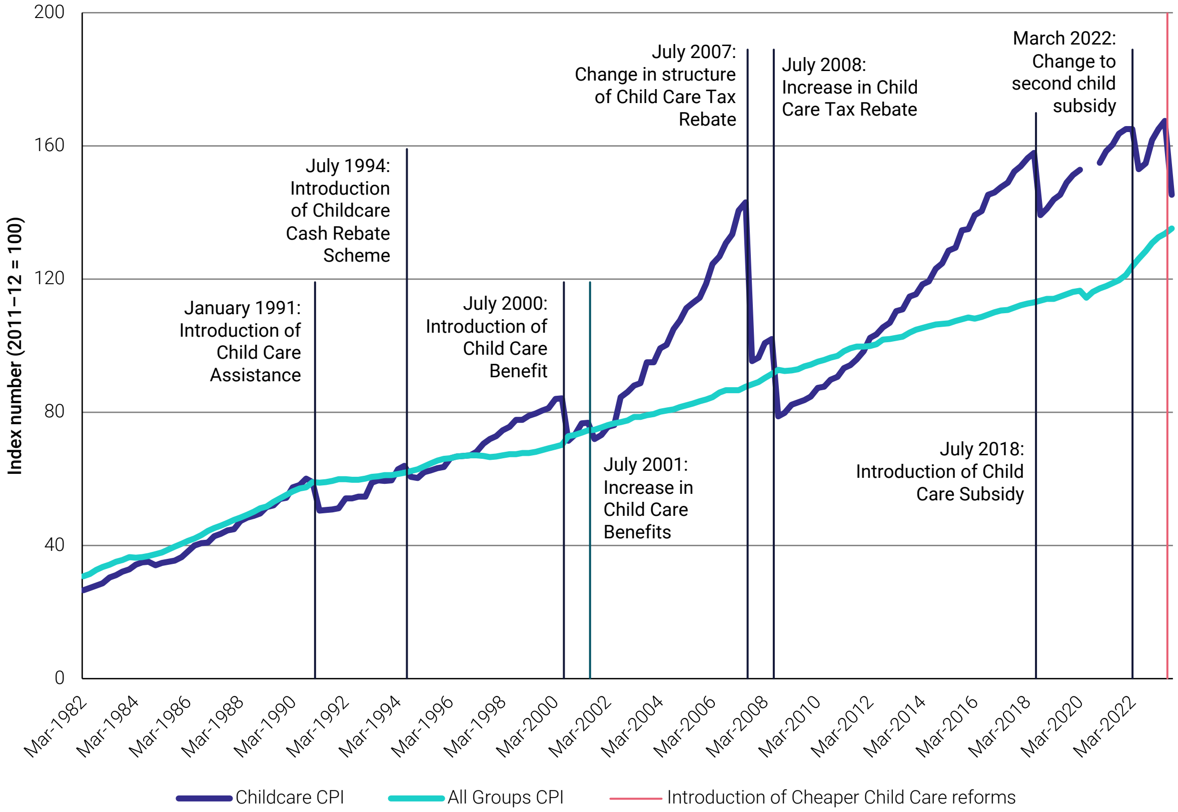
67 ACCC, Childcare Inquiry June interim report, p 73.

68 ACCC, Childcare Inquiry June interim report, p 108.

69 Comparing September quarters in 2022 and 2023.

Figure 1.3: Childcare and all groups Consumer Price Index, and major childcare policy changes, March 1982 to September 2023



Source: ACCC analysis of Australian Bureau of Statistics data ('Consumer Price Index, Australia', ABS Catalogue No. 6401.0, ABS, Canberra).

Our conclusion, that gains to affordability from increased Australian Government subsidy contributions tend to diminish over time, is supported by previous analysis, including by the Australian Institute of Family Studies, which previously reported that the cost of childcare generally increases rapidly, punctuated by strong price falls when the Australian Government increases subsidy payments or introduces new funding programs.[70] The Productivity Commission's recent draft report into early childhood education and care also found a similar trend with out-of-pocket childcare expenses falling or plateauing with the introduction of the Child Care Subsidy in July 2018 and other policy changes that increased support to households.[71]

In light of this, ongoing monitoring of childcare prices is likely to be needed under current policy settings to help ensure the benefits of recent changes to the Child Care Subsidy are sustained. Alternatively, additional measures such as supply-side subsidies accompanied by complementary regulation should be considered by the Australian Government for the long-term. Subsidies and price regulation, including price monitoring, is discussed further in chapter 7.

70 J R Bray et al, Child Care Package Evaluation: Final Report, p 94.

71 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, pp 361–362.

1.6.2 Lower income households spend more of their disposable income on out-of-pocket expenses

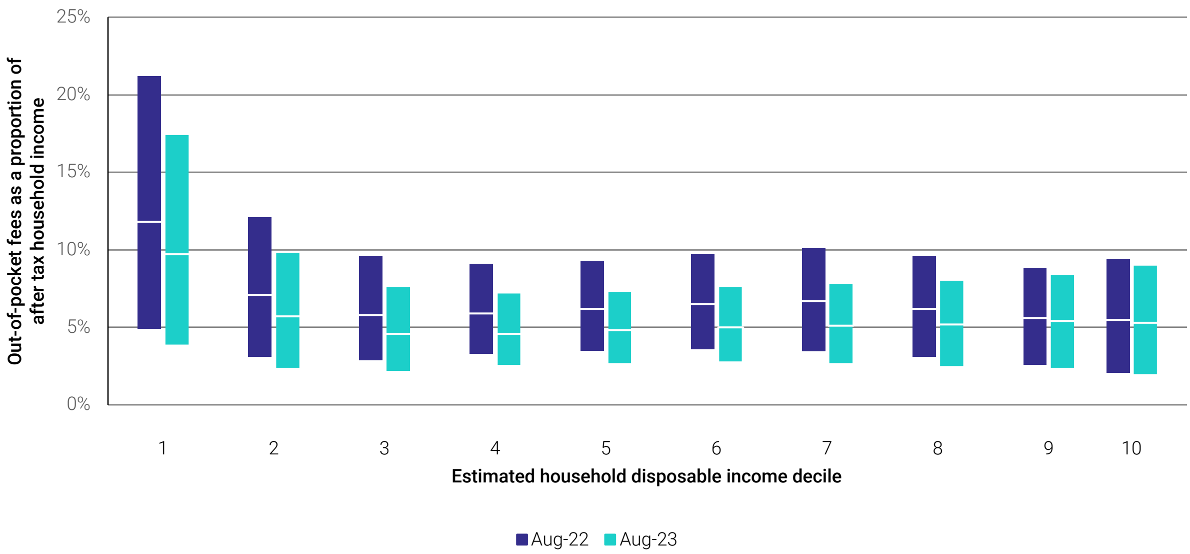
In our June interim report, prior to the Cheaper Child Care reforms coming into place, we observed that households with the lowest incomes typically spend a greater share of their disposable income on childcare than other Australian households.

As discussed in chapter 2, the out-of-pocket expense for childcare services as a share of disposable income fell for most households in 2023, when compared to 2022. However, as was the case in 2022, the cost burden of childcare continues to be felt most by households that have the lowest estimated household disposable income, despite receiving a greater subsidy contribution. This may in part be because households on lower incomes are more impacted by the activity test, as discussed below and in chapter 2.

Figure 1.5 shows that out-of-pocket expenses as a share of disposable income have generally decreased for all households across the income distribution between August 2022 and August 2023.

About half of households in the lowest estimated household disposable income decile[72] spent between 4% and 17% of their estimated disposable income on childcare in August 2023, with some spending more than this (see chapter 2). This is a slight improvement from August 2022, where this group of households spent between 5% and 21% of their disposable income on childcare. In contrast, half of the households in the highest estimated household disposable income decile[73] spent between 2% and 9% of their disposable income on childcare in August 2023, about the same as in August 2022 (figure 1.4).

Figure 1.4: Out-of-pocket expense for childcare services as a share of estimated household disposable income, by estimated household disposable income decile, August 2022 and August 2023[74]



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data and Australian Tax Office data.

72 In August 2022, the lowest income decile (income decile 1) ranges from $0 to $38,000 and in August 2023, it ranges from $0 to $42,000.

73 In August 2022, the highest income decile (income decile 10) represents income levels of $192,000 and above. In August 2023, income decile 10 ranges from $204,000 and above.

74 After tax estimated family income applies the relevant income tax rates to each individual's estimated income, assuming that estimated income is equal to taxable income. It does not account for additional sources or deductions. The Medicare Levy is also applied to each individual at the single rate, regardless of whether it is a one or 2 income household.

1.6.3 Activity test is a barrier to access and disproportionately impacts affordability for low income households

Stakeholders who provided submissions, attended our roundtables, or who were consulted as part of our inquiry, noted strong support for the relaxation or removal of the activity test to support access to the Child Care Subsidy and more affordable childcare. Stakeholders stressed that a child's access to early childhood education and care should not be contingent on the working status of their parents or guardians. The activity test may act as a barrier, in particular, for children and families experiencing disadvantage – including those with parents and guardians that are finding it difficult to engage in work and study for a variety of reasons and circumstances.

We find that the operation of the activity test disproportionately impacts accessibility and affordability for low income households. Households with lower activity test entitlements tend to have a lower income. This is consistent with the design of the activity test, which apportions entitlement to subsidised hours with the number of hours the parents or guardians undertake work (and other activities such as study, training and volunteering).

However, we also observe that in September 2023, households with an income of $0 to below $100,000 accounted for 96% of households entitled to the lowest level of subsidised hours of care (24 hours per fortnight). Households with an activity test entitlement of 24 hours used 21 hours of unsubsidised care in September 2023 (27% of their total charged hours), while households entitled to the highest level of subsidised hours (100 hours per fortnight) paid for just 4 hours of unsubsidised care in the same period.

We note that the Australian Institute of Family Studies Child Care Package Evaluation (August 2021) also found that households with a lower disposable income were more likely to be paying for some unsubsidised childcare hours.[75]

Recommendation 2(c) of our report recommends that the Australian Government consider removing, relaxing or substantially reconfiguring the current activity test.

1.6.4 Limited effectiveness of the hourly rate cap

Across all services we note that there are limits on the extent to which the hourly rate cap can act as an effective price signal, or to limit government expenditure over time. Typically, price signals rely on price being a key factor in driving consumers purchasing decisions and thus price impacting demand. As we have outlined above, a key characteristic of childcare markets is that once households have decided how much formal childcare they can afford, location, availability and perceived quality are the next most important considerations for most households. The Child Care Subsidy is also difficult for parents and guardians to understand, and it is difficult to estimate out-of-pocket expenses, particularly for centre based day care where providers use daily session rates rather than an hourly rate[76] (refer to recommendation 2(b)). These factors limit the impact that a price signal can have in influencing consumption choices to place downward pressure on prices and limit the burden on taxpayers over time.

Further, for outside school hours care there is typically no choice of service since this is provided at the child's school, and for many households there simply may be no choice in service.[77]

For each service type, we see different trends in prices relative to the hourly rate cap. As noted above, a substantial proportion of family day care and in home care services charge above the hourly

75 J R Bray et al, Child Care Package Evaluation: Final Report, p 79.

76 ACCC, Childcare Inquiry September interim report, pp 165–166.

77 ACCC, Childcare Inquiry September interim report, pp 114–115.

rate cap, which may reflect that the costs of providing these services exceed the hourly rate cap.[78] Recommendation 2(a) of this report recommends the Australian Government reconsider the base rate cap and indexation to more closely reflect cost inputs.

For centre based day care, the share of services that charged above the hourly rate cap has increased from 13% in 2018 to 22% in the September quarter 2023, however, there was a 7 percentage point fall in the share of services charging above the hourly rate cap after it was indexed in July 2023. We have observed that there is a clustering of fees around the hourly rate cap, but the peak of the distribution (and the national average hourly fee) falls just below the hourly rate cap.

Clustering fees may indicate that the hourly rate cap is having some impact on prices, however, our analysis indicates that there are other, more influential drivers of price in centre based day care. Our examination of internal provider documents indicates that the hourly rate cap is one of many factors providers consider when setting prices. Other factors include: competitor prices, households' willingness and ability to pay and costs in addition to the hourly rate cap. Over time, if current regulatory settings were maintained, we would expect to see a repeat of the trend we observed in our September interim report, with the share of centre based day care services charging above the hourly rate increasing.

Detailed discussion on fees and the impact of July changes to the Child Care Subsidy is in chapters 2 and 3.

Significantly, we also observe centre based day care providers (that typically charge on a daily or sessional basis) optimising session lengths to suit the demographic groups they serve, in particular, by matching activity test entitlements.[79] This may benefit some households by maximising their subsidised hours under the activity test and minimising their out-of-pocket expenses. While shorter daily session lengths (commonly 10 hours rather than 11 or 12 hours) mean the per hour rate is higher, this practice reduces the number of unsubsidised hours households use. This equally benefits providers by enabling them to maintain or increase their revenues and profitability while not necessarily acting as a limit on taxpayer burden as much as had been expected with the hourly rate cap was first introduced. Recommendation 2(b) of this report relates to changing the hourly rate cap to a daily rate cap for centre based day care services to improve price transparency.

For outside school hours care, there has been a steady trend since 2018 of more services pricing below the hourly rate cap. In our September interim report, we also observed that in 2022, the average cost of supplying outside school hours was around $3 below the hourly rate cap, and that licensing agreements between schools and services typically contain provisions about fee increases thereby, constraining fee growth. As a result, we find that the hourly rate cap has limited bearing on pricing decisions for outside school hours care providers or parents and guardians.

1.6.5 Limitations of StartingBlocks.gov.au

The government childcare website, StartingBlocks.gov.au provides information for parents and guardians about early childhood education, and may facilitate competition and informed consumer decision-making[80] by publishing service information[81] about vacancies, prices and inclusions.

However, we observe that StartingBlocks.gov.au is not widely known or used by households. It relies on services to provide information, which can be out of date or not supplied. The website administrator, the Australian Children's Education and Care Quality Authority, does not receive data

78 Costs are discussed further in chapter 1 of the September interim report and chapters 4 and 6 of this report.

79 ACCC, Childcare Inquiry September interim report, pp 174–176.

80 Australian Children's Education and Care Quality Authority (ACECQA), How to choose a childcare provider, ACECQA website, accessed 1 December 2023.

81 Australian Children's Education and Care Quality Authority (ACECQA), Find childcare, ACECQA website, accessed 30 November 2023.

on session length so cannot publish the session length on StartingBlocks.gov.au, which significantly limits parents' and guardians' ability to estimate out-of-pocket expenses and easily compare fees between services.[82] This reduces its effectiveness as a tool for consumers to compare services and promote further competition.

For family day care, StartingBlocks.gov.au only publishes information about services and not educators, which may be unhelpful for consumers in considering the options available in their local area market.

Recommendation 3 of this report recommends the Australian Government reconsider the information collected and reported on StartingBlocks.gov.au to better meet parents' and guardians' informational needs in decision-making about childcare services. Any planned changes to the platform should be balanced against the costs of collecting and publishing information.

1.6.6 Current government interventions in childcare services

International trends as well as models being implemented across states and territories indicate growth in the use of supply-side subsidies. We are observing Australian states and territories requiring providers not to increase fees more than is reasonably necessary and imposing reporting and monitoring requirements as a condition of supply-side funding (discussed further in chapter 7). The experience within the outside school hours care sector, which has a trend of average fees well below the hourly rate cap with low out-of-pocket fees, is also a useful case study in the potential use of competition for the market.

In under-served or unserved areas, government may consider using competitive tender processes to select a preferred provider, provide funding to support the service, and set a regulated fee. However, care would need to be taken to ensure this does not favour large childcare providers with the capacity to prepare tender documentation at the expense of the small community-run childcare providers that commonly supply services to those cohorts or communities that are less advantaged, or have disability and/or complex needs.

Recommendation 8 of this report recommends the Australian Government consider the potential use of supply-side subsidies and other direct forms of market intervention as appropriate.

Government support measures have a demand-side focus but there may be additional measures

Broadly speaking, market-based government expenditure to support childcare can take 2 forms:

- **demand-side subsidies**, which are subsidies that cover part or all of the cost that consumers would be charged for a service, whether paid to families or providers, and aim to improve the purchasing power of consumers (demand for services)
- **supply-side subsidies**, which are subsidies given directly to providers to cover the costs or part of the costs of service provision (or supply of the service).

The Child Care Subsidy is a demand-side subsidy. The StartingBlocks.gov.au website, while not a subsidy, is also demand-focused as it is intended to improve access to information and consumer decision-making about childcare service enrolments. Under the existing Australian Government framework, there is limited direct support of supply-side factors that cover providers' costs of service provision, such as delivery of certain types of care, hiring specialist workforce, building and maintenance costs, or other capital and operating expenses. Further discussion about supply-side and demand-side subsidies is in chapter 7.

82 Further, we have heard some reports via the ACCC Infocentre that direct debit or other surcharges are not made clear in the daily fees, further reducing households' ability to accurately estimate their out-of-pocket expenses.

In line with the typical intent of demand-side subsidies, the Child Care Subsidy improves the purchasing power of consumers and makes services more affordable, such that more parents and guardians enrol their children into childcare and use their time to study, work or volunteer. However, using demand-side subsidies to intervene in the childcare sector results in the market being further incentivised to supply to the areas with greatest demand and willingness or capacity. This is particularly the case where there is no supply-side intervention, such as regulations, direct capital or operating subsidies or other policies to ensure there is supply in areas and to cohorts that have extraordinary costs and would otherwise be considered unprofitable or unviable.

We observe that international jurisdictions appear to be increasing supply-side funding. Looking at OECD data, nominal gross fees in Australia increased by 22.8% in comparison to the OECD adjusted average of 6.2% between 2018 and 2022. In real terms, the increase in Australia was 9.3% in comparison to the OECD adjusted average of minus 9.9%.[83] The most likely explanation for how the OECD average real gross fee *decreased* from 2018 to 2022 by 9.9% when the average CPI increase was 17.8% is that other OECD countries have significantly increased supply-side subsidies when compared to Australia. These supply-side subsidies have reduced the cost of provision and therefore reduced the gross fee. Further commentary on the affordability of childcare in Australia compared to other OECD countries is in chapter 7.

Supply-side subsidies can be diverse in design and implementation. Supply-side funding can be demand-driven, such as providing funding to a provider on a per child basis, or can be block funding, such as a grant or other bulk payment for capital or operating expenses. The funding is usually conditional on delivery or commitment to a stated outcome or objective of the funding scheme.

Price regulation

Price regulation reforms being considered in other countries indicate a trend towards greater regulation of childcare fees or price control,[84] such as low fees or allocated free hours for parents and guardians, supported with supply-side subsidies to cover providers' costs of provision. Our review of reforms in other countries focuses on the United Kingdom (England), Ireland, the Netherlands, the United States of America, Canada and New Zealand (as countries that, like Australia, primarily rely on market provision), and Sweden (as a comparator). International counterparts are using a range of mechanisms to implement the price control and supply-side funding, such as using market fees at the time the scheme is established, benchmarking efficient costs to determine the regulated price and subsidy, undertaking competition for the market through government tenders, and providing conditional central government funding to regional authorities. Further discussion of international price regulations is in chapter 7.

International reforms towards direct price controls that are supported by supply-side subsidies are still in their infancy, with little evidence available about the outcomes achieved. We note there are some challenges and risks associated with direct price controls. In particular, setting a price that is too low could lower quality or lead to market exit if service provision becomes economically unviable. Additionally, there is likely to be an increasingly complex methodology for determining an efficient cost of service, or increasing the regulatory burden or administrative cost for providers and government.

We note that direct price controls or direct price interventions may be necessary but only in specific situations that would warrant this degree of control. This could include where governments provide supply-side funding to a non-government provider to enable delivery of service in an otherwise unserved or under-served market at a set price. It could also include a situation where the Australian Government significantly changes policy to make subsidies substantially more generous (such as a

83 This is comparable to our June interim report finding that, from 2018 to 2022, the average session fee for centre based day care in Australia increased by 20.8%, although we found a lower real increase of 4.8%.

84 Direct price controls determine and limit the amount that providers can charge parents and guardians for early childhood education and care services. Further examples are in chapter 7.

90% universal subsidy). A substantial increase in subsidy across all households would further reduce the limited incentive we observe for households to choose a service based on price. For example, under a universal 90% subsidy, price becomes even less influential in deciding how much childcare to use and which services' fees are competitive, as only a very small part of the price would be paid by the household in out-of-pocket expenses. This reduces the extent to which competition can provide downward pressure on gross fees, which in turn impacts government expenditure.

1.7 Clear articulation of policy objectives and market stewardship are needed

As already noted, there are a range of objectives that governments can seek to achieve in supporting the childcare sector. The objectives that governments seek to achieve can at times be complementary and at other times involve trade-offs. The prioritisation and emphasis placed on these objectives will determine how government selects and designs the regulatory options for intervening in markets.

Therefore, it is necessary for the Australian Government to clearly articulate the priority objectives (including the relative priority) it is seeking to achieve, and design and implement regulatory measures that will best balance and achieve these objectives. Government support mechanisms (across levels of government) and various elements of the childcare sector are also highly interconnected. Changes to one factor, such as an element of a subsidy or a change in educator wages, can have wide-ranging and diverse impacts across the early learning and care sector. This means issues and policy responses cannot be considered in isolation. The need for the Australian Government to consider and clearly articulate its objectives and priorities for childcare services (and early childhood education and care more broadly) is reflected in recommendation 1 of this report.

A single policy approach that achieves desired outcomes for all children and households is unlikely to be possible. A mix of different regulatory measures and government support is likely needed to meet the needs of different types of children and households in a range of different locations and situations across Australian society. A 'one size fits all' approach is likely to continue leaving communities under-served, un-served or without adequate and appropriate access to childcare options.

The interconnectedness of government objectives that can be prioritised and traded-off and the limitations of competitive markets to deliver them, along with the various regulatory mechanisms that can be implemented, suggests that there is a need for governments to take on a market stewardship role. A market stewardship role should involve closely overseeing, monitoring and taking responsibility for overall system functioning and coordination.[85]

Market stewardship requires the Australian Government to set a clear vision and objectives for the childcare sector, develop clear lines of responsibility, facilitate active collaboration between providers and government – including regular feedback on best practice, and local market monitoring to identify markets in transition and in need of a review of the best regulatory framework to apply, and regular evaluation of the achievement (or otherwise) of outcomes.

As part of this role, the government may design and determine appropriate support measures and specific price and regulatory mechanisms, based on the adequacy of the current level of supply. The ACCC recommends this include a stronger role for government to monitor providers' price, profits, costs and outcomes, supported by a credible threat of intervention, to put pressure on the market to avoid exceptionally high fees (recommendation 2(d)). Further details on what a market monitoring role supported by a credible threat of regulation could look like are set out in chapter 7. Further

85 S Duckett, A Stobart and H Swerissen, Reforming Aged Care: A Practical Plan for a Rights-Based System, Grattan Institute, November 2020.

detail on market stewardship more generally is also in chapter 7. Recommendation 7 of this report encourages the Australian and state and territory governments to take on a market stewardship role to shape the childcare market to ensure it delivers government objectives. Recommendation 8 recommends further consideration of the pros and cons of supply-side subsidies as longer term options, coupled with more direct forms of market intervention, as appropriate.

Ultimately, the design of the government support model and regulatory measures will depend on the Australian Government's overarching policy objectives for the early childhood education and care sector, including appetite to take on a market stewardship role and the delineation of roles between the Australian Government and state and territory governments. Our inquiry findings and recommendations provide insights on Australian childcare markets which may be considered by the Australian and State and Territory Governments in setting future policies and reforms in the early childhood education and care sector.

2. Impact of the Cheaper Child Care reforms

2.1 Key points

- The immediate impact of the Cheaper Child Care reform changes to the Child Care Subsidy rates reduced out-of-pocket expense for centre based day care by 11% on average between June and September 2023.
- Affordability of childcare services has improved for the vast majority of households in 2023 following the substantial increase in funding from the Cheaper Child Care reforms. However, the lowest income decile households continue to have the highest share of out-of-pocket expenses overall, and the highest percentage increase in fees since 2022.
- Affordability benefits are also unlikely to endure. Historically, when subsidies have been increased, out-of-pocket expenses decline initially, but then revert to higher levels. This is because subsequent fee increases erode some of the intended benefit for households over time.
- Funding for the Child Care Subsidy and Additional Child Care Subsidy has increased significantly since 2018 and the Child Care Subsidy now covers a larger share of childcare fees for all care types.
- The hourly rate cap that operates as part of the Child Care Subsidy has had limited effect in placing downward pressure on fee increases and restraining taxpayer burden over time.
- The design of the Child Care Subsidy system — particularly the activity test and use of an hourly rate cap — incentivises optimisation of the daily session length for centre based day care to maximise the subsidy contribution and minimise households' out-of-pocket expenses.
- One in 5 centre based day care services, and one in 3 family day care and in home care services, continue to charge fees above the hourly rate cap, despite the largest indexation of the cap in July 2023. Fees charged above the cap increase the out-of-pocket expense for households.
- About 40% of large for-profit providers of centre based day care charged above the hourly rate cap in the September quarter 2023, compared to about 15% of large not-for-profit providers.
- For outside school hours care, the hourly rate cap has little bearing on providers' price setting decisions due to fee provisions in licence agreements, and most services remain well below the hourly rate cap.
- The average hourly fee for in home care has been higher than the hourly rate cap since 2018. Over time, the hourly rate cap has not sufficiently reflected the high costs of delivery for in home care.

In this chapter, consideration is given to the impact of the Cheaper Child Care reforms that took place in 2023, specifically the consequences of changes to the Child Care Subsidy rates on the out-of-pocket expense for households and affordability of childcare. We also examine the impact of the indexation of the hourly rate cap in 2023.

We use Department of Education administrative data to examine the out-of-pocket expense on a daily or session basis (depending on the type of service), to reflect the different charging practices of services. Our analysis is based on data up to the September quarter 2023, and so any references to 2023 reflects data for January to September 2023 only.

We acknowledge the use of averages presented in this chapter may mask the significant variation in what households pay for childcare, given the highly localised nature of childcare markets and how an individual household's circumstances affect the application of the Child Care Subsidy.

This chapter is structured as follows:

- Section 2.1 presents key points.
- Section 2.2 provides an overview of the Cheaper Child Care reform changes to the Child Care Subsidy.
- Section 2.3 provides a high-level summary of childcare prices in 2023.
- Section 2.4 discusses the impact of the Cheaper Child Care reforms on the out-of-pocket expense for households.
- Section 2.5 discusses the impact of the Cheaper Child Care reforms on affordability of childcare.
- Section 2.6 discusses the Child Care Subsidy received by households.
- Section 2.7 considers the impact of the indexation of the hourly rate cap in 2023.

2.2 The Cheaper Child Care reforms

In July 2023, the Australian Government's Family Assistance Legislation amendments took effect and enacted several childcare policy changes, including changes to the Child Care Subsidy rates and eligibility. The amendments increased the family income limit from $356,756 to $530,000 per year and increased the maximum Child Care Subsidy rate from 85% to 90% from 10 July 2023 (see table 2.1).[86] The package is expected to cost $4.6 billion over 4 years.[87]

These changes to the Child Care Subsidy, combined with the regular, annual indexation of the hourly rate cap, should increase the level of subsidy available to households and reduce the out-of-pocket expense. This is discussed more in sections 2.4 to 2.6.

However, the extent to which these changes impact the out-of-pocket expenses for a household will depend on whether the household's childcare fees rise, and by how much, as well as other factors such as the activity test and income levels.

In this chapter, we compare the September quarter 2023 with the September quarter 2022 to assess the impact of the Cheaper Child Care reforms. This period covers price changes during 2023,

86 Other changes included new financial reporting requirements for approved childcare providers, relaxation of the activity test for First Nations families, measures aimed at reducing fraud within the sector, and enabling providers to offer staff discounted childcare fees. See Parliament of Australia, Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022, Explanatory memorandum, pp 2–4.

87 Parliament of Australia, Budget Paper No. 2 Budget Measures October 2022–23, 2022, p 93.

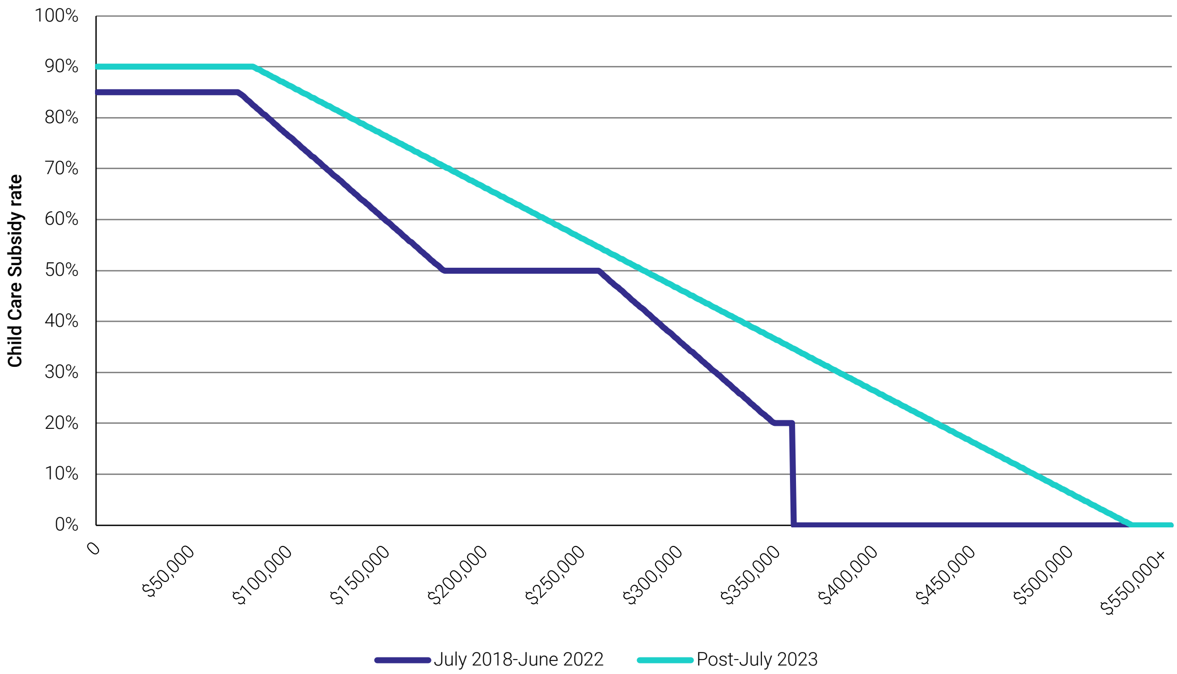
including any changes made in anticipation of the new Child Care Subsidy rates and the indexation of the hourly rate cap, which both occurred in July 2023.[88]

Table 2.1: Cheaper Child Care reforms – Child Care Subsidy rates from 10 July 2023

Taxable family income	Child Care Subsidy rate
Up to $80,000	90%
More than $80,000 to below $530,000	Decreasing from 90% (subsidy rate decreases by 1% for every $5000 of family income)
$530,000 or more	0%

A comparison of the Child Care Subsidy rates before and after the changes is shown in figure 2.1. All households with a taxable income below $530,000 per year will now be eligible for a higher subsidy rate.[89] The changes to the Child Care Subsidy rates were intended to make childcare more affordable for 96% of families currently using childcare, with no families being worse off.[90]

Figure 2.1: Child Care Subsidy rates for the first child by household income level, pre- and post-July 2023[91]



Source: Department of Education, Family eligibility and entitlement, accessed 12 October 2023.

88 While funding began on 10 July 2023, the Bill passed both Houses on 23 November 2022 giving the sector time to consider the impact of the legislation. The hourly rate cap is also indexed annually in July each year to the Consumer Price Index, based on the rate at the end of the December prior. It increased by 7.8% on 10 July 2023. The exact rate of change is not announced by the Department of Education until June, but it was evident in January 2023 with the release of the Consumer Price Index that the increase of the hourly rate cap was likely to be 7.8%.

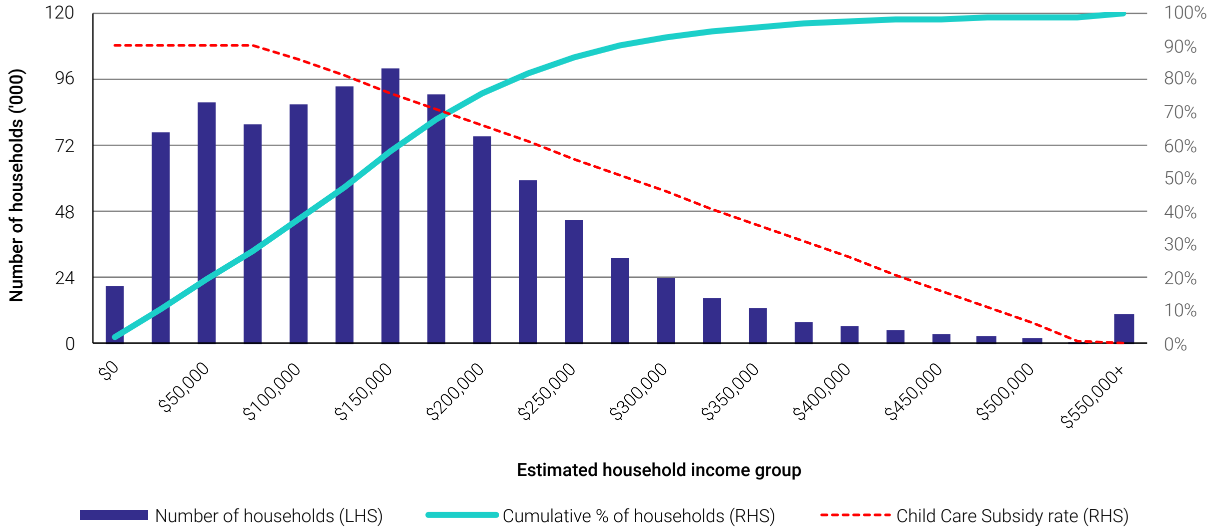
89 The July 2023 changes retained the higher subsidy rate available to families with more than one child aged 5 or under in care. See Parliament of Australia, Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022, Explanatory memorandum, p 2.

90 Parliament of Australia, Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022, Explanatory memorandum, p 2.

91 We note that households with more than one child in childcare are eligible for higher Child Care Subsidy rates for the second and subsequent child.

The new Child Care Subsidy rates affect households differently depending on their income level. It is estimated that nearly 30% of households will receive the highest subsidy rate of 90% (figure 2.2).

Figure 2.2: Distribution of households, by estimated household income group and new Child Care Subsidy rates, July 2023



Note: Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

Some illustrative examples showing the potential impact of the change in subsidy rates for different levels of household income are also set out in box 2.1.

Box 2.1: Illustrative examples of the difference in daily out-of-pocket expenses following changes to the Child Care Subsidy rates in July 2023

For a household using a centre based day care service with an average daily fee of $125, we have estimated the out-of-pocket savings for different income levels following the changes to the Child Care Subsidy rates in July 2023.

We note that the impact of the change depends on a number of factors including the regular, annual indexation of income limits, the activity test, and whether the fee is above or below the hourly rate cap.

To show the impact of the changes to the Child Care Subsidy in isolation, we have assumed a daily fee of $125 that is below the hourly rate cap and have not considered other factors in the examples in table 2.2.

Table 2.2: Estimated out-of-pocket savings for one child at a service with an average daily fee of $125, by taxable household income

Taxable household income	Daily out-of-pocket expense (pre-July 2023)	Daily out-of-pocket expense (post-July 2023)	Daily saving	Annual saving
$50,000	$18.75	$12.50	**$6.25**	**$900.00**
$80,000	$21.89	$12.50	**$9.39**	**$1,351.80**
$130,000	$42.73	$25.00	**$17.73**	**$2,552.40**
$180,000	$62.50	$37.50	**$25.00**	**$3,600.00**
$230,000	$62.50	$50.00	**$12.50**	**$1,800.00**
$400,000	$125.00	$92.50	**$32.50**	**$4,680.00**

Note: Calculation of annual saving assumes 3 days of childcare, for 48 weeks a year.

2.2.1 Large centre based day care providers' response to the Cheaper Child Care reforms

We sought information from large centre based day care providers to understand whether the Cheaper Child Care reforms influenced providers' decisions about setting fees in 2023.

All large centre based day care providers considered as part of this inquiry implemented at least one fee increase over January to July 2023, with several providers increasing their fees twice during this period. Most of these providers cited increasing wage costs, following changes to the award wage, and other inflationary cost pressures as the reasons for these increases.

There is some evidence the Child Care Subsidy changes may have influenced some pricing decisions amongst a small group of these providers, alongside other factors providers typically consider when setting fees.[92] However, there is little evidence from information provided to the ACCC that providers either fundamentally changed their pricing strategy, or increased their fees directly and solely in response to the changes to the Child Care Subsidy in July 2023.

92 In our September interim report, we found that providers consider things such as local market prices, centre occupancy, demographics of the area, quality of the centre and the reputation in the local community in setting fees. See ACCC, Childcare Inquiry September interim report, pp 107–111. We observed providers making similar considerations when setting fees in 2023.

One provider commented that the changes to the Child Care Subsidy could support higher fee increases than otherwise planned, and expected the changes to ultimately deliver a 'net benefit' to the organisation.

Another provider noted that the increase in the Child Care Subsidy is expected to have 'multi-year tailwinds and support continued uplift across both average daily fee and occupancy.' This provider estimated that their fee increase in July 2023 was conservatively expected to increase profits by at least $11 million for the 2023 calendar year, after accounting for wage increases and other cost inflation, and based on only a subset of centres. Further, a report prepared by external consultants for this provider described a pattern where the Australian Government has historically introduced higher subsidies when out-of-pocket expenses outpace inflation.[93] Another large provider factored a 1% uplift to profit margins into their fee increase in July 2023.

However, considering the ongoing government inquiries and media attention on the childcare sector, it is possible that providers have sought to respond to the policy changes in a more subtle way to avoid further scrutiny. For instance, one provider considered the ACCC's inquiry 'posed a risk' to their ability to make fee changes following changes to the Child Care Subsidy. Another provider noted the ACCC's reports may impact public perception of fees and the window to implement strategic price changes was before the ACCC's final report.

Some privately owned providers produced only limited information to the ACCC regarding fee changes. This makes it challenging to understand the entirety of reasons behind pricing decisions and raises some concerns about the reasonableness of pricing decisions. If longer term monitoring arrangements are put in place for a market stewardship arrangement or if another government agency takes up a price monitoring role, it will be important to ensure that adequate information is produced by providers.

Consistent with practice in previous years, the timing of the Child Care Subsidy changes and out-of-pocket savings were factors in the pricing decisions of some large providers

Most of the large providers considered as part of this inquiry raised fees around the middle of 2023. Several providers noted this would coincide with the changes to the Child Care Subsidy and mitigate the impact of fee increases on households' out-of-pocket expenses. However, this timing also coincides with the indexation of the hourly rate cap which, as discussed in our September interim report, is an important consideration for many providers when setting fees.[94]

Similar to previous years, a number of large providers did some analysis on the impact of their fee increase on individual families, and found that for most families, the increased fees would be fully offset by the increase in subsidy.

Some providers also actively sought to help families optimise their use of childcare under the new Child Care Subsidy rates, including by highlighting the out-of-pocket savings and encouraging the use of additional days of childcare. This can benefit both families and the provider.

One large provider supplied its individual centres with a 'prioritised list' of families who could benefit the most from the Child Care Subsidy changes, suggesting centre staff could have targeted conversations with these families. This formed part of the provider's broader strategy to capitalise on the Child Care Subsidy changes through selling additional days, building brand

93 This comment is in reference to an increase to the then Child Care Benefit and Child Care Tax Rebate in 2009, introduction of the Child Care Package to replace existing subsidy arrangements in 2018, and the suspension of out-of-pocket expenses in 2020. See, J Gillard, Increase to Child Care Benefit and Child Care Tax Rebate from 1 July [media release], Australian Government, 3 June 2009, accessed 6 October 2023; Explanatory Memorandum, Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Bill 2016; S Morrison and D Tehan, Early Childhood Education and Care Relief Package [media release], Australian Government, 2 April 2020, accessed 6 October 2023.

94 ACCC, Childcare Inquiry September interim report, p 111.

loyalty from any out-of-pocket savings, and supporting increased access and affordability for First Nations households.

2.3 Price of childcare services in 2023

The average fee for all types of childcare services rose in 2023. The highest increase was for centre based day care services, where, on average, the daily fee increased by 9.8% between the September quarter 2022 and the September quarter 2023 (figure 2.3).

Family day care and in home care services experienced a 7.9% and 7.8% increase, respectively, on average, in the daily fee between the September quarter 2023 and the September quarter 2022. While the average session fee for outside school hours care increased by 7.2% over this period.

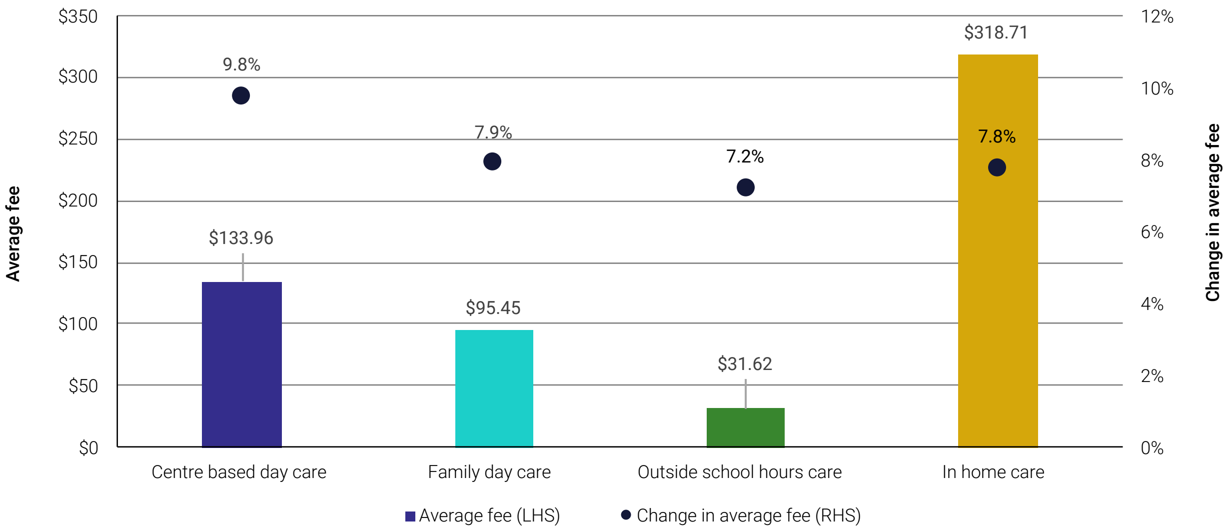
This is the largest increase in the average fee, year-on-year, for centre based day care and family day care since the Child Care Subsidy was introduced in 2018. However, as discussed in our June and September interim reports, childcare providers consider many factors when setting fees and deciding whether to increase prices.

We also note there have been several simultaneous policy changes in July 2023 that likely had an impact on these pricing decisions and contributed to these large fee increases.

- The changes to the Child Care Subsidy rates commenced and increased the amount of subsidy available to eligible households (as discussed in section 2.2).
- The hourly rate cap (designed to be a price signal) increased by 7.8%, which is the largest increase since the Child Care Subsidy was introduced in 2018.
- The minimum award wage for childcare workers increased by 5.75% from 1 July 2023, and as noted in our September interim report, labour is the largest component of the cost to supply a childcare service.[95]

We examine the price of childcare services in 2023 in more detail in chapter 3.

Figure 2.3: Average fee for childcare services in the September quarter 2023 and percentage change since September quarter 2022



Note: This analysis reflects the average daily fee for centre based day care, family day care and in home care, and the average session fee for outside school hours care.

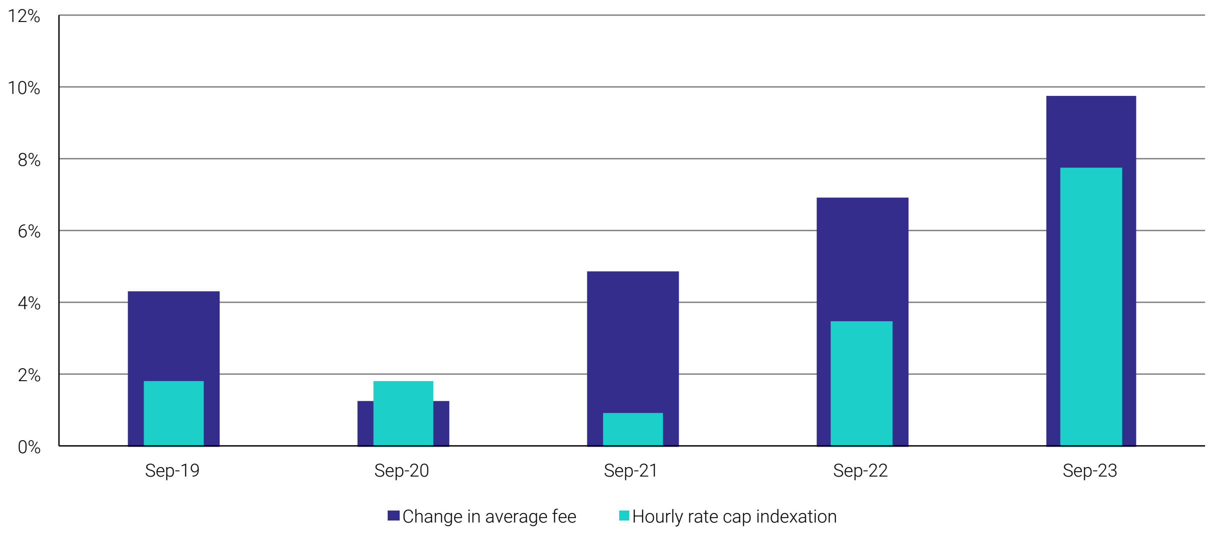
Source: ACCC analysis of Department of Education administrative data.

95 ACCC, Childcare Inquiry September interim report, pp 42–45.

In our June interim report, we noted that centre based day care services experience the largest price increase in the September quarter of each year, which coincides with the indexation of the hourly rate cap.[96] However, this most recent price increase, on average, is considerably more than the indexation of the hourly rate cap (figure 2.4), as discussed more in section 2.7.

If a household's childcare fee rose more than the hourly rate cap indexation, this will reduce the benefit available from the Cheaper Child Care reform changes to the Child Care Subsidy rates. Part of the increased subsidy contribution will be lost to the fee increase above indexation. This is discussed more in sections 2.5 and 2.6.

Figure 2.4: Hourly rate cap indexation and percentage change in average hourly fee for centre based day care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

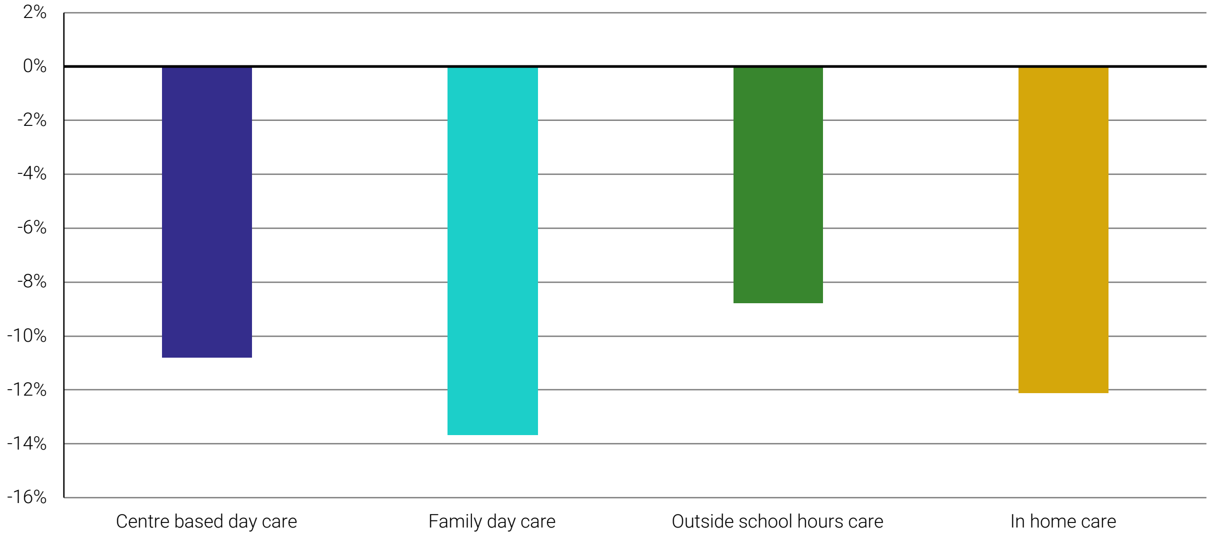
2.4 The Cheaper Child Care reforms have reduced out-of-pocket expenses

Following the introduction of the Cheaper Child Care reforms in July 2023, there was an immediate reduction of 8.8% to 13.7% in the average out-of-pocket expense for childcare services between the months of June and September 2023 (figure 2.5).

However, we acknowledge that this analysis may not reflect every individual household's experience and out-of-pocket expense, as this differs based on individual circumstances, such as the activity test entitlement and household income.

96 ACCC, Childcare Inquiry June interim report, p 75.

Figure 2.5: Percentage change in the average out-of-pocket expense, by service type, June to September 2023

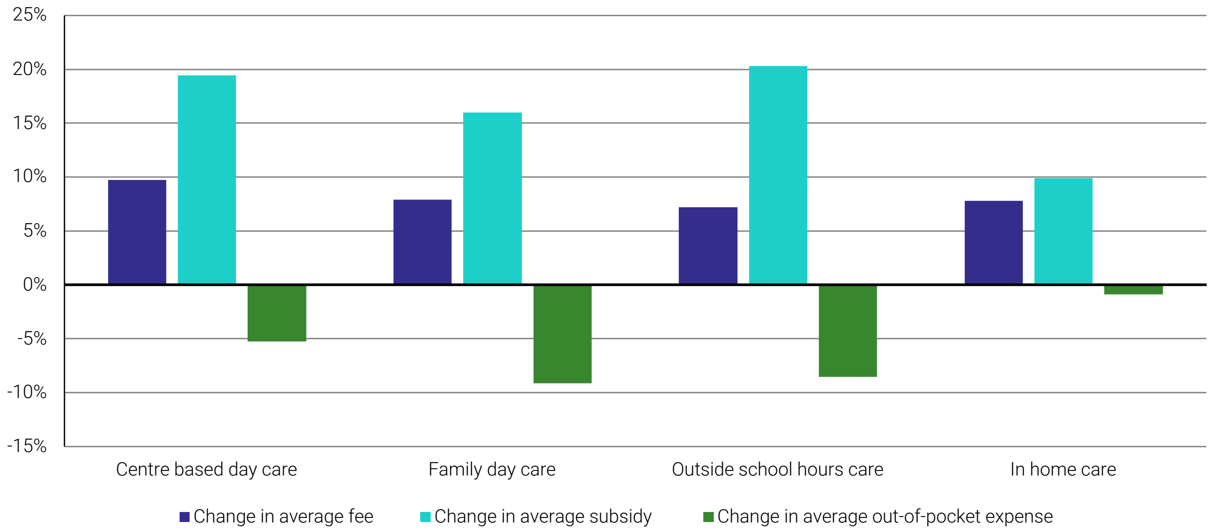


Note: This analysis reflects the average daily out-of-pocket expense for centre based day care, family day care and in home care, and the average session out-of-pocket for outside school hours care.

Source: ACCC analysis of Department of Education administrative data.

When we consider the September quarter 2023 compared to the same period in 2022 (figure 2.6), the reduction in average out-of-pocket expense was lower, as inflation and increases in average fees in excess of the hourly rate cap indexation over this period reduced some of the benefit of the reforms. This is despite the single largest indexation of the hourly rate cap since the Child Care Subsidy began in 2018. As discussed in section 2.3, there was a large increase in the average fee for childcare services in the last year (September quarter 2022 to 2023) which, for centre based day care, was more than the indexation of the hourly rate cap.

Figure 2.6: Percentage change in the average out-of-pocket expense, average fee and average subsidy between September quarters 2022 to 2023



Note: This analysis reflects the average daily fee for centre based day care, family day care and in home care, and the average session fee for outside school hours care.

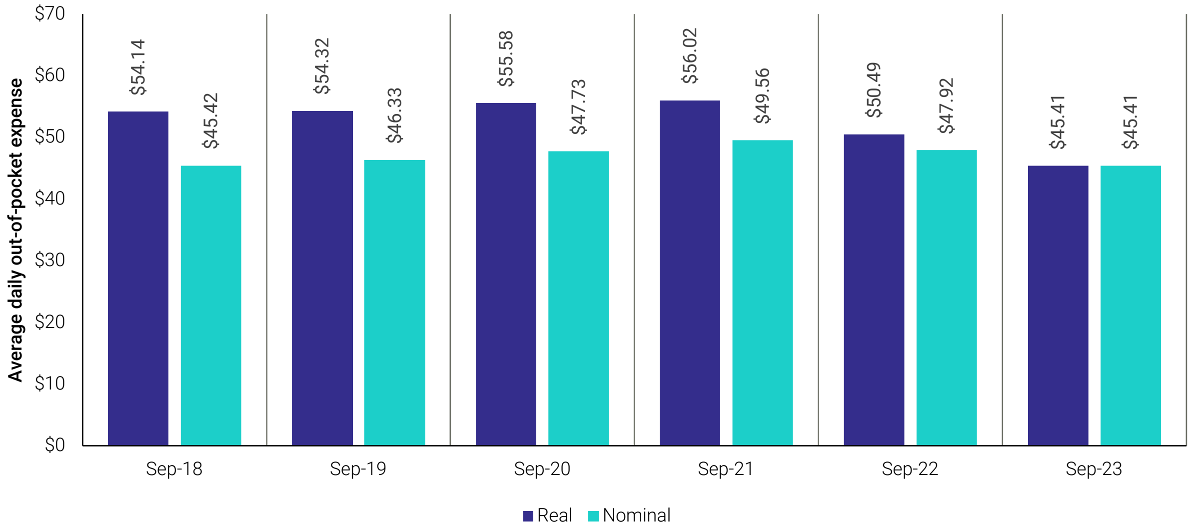
Source: ACCC analysis of Department of Education administrative data.

2.4.1 Average out-of-pocket expense for centre based day care now the same as in 2018

Following the Cheaper Child Care reform changes to the Child Care Subsidy rates, the average daily out-of-pocket expense for centre based day care in the September quarter 2023 has fallen to the same level as the average out-of-pocket expense (in nominal terms) in the September quarter 2018, when the new Child Care Subsidy system was first introduced.

In real terms, the average out-of-pocket expense in the September quarter 2023 is almost $9 a day less than in September quarter 2018 (figure 2.7).

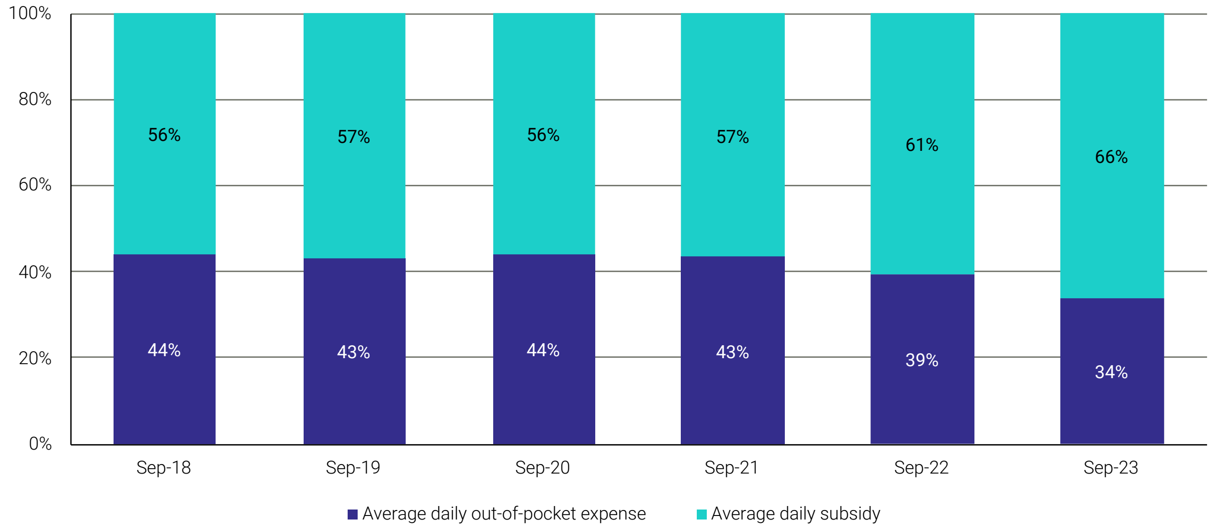
Figure 2.7: Average daily out-of-pocket expense for centre based day care (real and nominal), September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

Over this period, the average daily subsidy contribution has increased notably as a share of the total fee for centre based day care services (figure 2.8), representing about two-thirds of the total fee in the September quarter 2023. This means the Australian Government now pays for a larger share of childcare fees, which is discussed more in section 2.6.

Figure 2.8: Share of average daily out-of-pocket expense and average daily subsidy for centre based day care services, September quarters 2018 to 2023

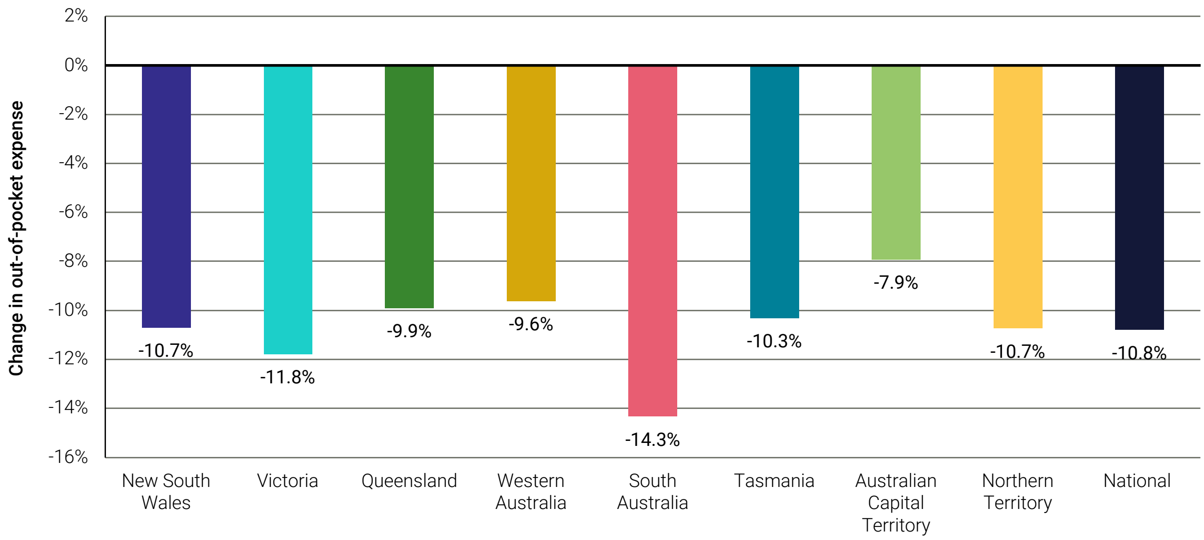


Source: ACCC analysis of Department of Education administrative data.

However, the impact of the Cheaper Child Care reform changes to the Child Care Subsidy rates has not been felt equally across Australia. Households in South Australia, on average, experienced the largest percentage decrease in out-of-pocket expense for centre based day care services since June 2023 (14.3%) (figure 2.9), whereas households in the Australian Capital Territory experienced the smallest decrease (7.9%).

We note the average hourly fee in the Australian Capital Territory was already above the hourly rate cap in July 2023 ($13.87), and this likely contributed to the small change in average out-of-pocket expense. All other states and territories had an average hourly fee below the hourly rate cap at this time.

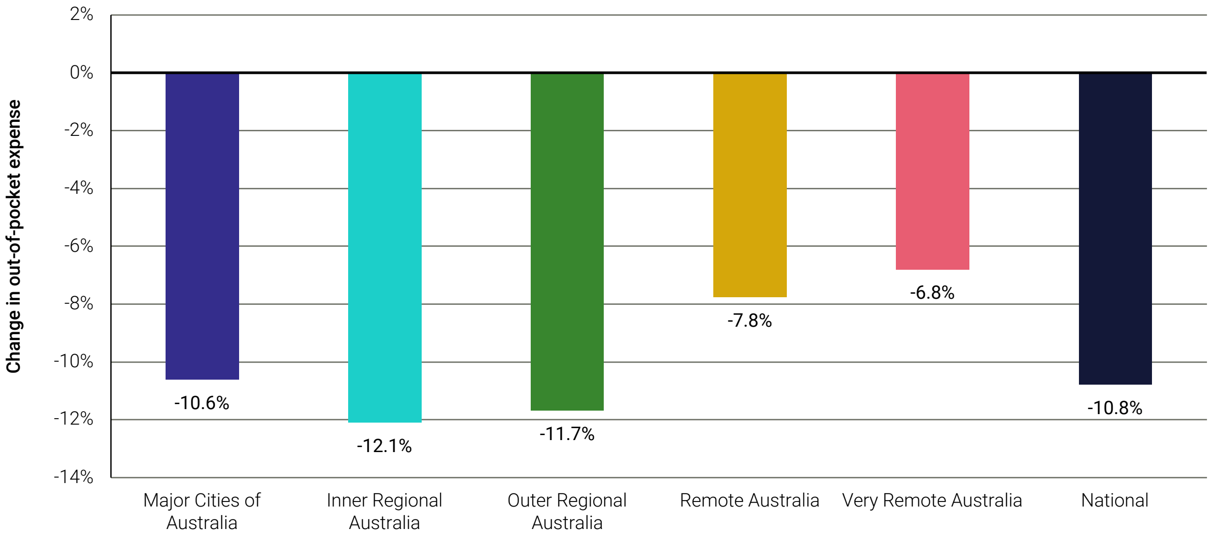
Figure 2.9: Percentage change in the average daily out-of-pocket expense for centre based day care services, by state and territory, June 2023 to September 2023



Source: ACCC analysis of Department of Education administrative data.

Further, households in Inner Regional and Outer Regional Australia, on average, experienced the largest percentage decrease in out-of-pocket expense (12.1% and 11.7%, respectively) between June and September 2023, and more than the national average. While households in Very Remote Australia experienced a much lower percentage decrease (6.8%), significantly less than the national average (figure 2.10).

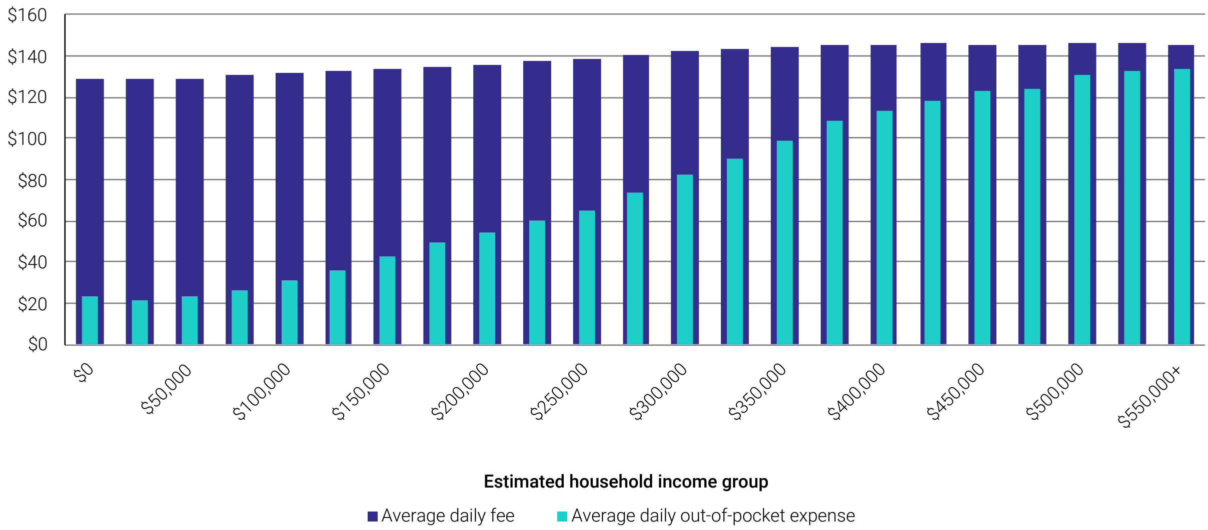
Figure 2.10: Percentage change in the average daily out-of-pocket expense for centre based day care services, by remoteness, June 2023 to September 2023



Source: ACCC analysis of Department of Education administrative data.

The Cheaper Child Care reform changes to the Child Care Subsidy rates also affected households differently depending on their income level. While the average daily fee is similar across income levels, the out-of-pocket expense is considerably lower for households with low incomes, which is consistent with the intent of the policy (figure 2.11). We note almost 70% of households fall with the $0 to $200,000 income range.

Figure 2.11: Average daily fee and average daily out-of-pocket expense by estimated household group for centre based day care, September quarter 2023



Note: Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

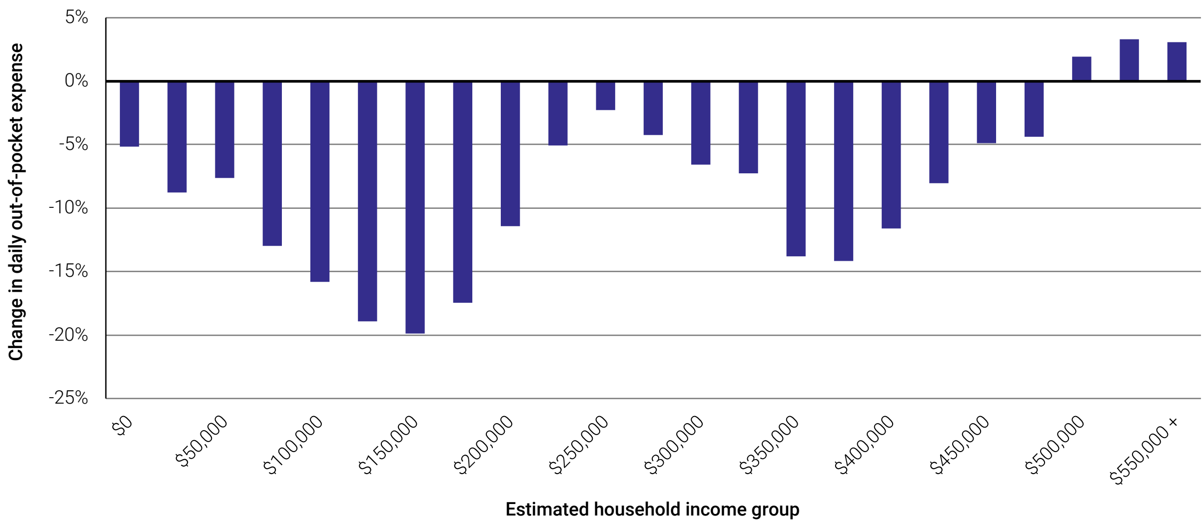
Source: ACCC analysis of Department of Education administrative data.

On average, the impact of the Cheaper Child Care reform changes to the Child Care Subsidy in percentage terms was largest for households with an estimated income from $125,000 to below $200,000 (figure 2.12). This is almost 30% of households.

We note that prior to July 2023, households with an income above $356,756 were not eligible to receive the Child Care Subsidy and in most cases, these households would have paid the full fee for their childcare service out-of-pocket.

However, some of these high-income households may have received some subsidy contribution prior to July 2023, depending on individual circumstances (for example, if they had a change in their income and fell below the income threshold in some fortnights, they would receive a subsidy contribution for that fortnight).

Figure 2.12: Annual percentage change in average daily out-of-pocket expense for centre based day care, by estimated household income, September quarters 2022 to 2023



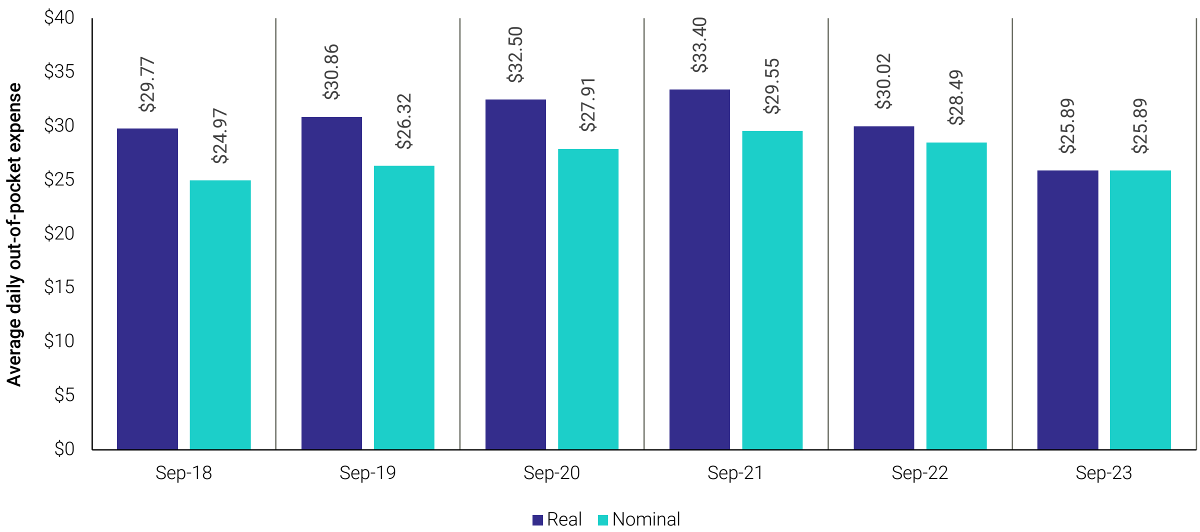
Note: Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

2.4.2 Out-of-pocket expenses fell for family day care in 2023

The average daily out-of-pocket expense for family day care services has fallen since the Cheaper Child Care reform changes and is now lower than the September quarter 2019, in nominal terms (figure 2.13).

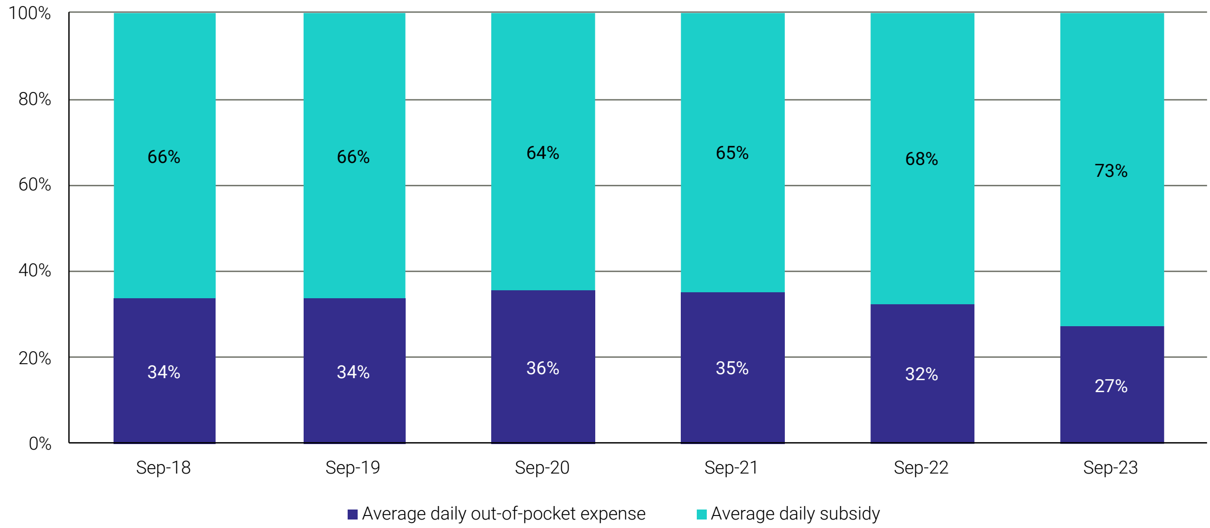
Figure 2.13: Average family day care out-of-pocket expense, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

Since the September quarter 2018, the average daily out-of-pocket expense, as a share of the total daily fee, has decreased by 7 percentage points. The average daily out-of-pocket expense now represents less than a third of the total average daily fee for family day care (figure 2.14).

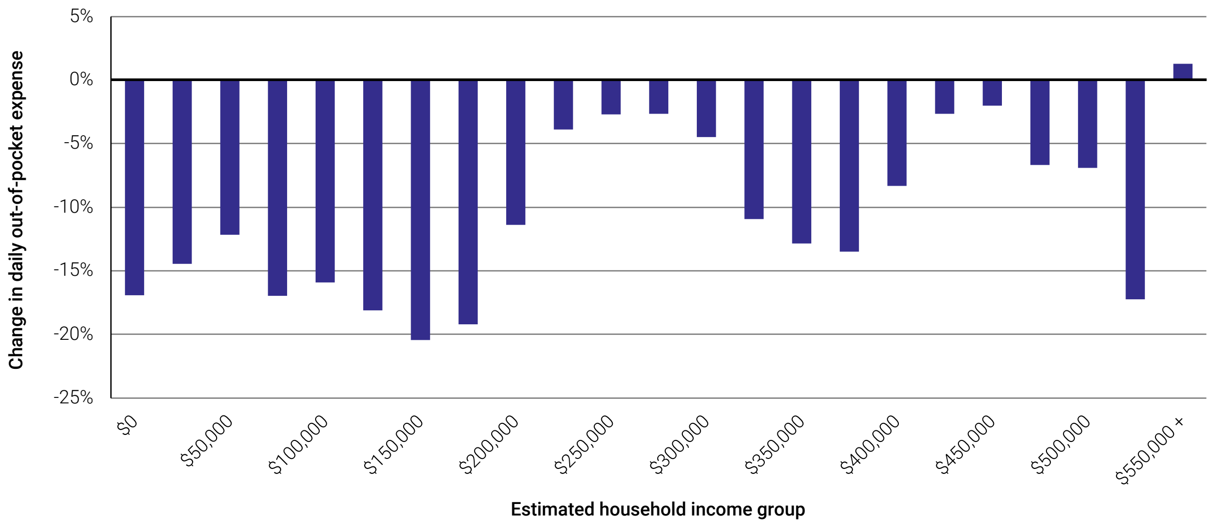
Figure 2.14: Share of average daily out-of-pocket expense and average daily subsidy for family day care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

Following the Cheaper Child Care reform changes to the Child Care Subsidy rates, the average daily out-of-pocket expense for family day care reduced most significantly for households with an estimated income of up to $200,000. The reduction in average daily out-of-pocket expenses was consistently material, between 12.2% and 20.4% across the income bands between $0 to below $200,000 (figure 2.15). This represents most of the households using family day care that are eligible for the Child Care Subsidy (almost 80%).

Figure 2.15: Annual percentage change in the average daily out-of-pocket expense for family day care, by estimated household income group, September quarters 2022 to 2023



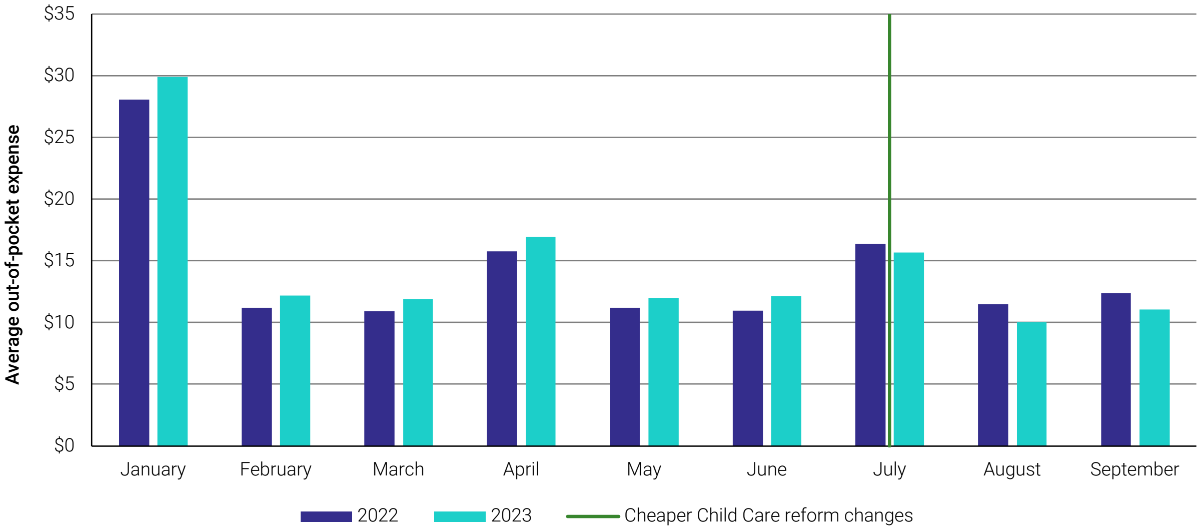
Note: Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

2.4.3 Small saving in out-of-pocket expense for outside school hours care in 2023

For outside school hours care, the average out-of-pocket expense per session decreased between July 2023 and 2022 (figure 2.16). Our analysis considers the average session fee for each month of the year, as the average fee for outside school hours care can differ significantly between months where there are vacation care sessions, such as in January.

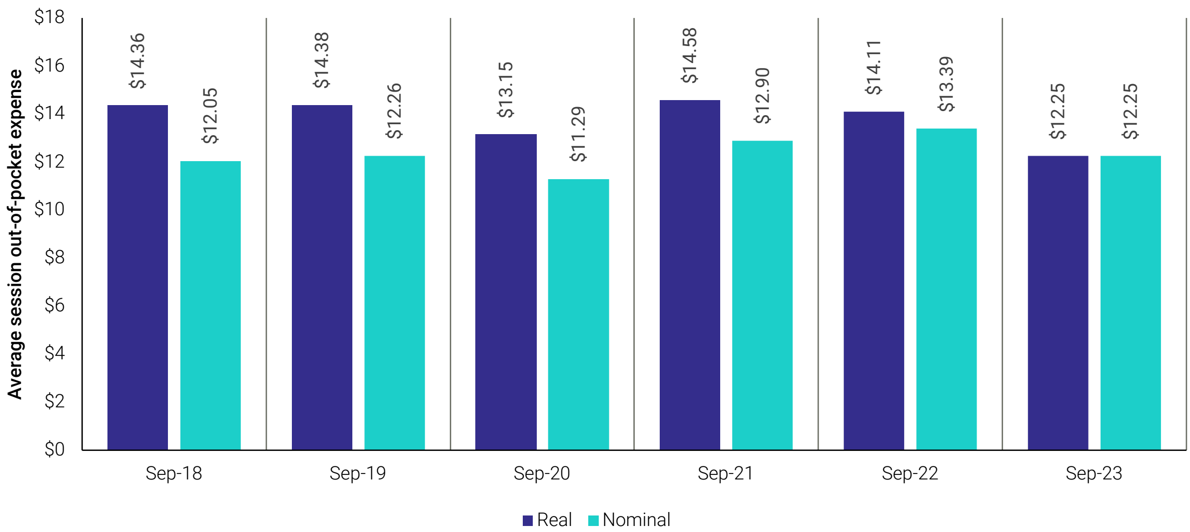
Figure 2.16: Average session out-of-pocket expense for outside school hours care, January to September 2022 and 2023



Source: ACCC analysis of Department of Education administrative data.

Although the average out-of-pocket expense per session in the September quarter 2023 is lower than the same period in 2022, the average out-of-pocket expense for outside school hours care has remained relatively stable since 2018, increasing by only 2% over this period (figure 2.17).

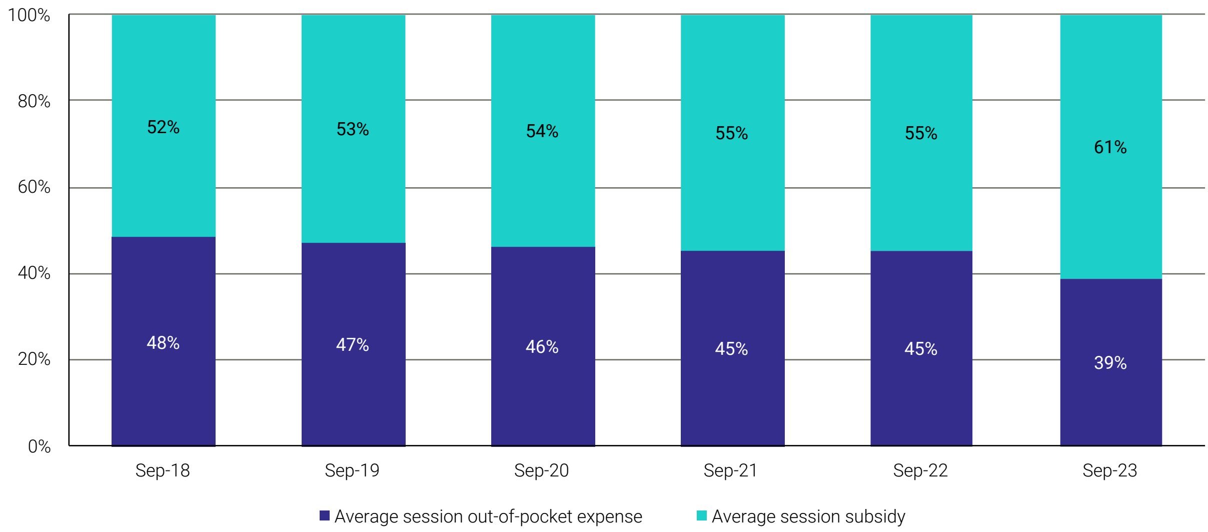
Figure 2.17: Average session out-of-pocket expense for outside school hours care, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

As a share of the total average fee, the average out-of-pocket expense for outside school hours care has decreased by 9 percentage points between the September quarter 2018 and the September quarter 2023 (figure 2.18).

Figure 2.18: Share of average out-of-pocket expense and average subsidy per session for outside school hours care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

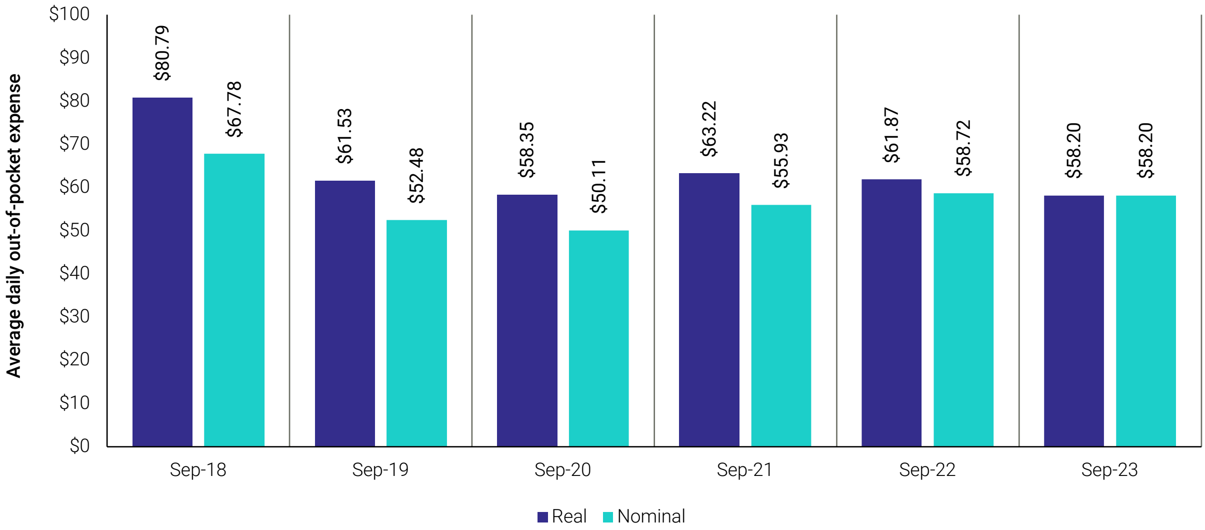
2.4.4 On average, the out-of-pocket expense for households using in home care remains the same as in 2022

For in home care services, the out-of-pocket expense in the September quarter 2023 is almost the same as in the September quarter 2022 (figure 2.19). This means that the Cheaper Child Care reform changes to the Child Care Subsidy rates have only just offset the increase in fees for in home care services.

While a stable out-of-pocket expense is a benefit to households (rather than an increase in out-of-pocket expense), it is less beneficial compared to those using other types of care, where out-of-pocket expenses have fallen more significantly. The average daily out-of-pocket expense for in home care remains the highest of all childcare services, although we note it can cover multiple children.

Households using in home care are also likely to incur additional expenses beyond the daily out-of-pocket expense such as accommodation and travel expenses for their educator. These additional expenses are not eligible for the Child Care Subsidy, and in practice, this means the true out-of-pocket expense for households using in home care is likely to be much higher than represented in our analysis. This is discussed more in chapters 3 and 6.

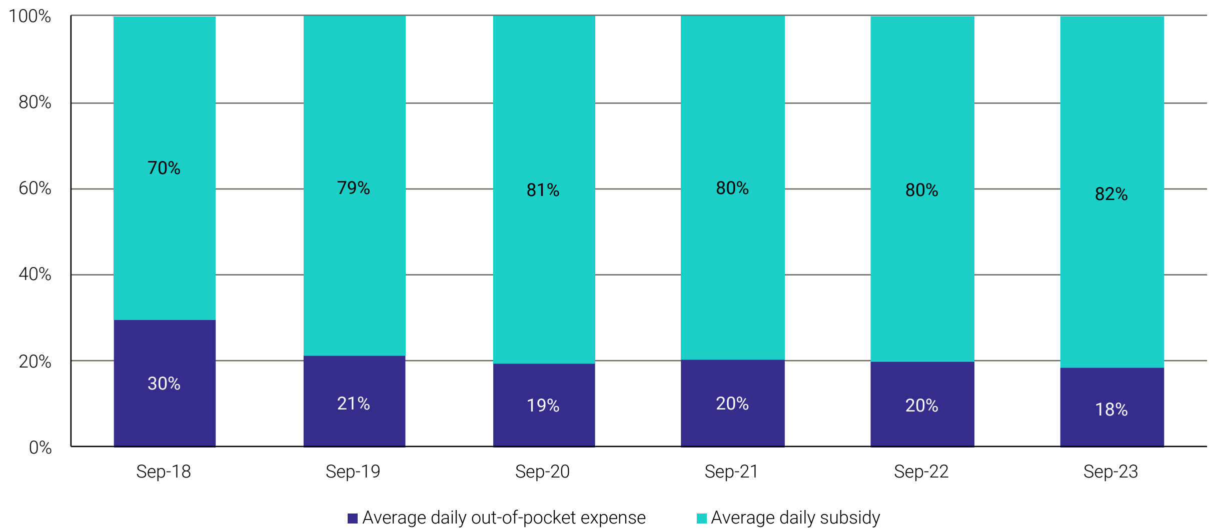
Figure 2.19: Average daily out-of-pocket expense per family for in home care, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

Since 2019, when the hourly rate cap for in home was re-indexed, the average out-of-pocket expense for in home care has remained relatively steady as a share of the total fee (about 20%) (figure 2.20).

Figure 2.20: Average daily out-of-pocket expense and average daily subsidy per family as a share of average daily fee for in home care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

We also note that children using in home care services are more likely to be receiving the Additional Child Care Subsidy, which covers up to 120% of the hourly rate cap (discussed further in section 2.7). There are 4 types of Additional Child Care Subsidy – the Child Wellbeing subsidy, the Grandparent subsidy, the Temporary Financial Hardship subsidy and the Transition to Work subsidy.[97]

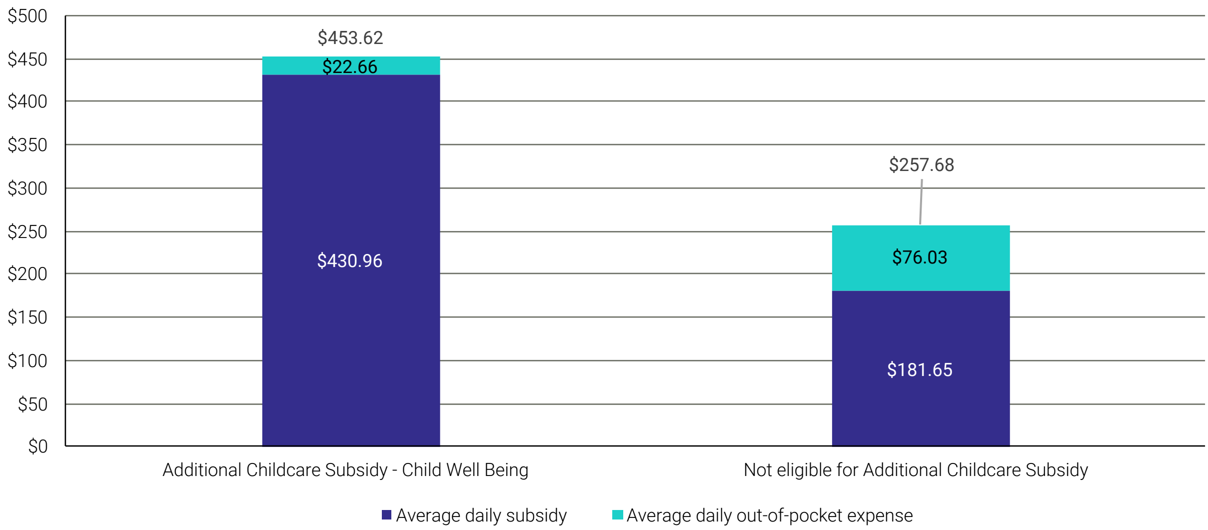
97 Department of Education, Additional Child Care Subsidy, accessed 1 December 2023.

Almost 30% of households using in home services were receiving the Additional Child Care Subsidy (Child Wellbeing) in the September quarter 2023. For these households, the average out-of-pocket expense was about $23 per day.

This is considerably lower than the average out-of-pocket expense for households that are not eligible for the Additional Child Care Subsidy, which was about $76 per day (figure 2.21).

From this analysis, we note there may be differences in affordability of in home care services between households depending on their eligibility for additional subsidy assistance.

Figure 2.21: Average daily out-of-pocket expense and subsidy per family using in home care and eligible for the Additional Child Care Subsidy, September quarter 2023



Note: This analysis only includes households with children accessing one type of Additional Child Care Subsidy (Child Wellbeing) due to low sample size for the other types of Additional Child Care Subsidy.

Source: ACCC analysis of Department of Education administrative data.

2.5 Affordability of childcare has improved immediately following the Cheaper Child Care reforms

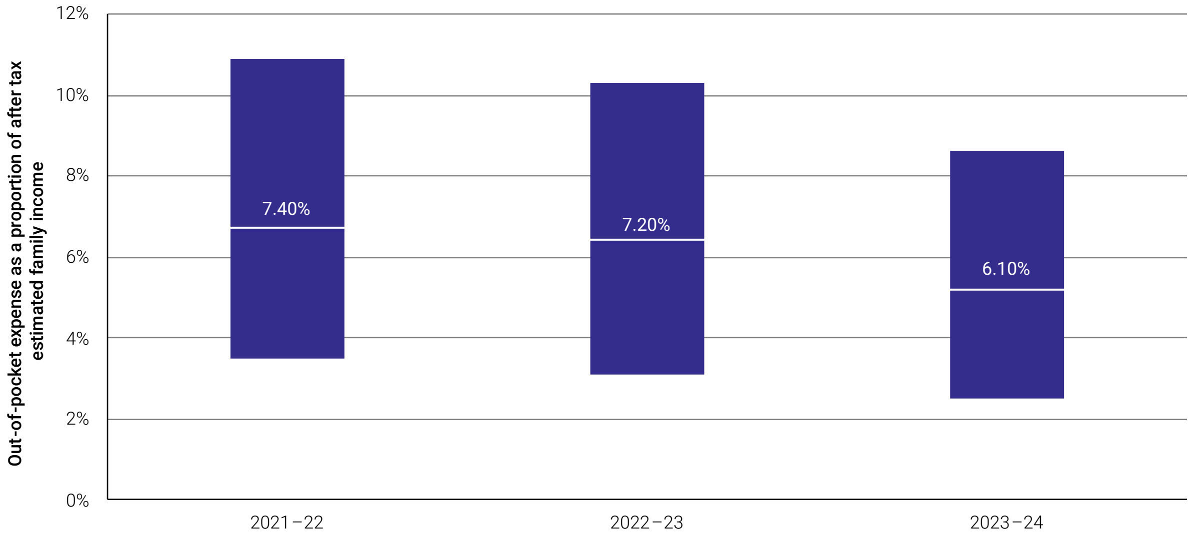
Using available information, we have considered the affordability of childcare services following the introduction of the Cheaper Child Care reform changes to the Child Care Subsidy from July 2023. The reforms were intended to make childcare more affordable for 96% of families currently using childcare.

We note our information only represents the first few months following the introduction of the changes and as such, is unlikely to show the full impact of the reforms. Additional price monitoring may be needed to ensure the benefits of the reforms continue to flow through to households as intended, as discussed below.

2.5.1 Affordability of childcare services has improved immediately following the Cheaper Child Care reforms

For most households, the out-of-pocket expense for childcare services as a share of disposable income in 2023 has fallen compared to 2022 (figure 2.22).[98] This means overall, the affordability of childcare services has improved following the Cheaper Child Care reform changes to the Child Care Subsidy rates.

Figure 2.22: Out-of-pocket expense for childcare services as a share of estimated household disposable income, 2021–22 to 2023–24



Note: Each box represents the interquartile range (the middle 50% of households) in each reference period within the financial year. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data and Australia Tax office data.

However, as was the case in 2022, the cost burden of childcare continues to be felt most by households that have the lowest estimated household disposable income (figure 2.23), despite receiving a greater subsidy contribution.

About half of households in the lowest estimated household disposable income decile spent between 4% and 17% of their estimated disposable income on childcare in August 2023, with some spending more than this.[99] This is a slight improvement from August 2022, where this group of households spent between 5% and 21% of their after tax income on childcare.

In contrast, half of the households in the highest income decile spent between 2% and 9% of their disposable income on childcare in August 2023, about the same as in August 2022.[100]

Based on this analysis, the largest percentage point reduction in out-of-pocket expense as a share of estimated household disposable income, after the lowest income decile group, was for middle-income households (income deciles 6 and 7).[101] This is likely because these groups experienced a large increase in their Child Care Subsidy rate, whereas for households with lower

98 This analysis is based on households using childcare in a representative fortnight in August 2023 and November 2022. These fortnights were selected as they do not contain any school holiday periods or public holidays. Also see ACCC, Childcare Inquiry June interim report, pp 106–107.

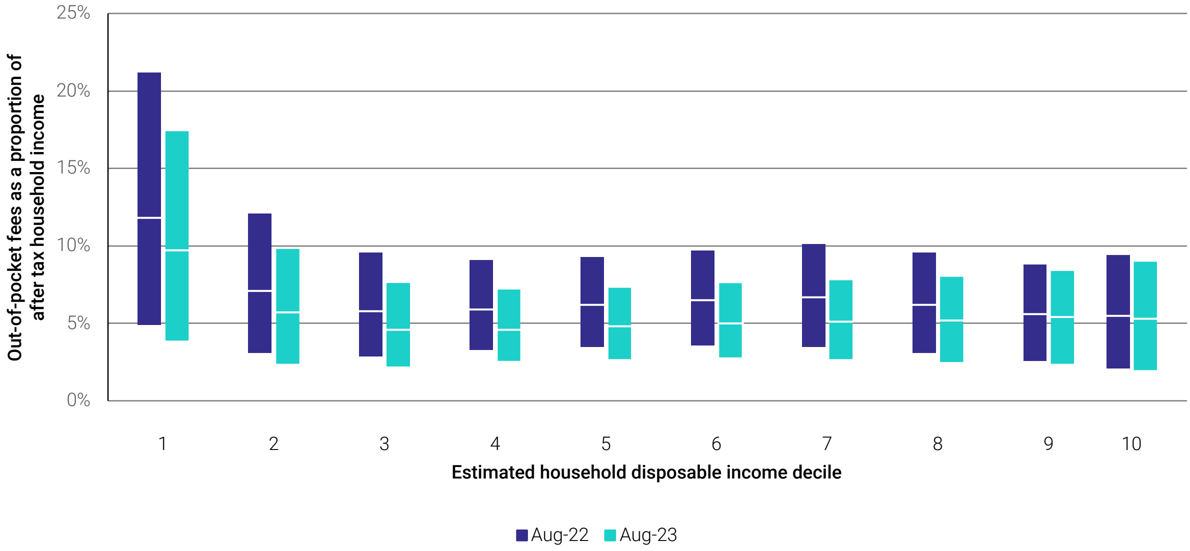
99 In August 2022, income decile 1 ranges from $0 to $38,000 and in August 2023, it ranges from $0 to $42,000.

100 In August 2022, income decile 10 represents income levels of $192,000 and above. In August 2023, income decile 10 ranges from $204,000 and above.

101 In August 2022, income decile 6 is $110,000 to $124,000, and income decile 7 is $124,000 to $141,000. In August 2023, income decile 6 is $119,000 to $134,000 and income decile 7 is $134,000 to $151,000.

incomes, the Child Care Subsidy rates only increased by 5% (85% to 90%), so there was less room for improvement given these households were already eligible for the highest subsidy rate.

Figure 2.23: Out-of-pocket expense for childcare services as a share of estimated household disposable income, by estimated household disposable income decile, August 2022 and August 2023[102]



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data and Australian Tax Office data.

In our analysis, we estimate household disposable income as a household's income after they pay tax but not including any government payments they might receive that aren't taxable, such as the Family Tax Benefit or Rent Assistance.

We note observations and analysis by Associate Professor Ben Phillips from the Australian National University that the inclusion of such payments like Family Tax Benefit and Rent Assistance could change our findings relating to households with low income, as these payments supplement disposable income.[103]

While we note the Family Tax Benefit and Rent Assistance, for example, would supplement a household's disposable income,[104] we also note that these payments have specific policy objectives of their own and are not intended to offset the cost of childcare. For example, the Family Tax Benefit is intended to help with the general costs of raising children and Rent Assistance is specifically targeted to assisting eligible households with rental costs.

Households with lower incomes are also more affected by the activity test, compared to higher income households, and this may also impact the amount they pay for childcare, as discussed more in section 2.6. On average, lower income households are entitled to fewer hours of subsidised childcare (likely due to the nature of their work patterns), and where they have to pay the full fee for

102 After tax estimated family income applies the relevant income tax rates to each individual's estimated income, assuming that estimated income is equal to taxable income. It does not account for additional sources or deductions. The Medicare Levy is also applied to each individual at the single rate, regardless of whether it is a 1 or 2 income household.

103 Ben Phillips, 'Childcare doesn't cost anywhere as much as you're being told', Australian Financial Review, 30 November 2023, accessed 4 December 2023.

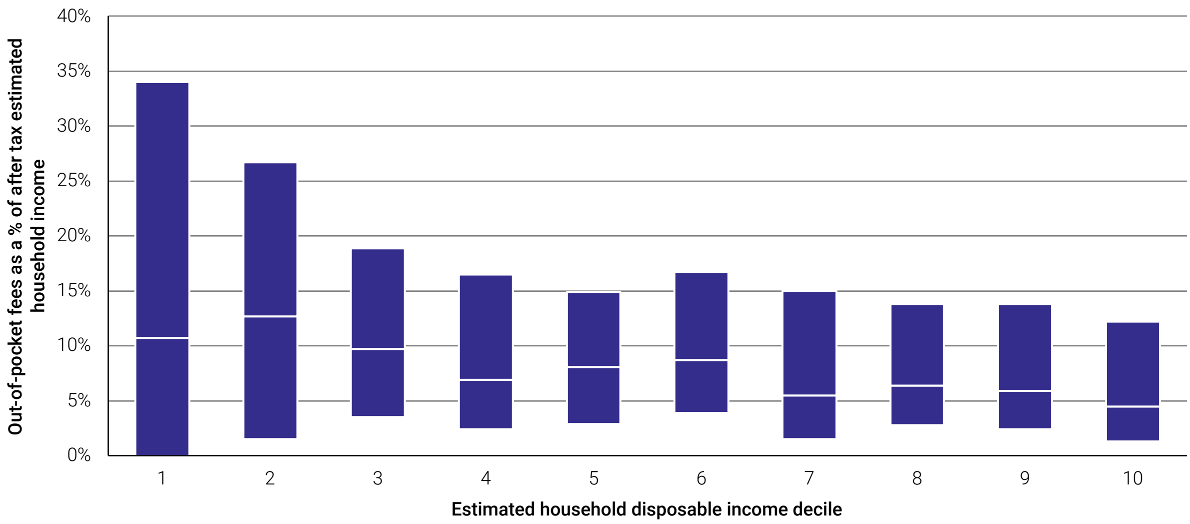
104 For example, the maximum rate for Family Tax Benefit A is $213.36 for a child 0 to 12 years for each child per fortnight, and the Family Tax Benefit Part A supplement is a yearly payment of up to $879.65 for each eligible child (2023–24 financial year). Services Australia, FTB Part A payment rates, accessed 4 December 2023. For Rent Assistance, when paid with Family Tax Benefit, the maximum fortnightly payment is $217.28 for a single parent or couple with 1 or 2 children, where the rent is at least $568.17 per fortnight. Services Australia, How much can you get, accessed 4 December 2023.

childcare out-of-pocket, this is a large expense, even if they are receiving some additional government payments like the Family Tax Benefit.

Affordability of in home care services

For in home care in particular, the out-of-pocket expense can be a sizeable portion of a household's estimated disposable income, across most income deciles. During the reference fortnight,[105] for low and middle income households (deciles 1 to 6), the out-of-pocket expense was about 10% of disposable income for the median household (figure 2.24). As noted in section 2.4.4, about 30% of households using in home care receive the Additional Child Care Subsidy, which can have a significant impact on the out-of-pocket expense. This likely explains the greater difference between interquartile ranges within income deciles for in home care services, compared to all childcare services (figure 2.23).

Figure 2.24: Out-of-pocket expense per household for in home care as a share of estimated household disposable income, by estimated household disposable income decile, August 2023



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data and Australian Tax Office data.

2.5.2 Previous affordability benefits from changes to the Child Care Subsidy were quickly eroded by fee increases

While out-of-pocket expenses have declined following the Cheaper Child Care reform changes to the Child Care Subsidy, studies have shown that, historically, when subsidies increase, the out-of-pocket expense declines initially but then quickly reverts.[106]

Any gains to affordability through lower out-of-pocket expenses can quickly be eroded by price rises wherein households are less sensitive to price changes as the Child Care Subsidy offsets some of the additional expense for households. We note the experience and credence good characteristics of

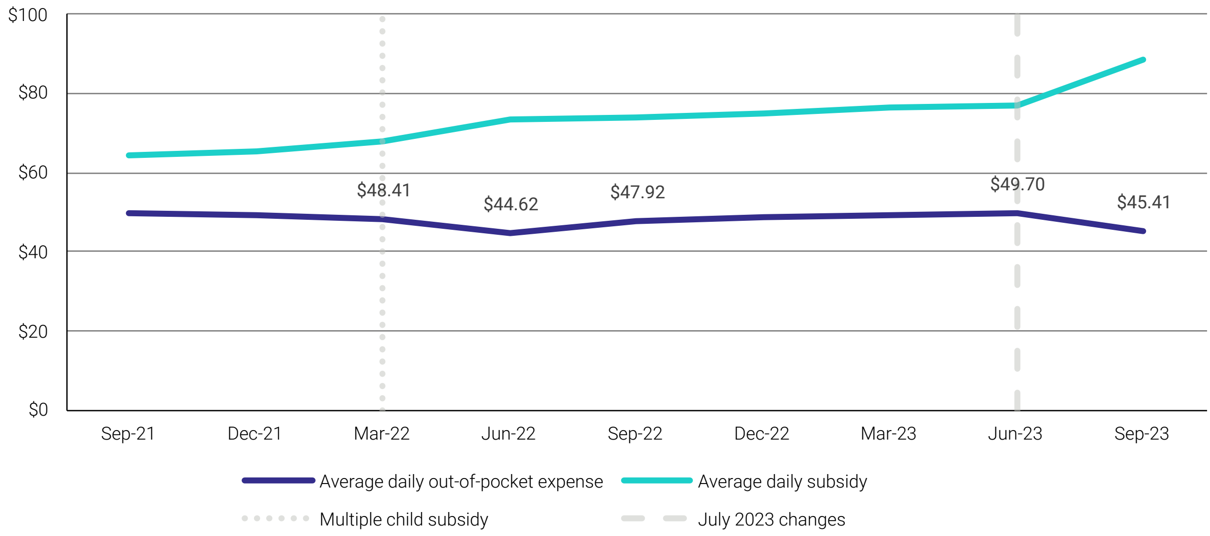
105 The reference fortnight refers to the representative fortnight in August 2023 and November 2022 used to consider households' use of childcare. These fortnights were selected as they do not contain any school holiday periods or public holidays. Also see ACCC, Childcare Inquiry June interim report, pp 106–107.

106 ACCC, Childcare Inquiry September interim report, p 173. See J R Bray et al, Child Care Package Evaluation: Final Report, Research Report, p 94; and Productivity Commission, Childcare and Early Childhood Learning, Inquiry Report no. 73, October 2014, p 475.

childcare services also contribute to limited price sensitivity, as discussed above in section 1.3.3 and in our September interim report.[107]

For example, the last significant change to the Child Care Subsidy occurred on 7 March 2022 with the introduction of a higher subsidy rate for households with multiple children in childcare.[108] In our September interim report, we found that the reduction in out-of-pocket expense, on average, for eligible households was quickly eroded by fee increases by the September quarter 2022 (figure 2.25).

Figure 2.25: Average daily out-of-pocket expense and subsidy for centre based day care, September quarter 2021 to September quarter 2023



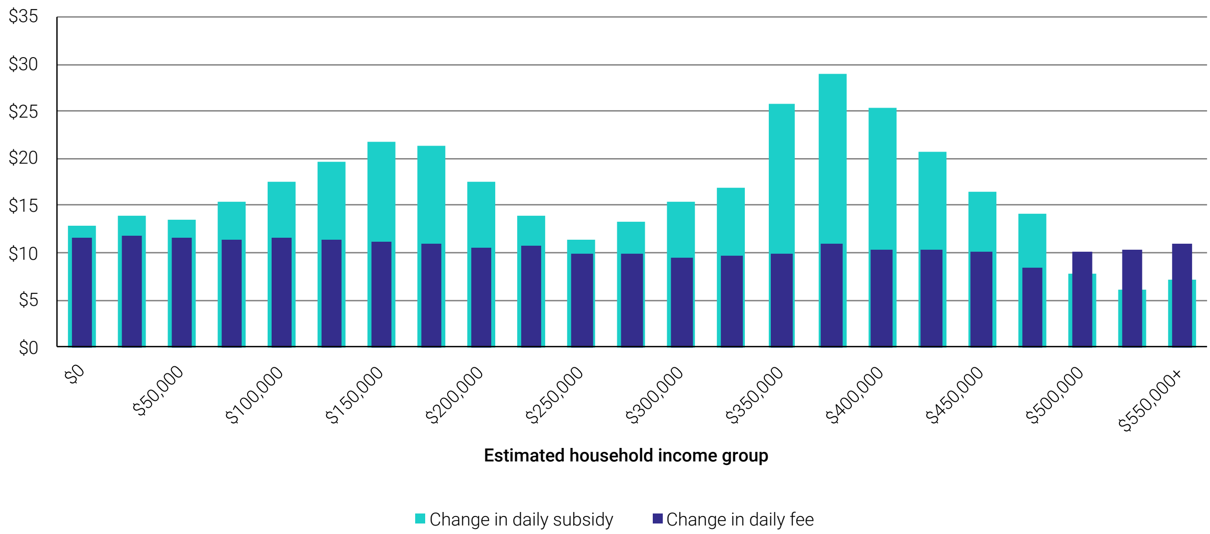
Source: ACCC analysis of Department of Education administrative data.

In the September quarter 2023, the increase in average daily fee was almost equal to the increase in average subsidy for some households, such as those earning less than $50,000 and those earning between $250,000 to $275,000 (figure 2.26). This also includes any change to the subsidy contribution following the indexation of the hourly rate cap.

107 ACCC, Childcare Inquiry September interim report, p 96.

108 Households with more than one child aged under 5 in childcare had their subsidy rate increased by 30 percentage points for their second and subsequent children in care, up to the maximum subsidy rate.

Figure 2.26: Change in average daily fee compared to change in average daily subsidy by estimated household income group for centre based day care, September quarter 2022 to September quarter 2023



Note: Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

There is a risk that if the current regulatory settings remain, we may see a continuation of the trend where out of pocket expenses initially decline after a subsidy change but then revert to the levels that prevailed prior to the change.

Analysis by the Australian Institute of Family Studies has previously found the cost of childcare[109] generally increased rapidly, punctuated by strong price falls when the Australian Government increased subsidy payments or introduced new funding programs.[110] We have updated this analysis following the introduction of the Cheaper Child Care reform changes to the Child Care Subsidy rates in July 2023 and find a similar result (figure 2.27).

In light of this, and to ensure the benefits of recent changes to the Child Care Subsidy are sustained, ongoing monitoring of childcare prices may be needed. We note that the Productivity Commission's November 2023 draft report into early childhood education and care recommended the Australian Government regularly monitor changes in fees and out-of-pocket expenses. Analysis by the Productivity Commission found a similar trend to our observations above, with out-of-pocket childcare expenses falling or plateauing with the introduction of the Child Care Subsidy in July 2018 and other policy changes that increased support to households.[111]

The Productivity Commission's draft report also recommended the Australian Government consider a regulatory response if the fee increase of some services vary markedly from others, and do not appear reasonable.[112] This sort of policy approach is discussed further in chapter 7.

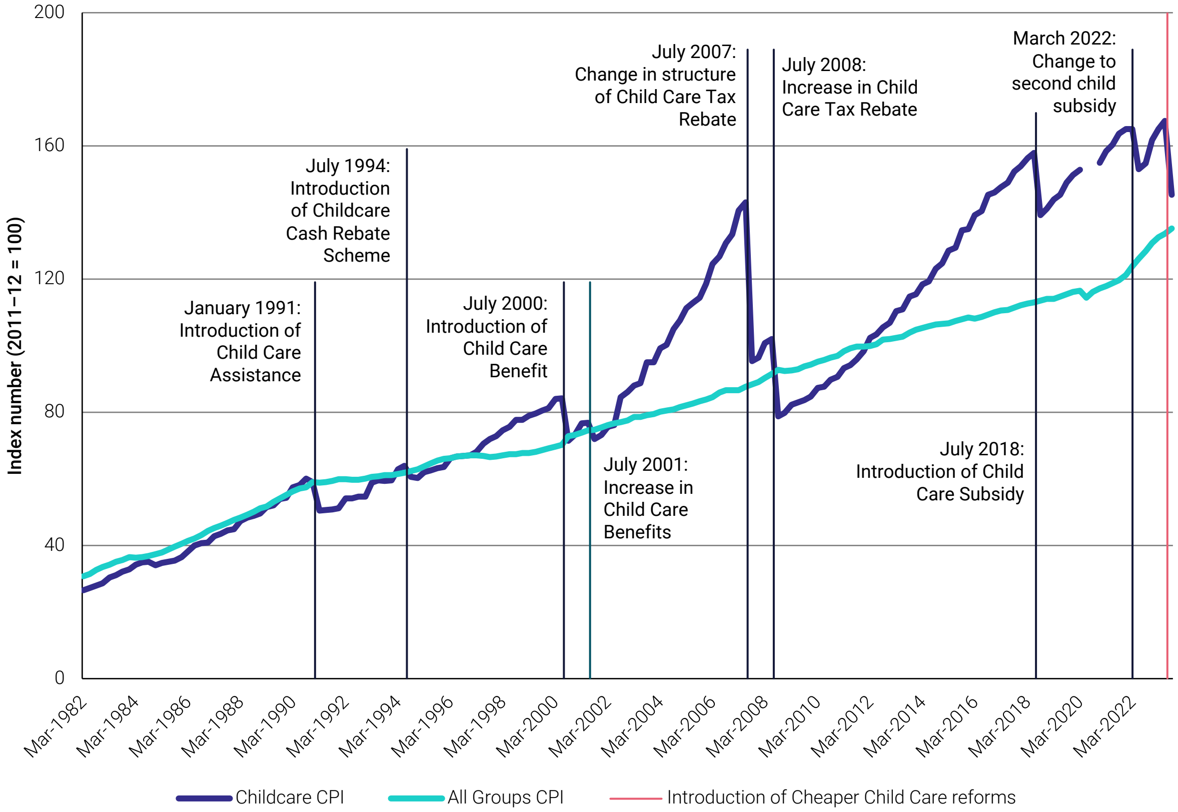
109 As measured by the Australian Bureau of Statistics' Consumer Price Index.

110 J R Bray et al, Child Care Package Evaluation: Final Report, p 94.

111 Productivity Commission, A path to universal early childhood education and care, Draft Report, pp 361–362.

112 Productivity Commission, A path to universal early childhood education and care, Draft Report, pp 40, 72.

Figure 2.27: Childcare and all groups Consumer Price Index, and major childcare policy changes, March 1982 to September 2023



Source: ACCC analysis of the Australian Bureau of Statistics data, 'Consumer Price Index, Australia', ABS Catalogue No. 6401.0, ABS, Canberra.

2.6 Child Care Subsidy funding has doubled since 2018 and households now use a higher share of subsidised care

Following the Cheaper Child Care reform changes to Child Care Subsidy rates in July 2023, the Australian Government now subsidises a larger share of childcare fees for eligible households. The higher subsidy rates have lessened the impact of recent fee increases, on average, for households' out-of-pocket expenses, as discussed in section 2.4 and 2.5.

This section examines the impact of Cheaper Child Care reforms on the amount of Child Care Subsidy paid by the Australian Government and the use of subsidised care by households.

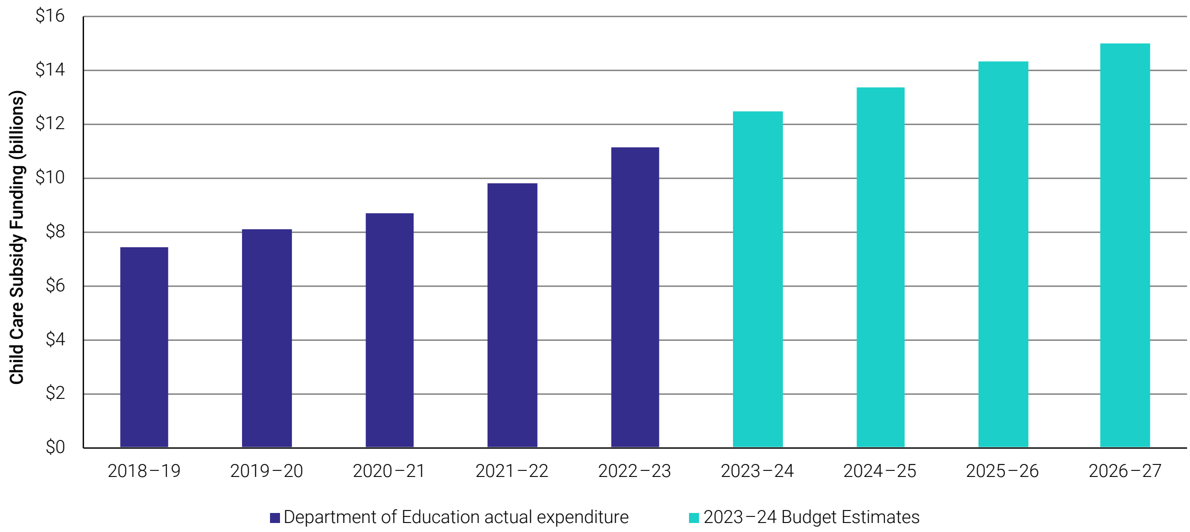
2.6.1 Child Care Subsidy funding has increased significantly since 2018

Since the introduction of the Child Care Subsidy in 2018, the amount of funding has increased significantly each year, and continues to grow over the forward estimates (figure 2.28). In 2026–27, the funding is estimated to be about double that compared to when the Child Care Subsidy was introduced in 2018–19.

However, despite this increased government expenditure on the Child Care Subsidy, the average out-of-pocket expenses have changed very little for households, as discussed in section 2.4, and remained relatively steady over this period.

In 2022–23, the Department of Education's reported actual expenditure was about $11.1 billion, prior to the introduction of the Cheaper Child Care reform changes. Following the Cheaper Child Care reforms in 2023–24, the budgeted expenditure increased between 5% to 7% each year, with total expenditure estimated to peak at nearly $15 billion in 2026–27.

Figure 2.28: Child Care Subsidy funding, Department of Education actual expenditure and 2023–24 Budget estimates, 2018–19 to 2026–27



Source: Department of Education Annual Reports 2018–19 to 2022–23 and Australian Government 2023–24 Federal Budget.

2.6.2 Overall, households used a higher share of subsidised childcare than in 2022

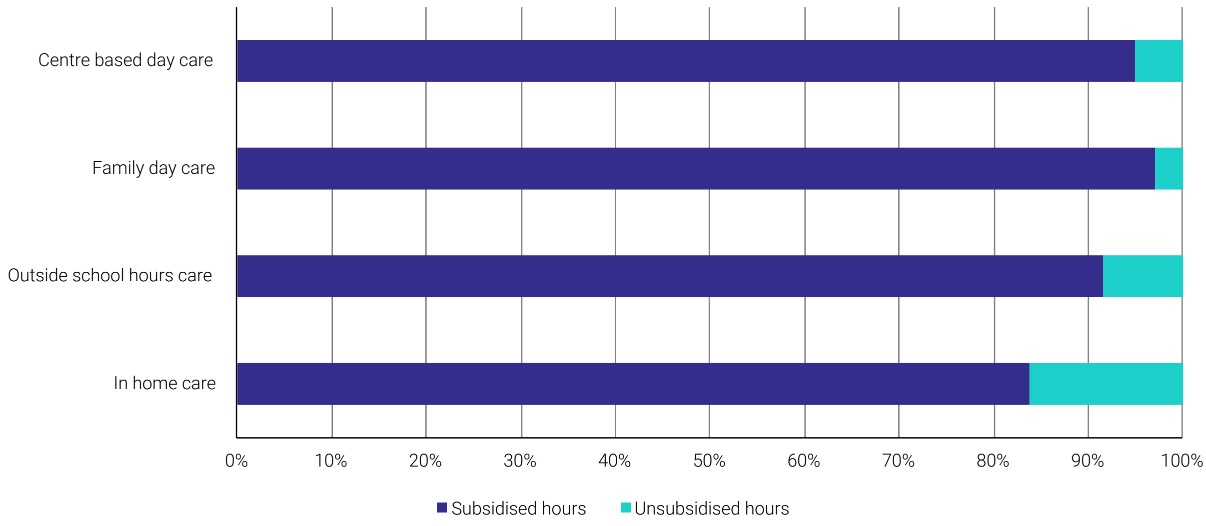
In the September quarter 2023, more than 90% of charged hours for all types of childcare, except in home care, were subsidised. For in home care, over 80% of charged hours were subsidised (figure 2.29).

This means that most of the hours charged for childcare services received a subsidy contribution, and only a small share of charged fees were met entirely through households' out-of-pocket expense.

However, we note this analysis does not capture the value of the subsidy a household receives, only whether or not they received some subsidy contribution for those hours. For example, a household with an income of $300,000 may receive a subsidy of around 45% on its charged hours, while a household with an income of $80,000 may receive a subsidy of 90% on its charged hours. Both households are using subsidised hours of care, but the out-of-pocket expense that households incur will differ.

These results could indicate that households are limiting their use of childcare to stay within their eligible hours under the activity test (in order to receive a subsidy contribution), rather than using the level of care they actually need. However, responses to our parents and guardian survey suggest that there is limited awareness of the impact of session length on subsidy entitlement and out-of-pocket expense.

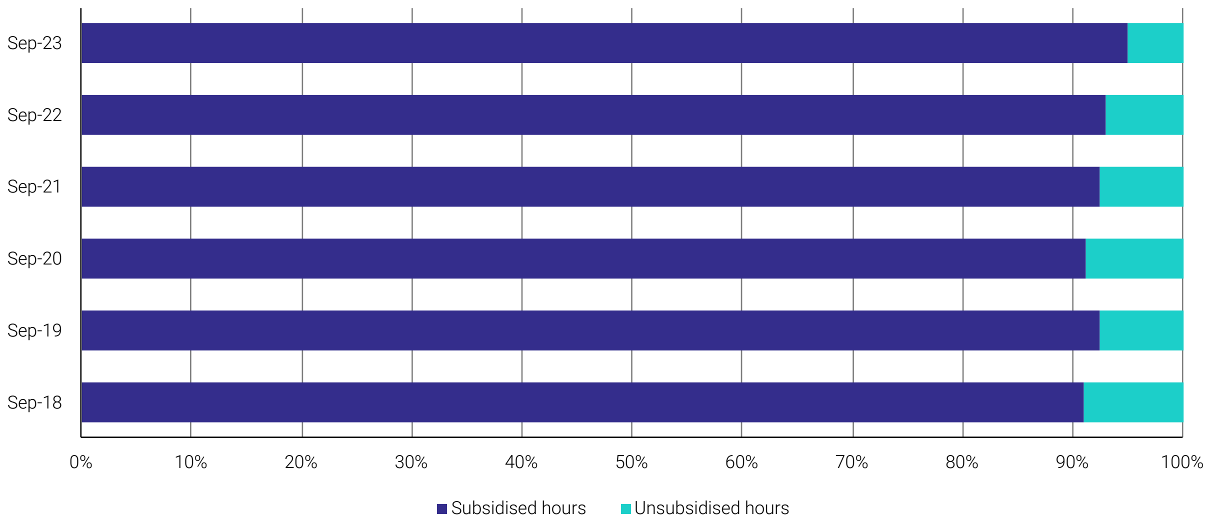
Figure 2.29: Subsidised and unsubsidised hours as a share of total hours charged by service type, September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

For centre based day care in particular, since 2018, the share of subsidised hours has increased for households by 4 percentage points, from 91% in September quarter 2018 to 95% in September quarter 2023 (figure 2.30). Households are now paying for fewer hours of unsubsidised care than previous years, both in absolute terms and as a share of the total hours of care charged.

Figure 2.30: Subsidised and unsubsidised hours as a share of total hours charged for centre based day care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

2.6.3 Households with lower incomes may face barriers to subsidised care

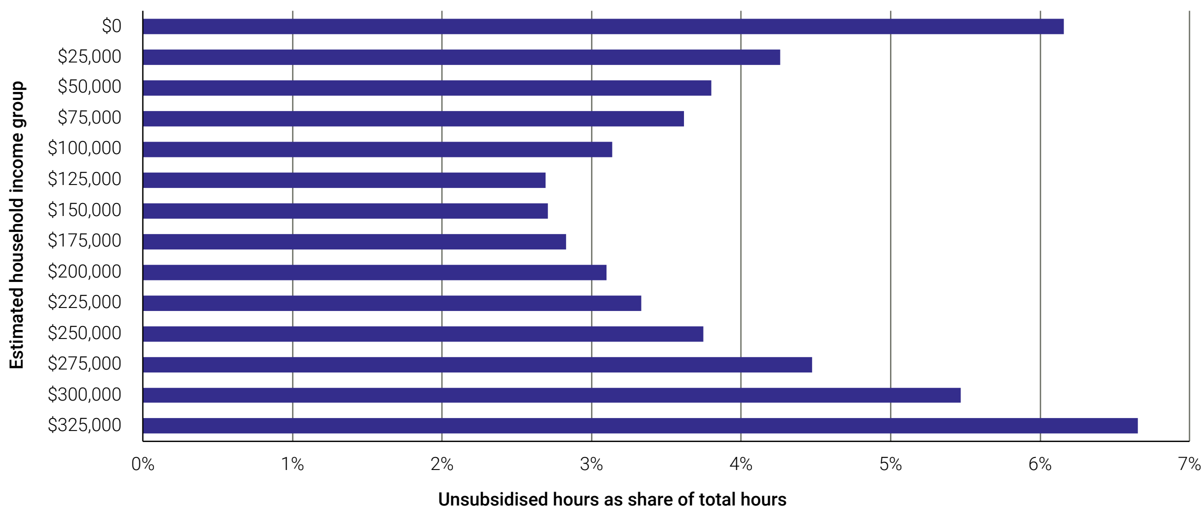
The use of subsidised care differs across household income levels and there continues to be a high share of unsubsidised hours amongst some households with lower incomes (figure 2.31), as also observed in our September interim report.[113] This may partly explain the incidence of high out-of-pocket expenses as a share of disposable income for these lowest income households, as discussed in section 2.5.

The use of unsubsidised care indicates that a household has a desire or need to use care beyond what is available at a subsidised rate.[114] It could also indicate a lack of understanding of the Child Care Subsidy, which as discussed in our September interim report, parents and guardians can find complex to navigate and difficult to estimate out-of-pocket expenses.[115]

In the September quarter 2023, for example, households with an income of between $0 and below $25,000 had a similar share of unsubsidised hours as households on an income of between $300,000 and below $325,000 (about 6% and 5% of total charged hours, respectively). The impact of these unsubsidised hours of care would likely be felt very differently by these different households.

We note households with an estimated income above $350,000 have a larger share of unsubsidised hours (between 10% and 77%). However, the out-of-pocket expense as a share of disposable income for these households is smaller than for households with low income households, as discussed in section 2.5.

Figure 2.31: Share of unsubsidised hours for centre based day care, by estimated household income group, September quarter 2023



Note: This analysis excludes households with an income above $350,000. Each column represents an estimated household income group of $25,000. For example, column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

113 ACCC, Childcare Inquiry September interim report, p 182.

114 ACCC, Childcare Inquiry September interim report, p 182.

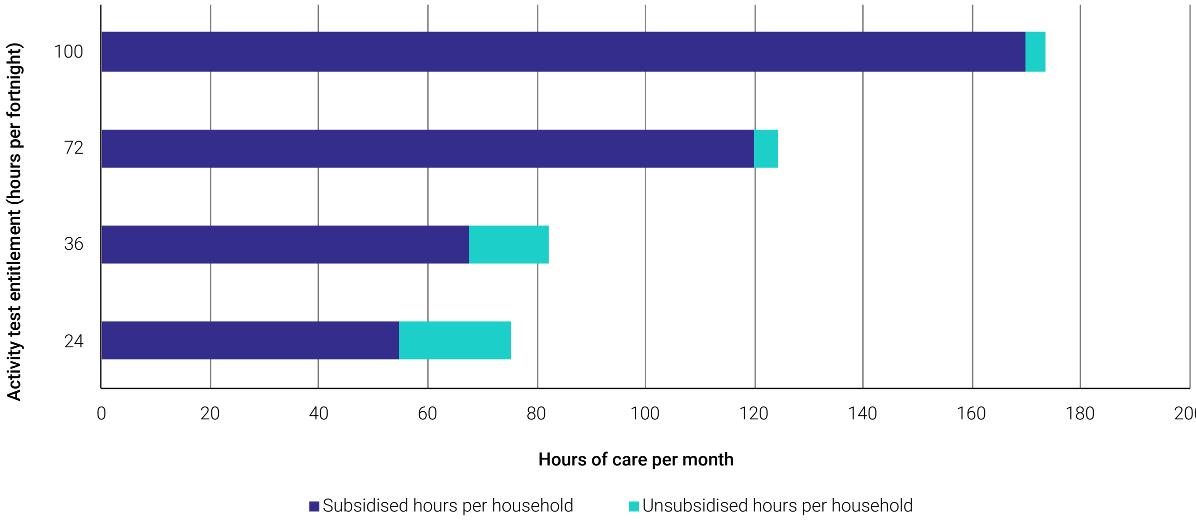
115 ACCC, Childcare Inquiry September interim report, p 165.

A possible explanation for the greater use of unsubsidised care by lower income households is that these households are more likely to be impacted by the activity test. For example, parents and guardians may be participating in casual or part-time work or have less consistent hours week-to-week, as discussed in our September interim report.[116]

In the month of September 2023, households with an income of $0 to below $100,000 accounted for 96% of households with the lowest activity test entitlement of 24 hours of care per fortnight, and 58% of those with an entitlement for 36 hours of care per fortnight. This is just 2.4 days or 3.6 days of care per fortnight (for a 10-hour session), respectively.

Households with an activity test entitlement of 24 hours used 21 hours of unsubsidised care during the month of September 2023 (or 27% of their total charged hours), compared to just 4 hours for households with an activity test entitlement of 100 hours (figure 2.32).

Figure 2.32: Average hours of care (subsidised and unsubsidised) by activity test entitlement for centre based day care, September 2023



Source: ACCC analysis of Department of Education administrative data.

2.7 Impact of hourly rate cap indexation in 2023

The introduction of the Cheaper Child Care reforms in July 2023 coincided with the annual indexation of the hourly rate cap, which is used in the calculation of the Child Care Subsidy.

Households only receive a subsidy contribution on the fee amount up to the hourly rate cap, and as such, the hourly rate cap impacts the out-of-pocket expense. The hourly rate cap was intended to signal a high fee for a service and provide a point of fee comparison for households.

In our June interim report, we found that centre based day care services typically increase their fees in the first quarter of the financial year (the September quarter). This coincides with the indexation of the hourly rate cap and enables providers to pass on annual cost increases knowing households will not bear the full amount out-of-pocket.[117]

116 ACCC, Childcare Inquiry September interim report, p 182.

117 ACCC, Childcare Inquiry June interim report, p 75.

In our September interim report, we found the hourly rate cap is not a clear price signal and is complex for households to understand.[118]

This section updates our analysis from our June and September interim reports and examines how childcare services were charging in relation to the hourly rate cap in the September quarter 2023 following the indexation in July 2023.

2.7.1 Indexation of hourly rate caps for 2023–24

As of 10 July 2023, the hourly rate cap increased by 7.8%. This means the hourly rate cap for children below school age at a centre based day care is $13.73 for 2023–24, as shown in table 2.3 below. This is the largest increase in the hourly rate cap since the introduction of the Child Care Subsidy policy in 2018.[119]

Table 2.3: Hourly rate caps by service provider and child age for 2023–24[120]

Service type	Children below school age	School aged children
Centre based day care	$13.73	$12.02
Family day care	$12.72	$12.72
Outside school hours care	$13.73	$12.02
In home care	$37.34 per family	$37.34 per family

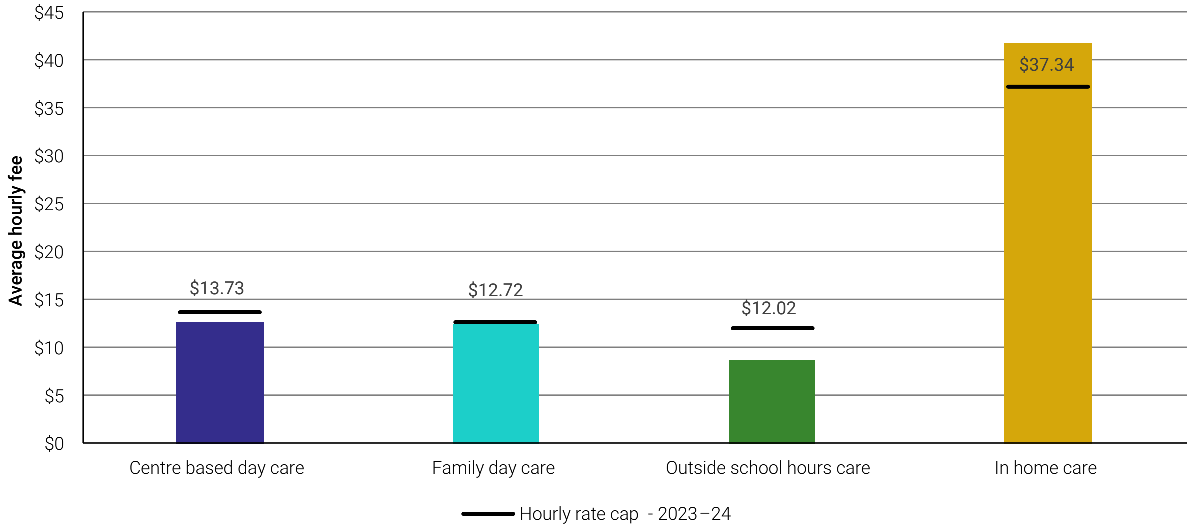
In the September quarter 2023, the national average hourly fee was below the hourly rate cap for all types of care, apart from in home care (figure 2.33), which, on average, already exceeds the hourly rate cap for 2023–24 by $4.49 per hour. We note this is the first quarter since the indexation of the hourly rate cap, and fees may increase further over the remainder of the year.

118 ACCC, Childcare Inquiry September interim report, p 164.

119 The indexation of the hourly rate cap is based on the annual percentage change in the Consumer Price Index for the December quarter of 2022. See *A New Tax System (Family Assistance) Act 1999*, Schedule 4, Part 2.

120 Services Australia, The type of child care you use affects it, 2023, accessed 10 October 2023.

Figure 2.33: National average hourly fee for childcare services compared to hourly rate cap for 2023–24 by service type, September quarter 2023

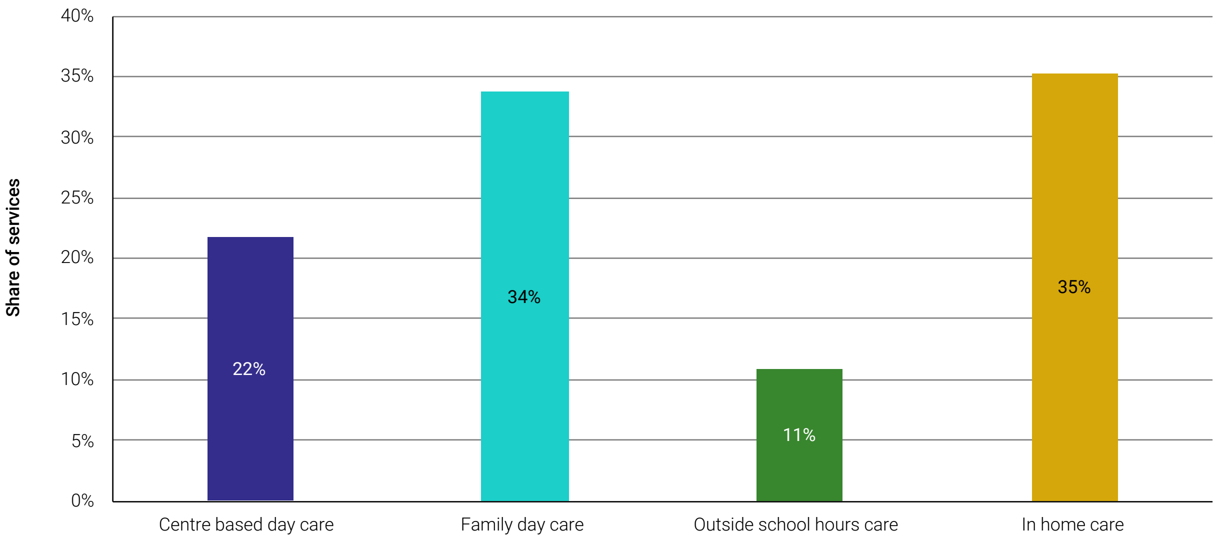


Note: This analysis considers the hourly rate cap for children below school age for centre based day care, family day care and in home care, and the hourly rate cap for children above school age for outside school hours care.

Source: ACCC analysis of Department of Education administrative data.

As at the September quarter 2023, there were already a notable share of services charging above the cap across all types of care (figure 2.34).

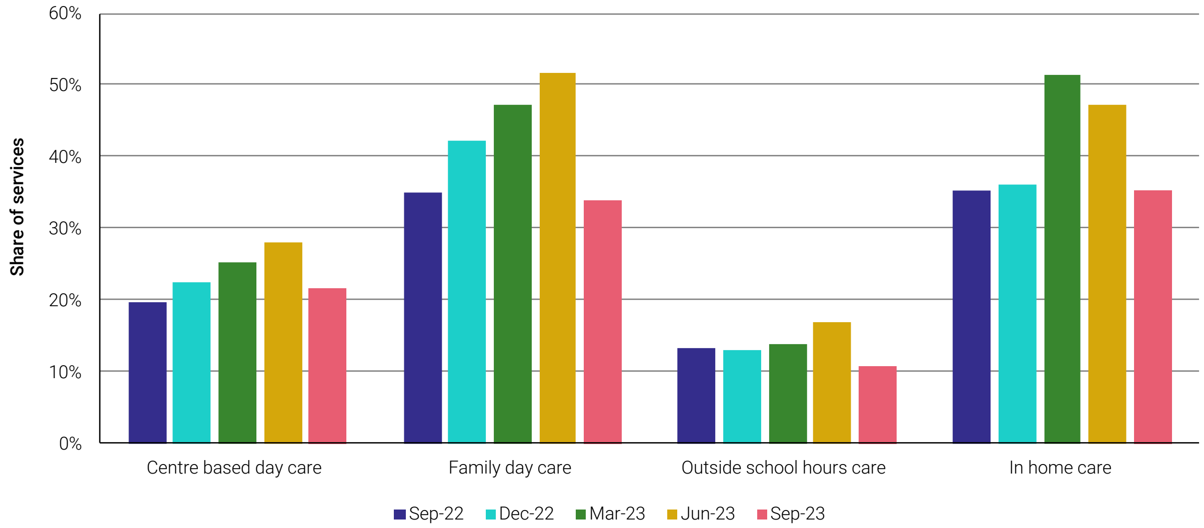
Figure 2.34: Share of services with an average hourly fee above the hourly rate cap, by service type, September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

Analysis undertaken during this inquiry shows that over the period since mid-2022, the share of services charging above the hourly rate cap gradually increased, peaking in the June quarter 2023. This percentage then fell sharply in the September quarter 2023 (6 percentage points for centre based day care, 18 percentage points for family day care, 12 percentage points for in home care and 6 percentage points for outside school hours care) (figure 2.35). This decline follows the large indexation of the hourly rate cap that occurred in July 2023.

Figure 2.35: Share of services with an average hourly fee above the hourly rate cap, by service type, September quarter 2022 to September quarter 2023



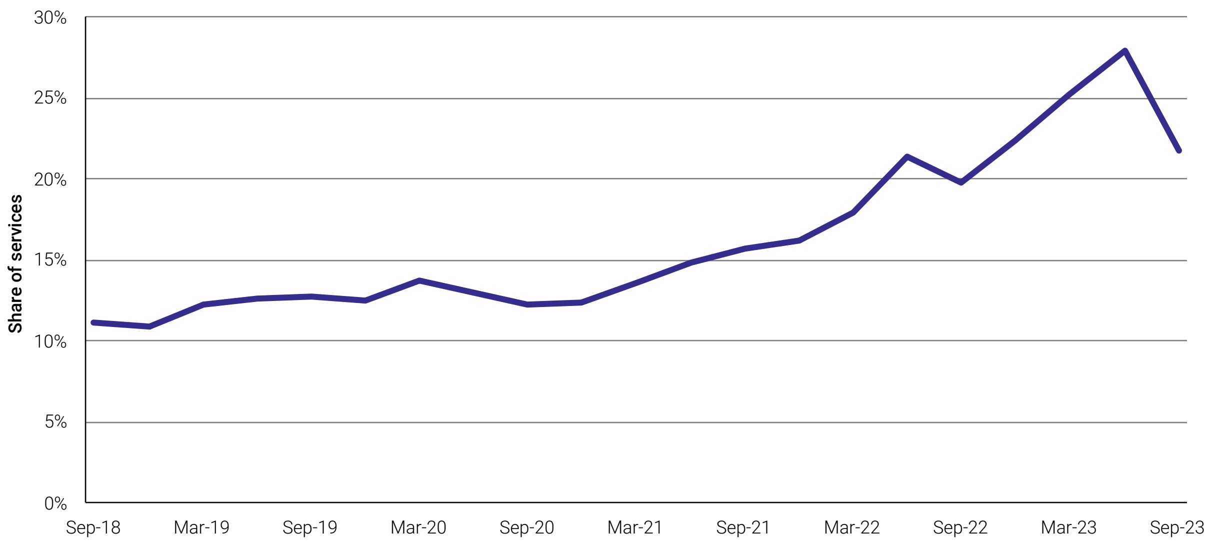
Source: ACCC analysis of Department of Education administrative data.

2.7.2 About 1 in 5 centre based day care services continue to charge above the hourly rate cap

The share of centre based day care services that charged above the hourly rate cap has increased from 13% in 2018 to 22% in the September quarter 2023 (figure 2.36).

However, following the indexation of the hourly rate cap in July 2023, there was a 7 percentage point fall in the share of centre based day care services charging above the hourly rate cap between June and September 2023.

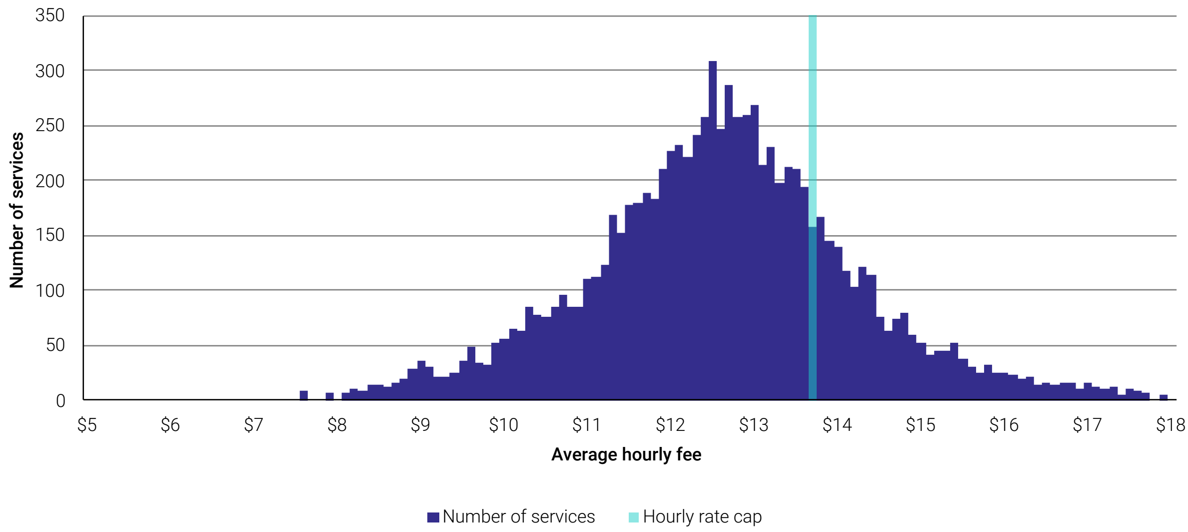
Figure 2.36: Share of centre based day care services with an average hourly fee above the hourly rate cap, September quarter 2018 to September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

When we look at the distribution of average hourly fees for centre based day care, there is a clustering of fees around the hourly rate cap in the September quarter 2023 (figure 2.37) and the peak of the distribution falls below the hourly rate cap. This is consistent with previous years.

Figure 2.37: Distribution of average hourly fees and hourly rate cap of centre based day care services, September quarter 2023



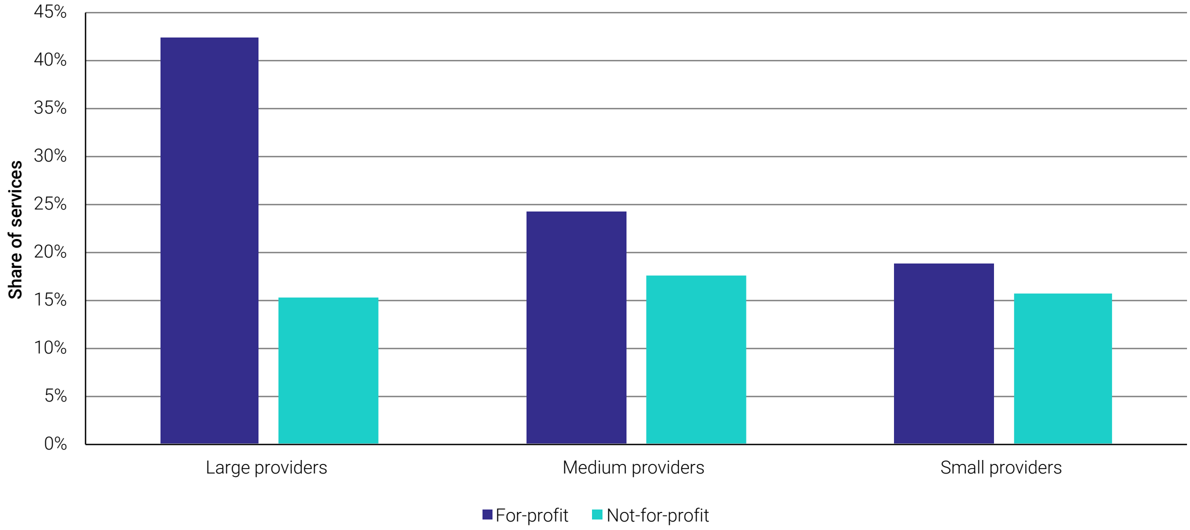
Note: Data with less than 5 services has been removed for confidentiality reasons.
Source: ACCC analysis of Department of Education administrative data.

Large for-profit centre based day care services are more likely to exceed the hourly rate cap

Our June interim report noted that for-profit providers of centre based day care were more likely to charge above the hourly rate cap than not-for-profit providers. Our analysis shows that this difference is even greater for large for-profit and not-for-profit providers compared to small and medium providers (figure 2.38). In the September quarter 2023, about 41% of large for-profit providers of centre based day care charged an average hourly fee above the hourly rate cap, compared to about 15% of not-for-profit providers.

In comparison, around 24% of medium for-profit providers and about 19% of small for-profit providers charged above the hourly rate cap in the September quarter 2023.

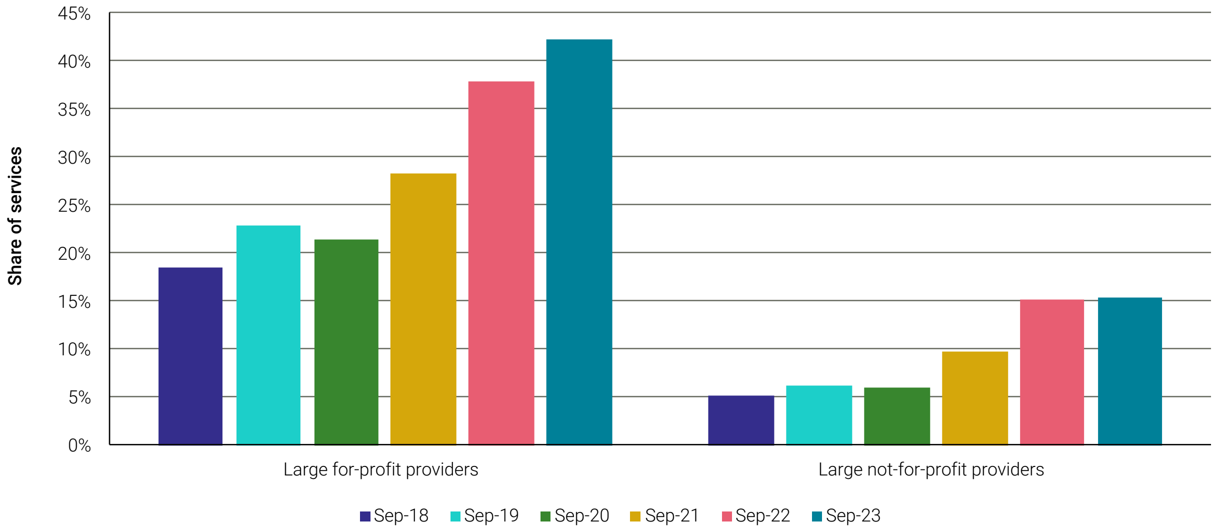
Figure 2.38: Share of centre based day care services with an average hourly fee above the hourly rate cap, by provider size and type, September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

Further, the share of large for-profit providers above the hourly rate cap has grown faster than that of not-for-profit providers in the past year (figure 2.39).

Figure 2.39: Share of large for-profit and not-for-profit centre based day care services above the rate cap, September quarters 2018 to 2023



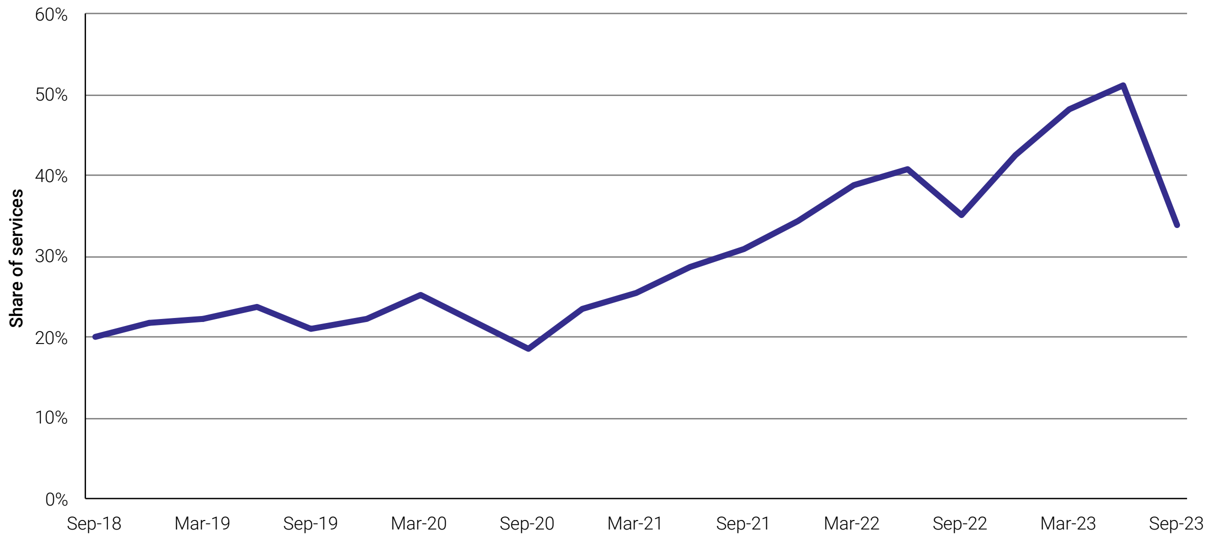
Source: ACCC analysis of Department of Education administrative data.

2.7.3 About 1 in 3 family day care services continue to charge above the hourly rate cap

Immediately prior to the indexation of the hourly rate cap, in the June quarter 2023, about 52% of family day care services were charging above the hourly rate cap. However, following the indexation in July 2023, this fell to about 34% in the September quarter 2023 (figure 2.40).

This reflects how closely family day care services are priced to the hourly rate cap, and we expect that over the course of the period up to July 2024, a greater number of services are likely to exceed the cap.

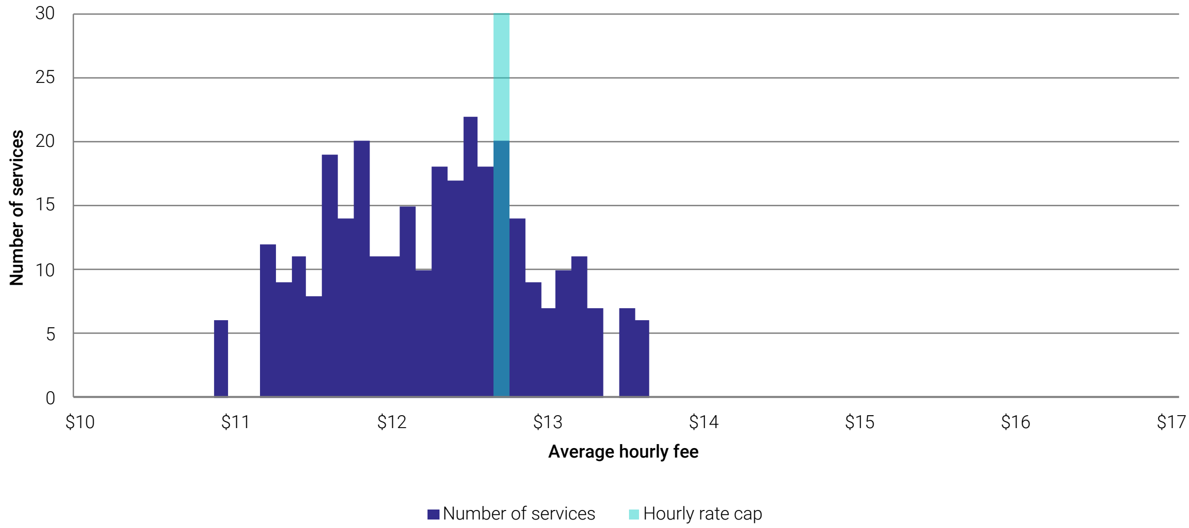
Figure 2.40: Share of family day care services with an average hourly fee above the hourly rate cap, September quarter 2018 to September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

The distribution of average hourly fees for family day care services shows a clustering of services around the hourly rate cap in the September quarter 2023 (figure 2.41). This is similar to previous years where about a third of services consistently exceeded the hourly rate cap.

Figure 2.41: Distribution of average hourly fees and hourly rate cap of family day care services, September quarter 2023



Note: Data with less than 5 services has been removed for confidentiality reasons.
Source: ACCC analysis of Department of Education administrative data.

The hourly rate cap for family day care is lower than that for centre based day care and outside school hours care ($12.72 compared to $13.73), and as discussed in chapter 6, we find that family day care educators have very low margins and are unlikely to be making significant profit. This may have an impact on the overall sustainability and viability of family day care services.

We also note, as discussed in a submission by Family Day Care Australia to our September interim report,[121] that family day care offers higher levels of non-standard hours of care compared to centre based day care (such as care before 7am or after 6pm, and care on weekends or overnight).

Family day care services are also commonly located in areas of less advantage and this may influence an educator's decision and ability to increase fees significantly beyond the hourly rate cap – as they know this will increase the out-of-pocket expense for households. Our September interim report also noted that households with an income of less than $73,000 were proportionally more likely to use family day care than those with higher household incomes.[122]

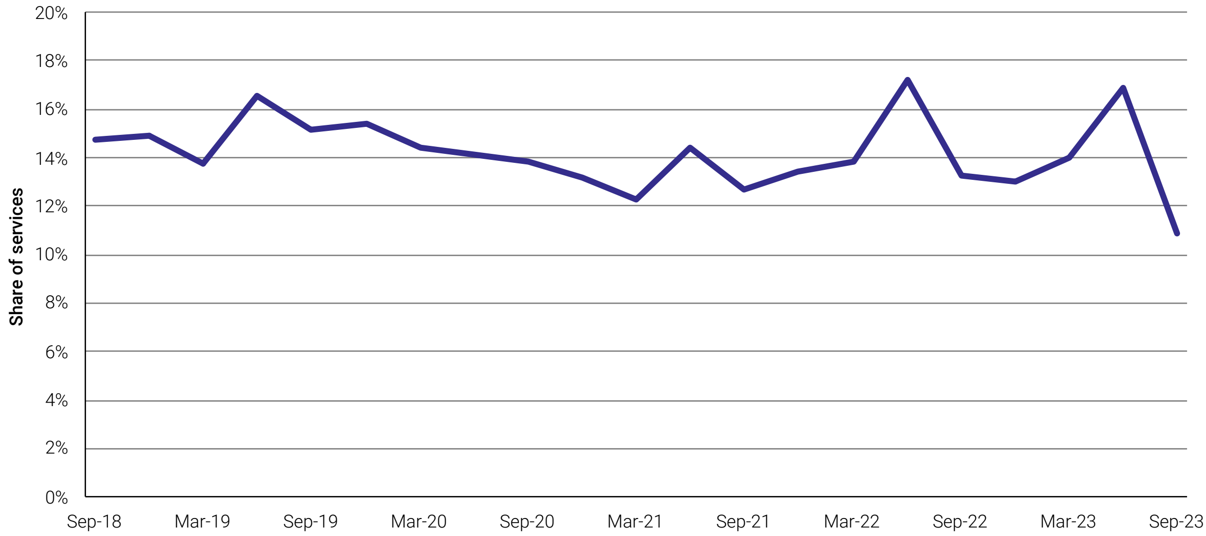
2.7.4 The hourly rate cap has little bearing on provider pricing decisions for outside school hours care

The share of outside school hours care services above the hourly rate cap fell to about 11% in September 2023 – the lowest since the Child Care Subsidy was introduced in 2018 (figure 2.42). Although this partly reflects the relatively large increase in the hourly rate cap, there has been a steady trend over time for more outside school hours care services to be below the hourly rate cap.

121 Submission 12, Family Day Care Australia, submissions in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

122 Respondents to our English language parents and guardians survey – See ACCC, Childcare Inquiry September interim report, p 102.

Figure 2.42: Share of outside school hours care services with an average hourly fee above the hourly rate cap, September quarter 2018 to September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

With relatively few services charging above the hourly rate cap, the peak of the distribution of fees for outside school hours care services is much lower in the September quarter 2023 (figure 2.43). This is also consistent with previous years.

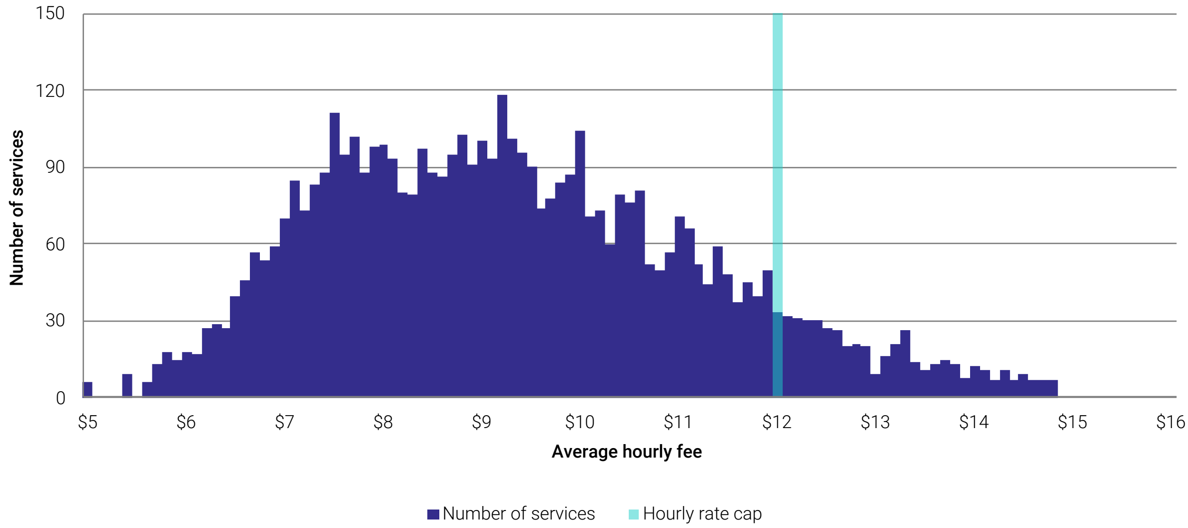
As discussed in chapter 3, the licence agreements for outside school hours care services between the school and the provider likely constrain price growth for these services as they contain provisions about fee changes. In our September interim report, we also observed that the average cost per charged hour for outside school hours care in 2022 ($7.77) was well under the hourly rate cap, which was $11.15 at the time.[123]

Together, these factors likely explain why outside school hours care services fall so far below the hourly rate cap. While our September interim report noted that some providers consider the hourly rate cap in setting prices, it is one of a number of factors they consider,[124] and when looking at the market overall, the hourly rate cap for outside school hours services appears to have limited bearing on pricing decisions.

123 ACCC, Childcare Inquiry September interim report, p 44.

124 ACCC, Childcare Inquiry September interim report, p 118.

Figure 2.43: Distribution of average hourly fees and hourly rate cap of outside school hours care services, September quarter 2023

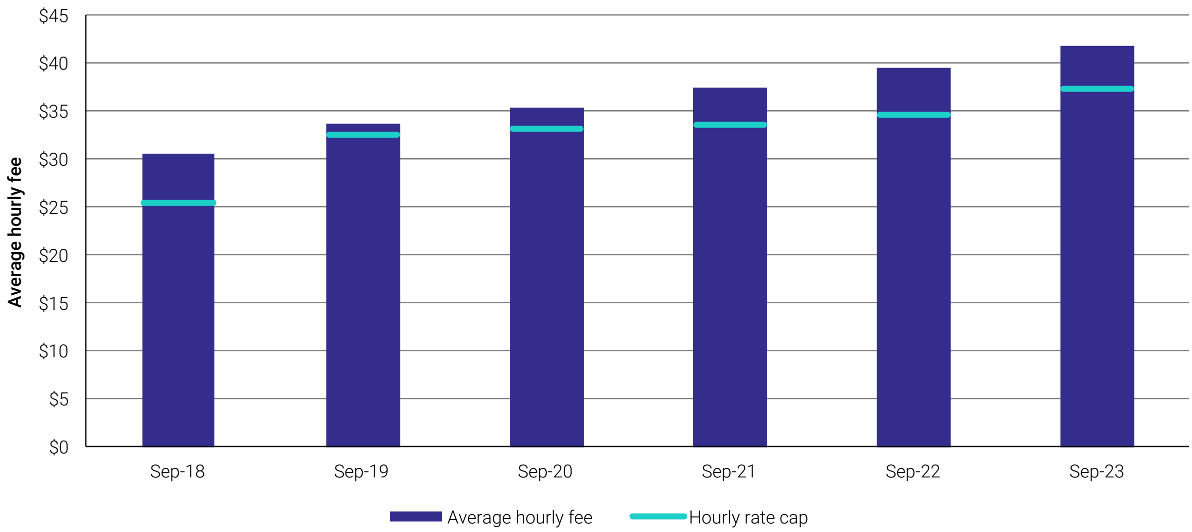


Note: Data with less than 5 services has been removed for confidentiality reasons.
Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

2.7.5 The hourly rate cap is insufficient for in home care

Since 2018, the average hourly fee for in home care services has been consistently higher than the indexed hourly rate cap by a significant amount (figure 2.44). We note the hourly rate cap for in home care was re-indexed in January 2019 following concerns it was set too low at the commencement of the Child Care Subsidy policy in 2018.

Figure 2.44: Average hourly fee compared to hourly rate cap for in home care, September quarter 2018 to September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

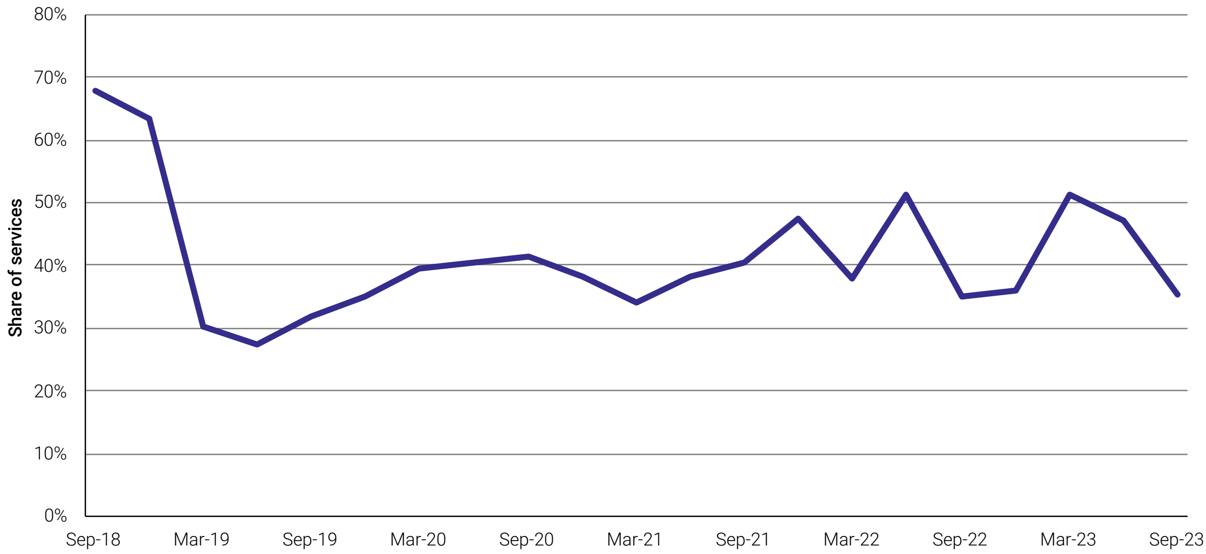
The average hourly fees for in home care services in the September quarter 2023 show that most services are already charging above the hourly rate cap, some by a considerable amount.

This reflects the high costs of providing in home care services, as discussed in chapter 6, particularly as many in home care services provide care to children experiencing disability or complex needs, or are located in remote locations, as well as providing care during non-standard hours, such as overnight or shift work.

Over time, the share of in home care services charging above the hourly rate cap has been relatively steady. In the last couple of years, the share of services over the cap has risen to about 50% of services right before the indexation of the hourly rate cap in July of the relevant year. Immediately following the indexation, the share of services charging above the hourly rate cap falls to about 35% (figure 2.45).

We note our hourly rate cap analysis excludes services with children receiving the Additional Child Care Subsidy, as these households receive up to 120% of the hourly rate cap. For in home care services, a larger share of children receive the Additional Child Care Subsidy compared to other service types (30% compared to 3% for centre based day care and 2% for family day care). This means that, although a service may charge above the hourly rate cap, the full amount of the additional expense may not be paid by a household receiving the Additional Child Care Subsidy. However, we note that only about 30% of households using in home care services in the September quarter 2023 received the Additional Child Care Subsidy, as discussed more in chapter 3.

Figure 2.45: Share of in home care services with an average hourly fee above the hourly rate cap, September quarter 2018 to September quarter 2023



Note: The hourly rate cap for in home care was re-indexed in January 2019.

Source: ACCC analysis of Department of Education administrative data.

As discussed in section 2.4, the out-of-pocket expense for households using in home care services varies greatly depending on whether a child receives the Additional Child Care Subsidy.

For those households that are not eligible for the Additional Child Care Subsidy, the hourly rate cap appears insufficient to constrain fee increases given the high costs of delivering this service, as discussed in chapters 3 and 6.

We note the Department of Education's in home care review also found that the in home care program hourly rate cap was too low to cover the costs associated with providing in home care, and that it was applied consistently to all family cohorts despite the different needs and underlying costs to deliver the services. The review recommends changes, including to provide funding based on complexity criteria and a variable hourly rate or loading of the Child Care Subsidy based on cohort characteristics such as location, experience and family complexity.[125]

125 Department of Education (commissioning PwC), Review of the In Home Care (IHC) program Final Report, August 2023, p 47.

3. Childcare prices in 2023

3.1 Key points

- Average fees for centre based day care and family day care services had the largest increase, year-on-year in September 2023, since the introduction of the Child Care Subsidy system in 2018.
- For centre based day care, this increase was, on average, higher than the annual indexation of the hourly rate cap in July 2023. The hourly rate cap is indexed based on inflation every year to account for rising costs to supply childcare services.
- Between September quarter 2022 and September quarter 2023, in nominal terms, the average fee for:
  - centre based day care increased by 9.8% ($11.91 per day)
  - family day care increased by 7.9% ($6.99 per day)
  - outside school hours care increased by 7.2% ($2.13 per session)
  - in home care increased by 7.8% ($22.98 per day).
- Since 2018, childcare fees have risen faster than inflation and wages for all types of care. In real terms, the price of childcare has increased, on average, by about:
  - 9.1% for centre based day care ($11.14 per day)
  - 7.9% for family day care ($7 per day)
  - 6.4% for outside school hours care ($1.89 per session)
  - 17.5% for in home care ($47.44 per day).
- Households on the lowest incomes experienced the largest fee increases, on average, for centre based day care services.
- For-profit providers of centre based day care continue to charge higher fees and increased fees, on average, by more than not-for-profit providers.
- Average fees for centre based day care continue to be highest in Major Cities, but Very Remote Australia experienced the largest growth in average fees since 2022.
- Average fees for centre based day care remain the highest in the Australian Capital Territory, but Queensland has seen the largest growth in fees since 2018.
- Outside school hours care fees increased from 2022, but growth is more subdued compared to other care types.
- Outside school hours care fees continue to be highest in Remote Australia, though fees in Very Remote Australia experienced the most significant increase since 2022.
- Average fees for in home care services have increased more than other service types since 2018.

In this chapter we examine the average fees charged to households for approved services using the Department of Education administrative data.[126] We have used the same methodology as the June interim report.[127] We consider the average childcare fees on a daily or session basis depending on the type of service to reflect the different charging practices. We acknowledge that the average fees presented in this chapter may mask the signification variation in what households pay given the highly localised nature of childcare markets.

This chapter outlines the national average fees for childcare services and how the fees have changed since July 2018. We examine how fees vary by provider size, type of provider and by geographic location.

This chapter is structured as follows:

- Section 3.1 outlines key points made in this chapter.
- Section 3.2 outlines prices for centre based day care.
- Section 3.3 outlines prices for family day care.
- Section 3.4 outlines prices for outside school hours care.
- Section 3.5 outlines prices for in home care.

3.2 Centre based day care

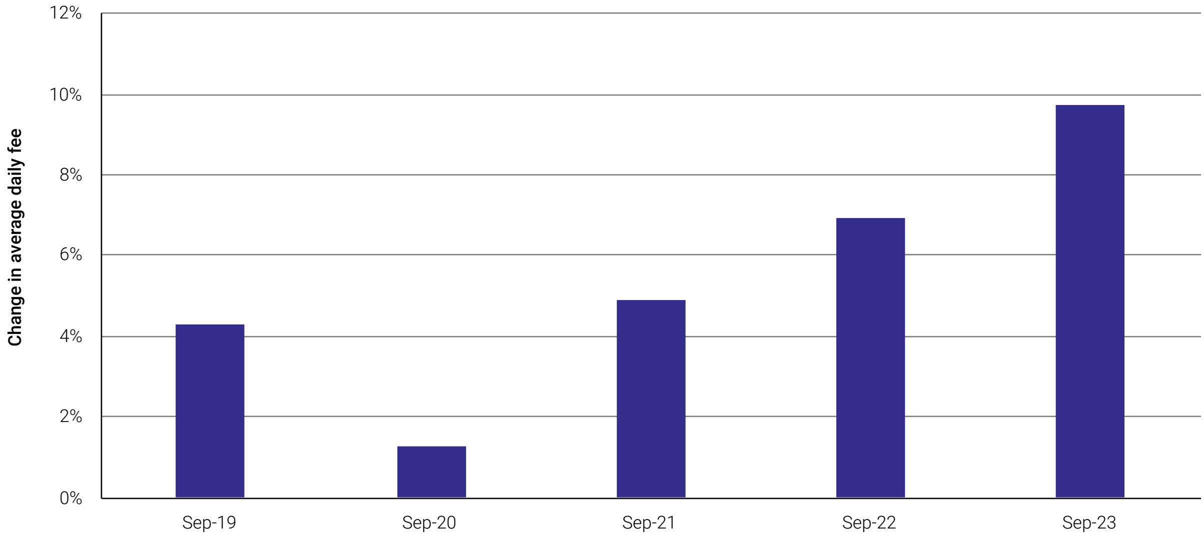
The average daily fee for centre based day care was $133.96 in the September quarter 2023. This is an increase of 9.8% (or $11.91) from the September quarter 2022 and is the highest year-on-year increase over the period relevant to the ACCC's inquiry (2018 to 2023) (figure 3.1).

This average increase is also higher than the indexation of the hourly rate cap implemented from July 2023, as discussed in chapter 2, which was 7.8% for 2023–24.

126 The data used represents total charged fees and may include an amount for a late fee or some other additional charge. We note this data is the same source the Department of Education uses to publish information about fees. See Department of Education, *Quarterly reports on usage, services, fees and subsidies*, Department of Education website, n.d., accessed 29 November 2023.

127 See ACCC, Childcare Inquiry June interim report, June 2023, pp 71–72. The fees presented in our analysis are an average of the total fees charged by a service in the relevant quarter. The average daily fee is the total fees for the quarter divided by the total days charged for the quarter, the average session fee is the total fees for the quarter divided by the total sessions charged for the quarter.

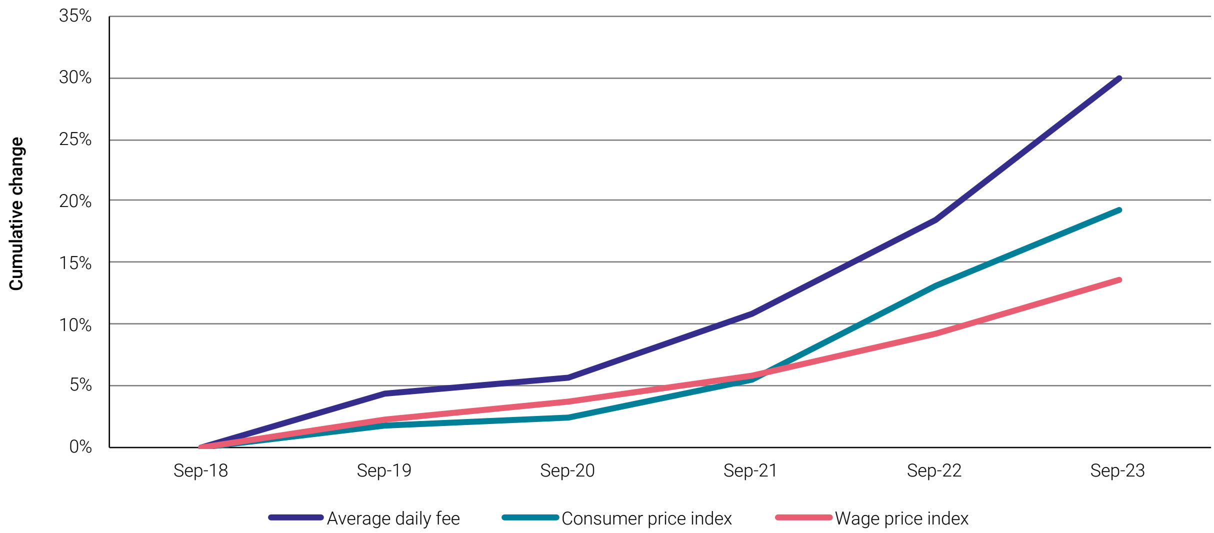
Figure 3.1: Annual percentage change in the average daily fee for centre based day care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

From the September quarter 2018 to the September quarter 2023, the average daily fee for centre based day care has increased by 30% ($30.93 per day). This increase is significantly higher than inflation and wage growth over the period (figure 3.2). Once adjusted for inflation, the average daily fee for centre based day care increased by 9.1% ($11.14 per day) since 2018.

Figure 3.2: Cumulative percentage change in the average daily fee for centre based day care, consumer price and wage price indices, September quarters 2018 to 2023



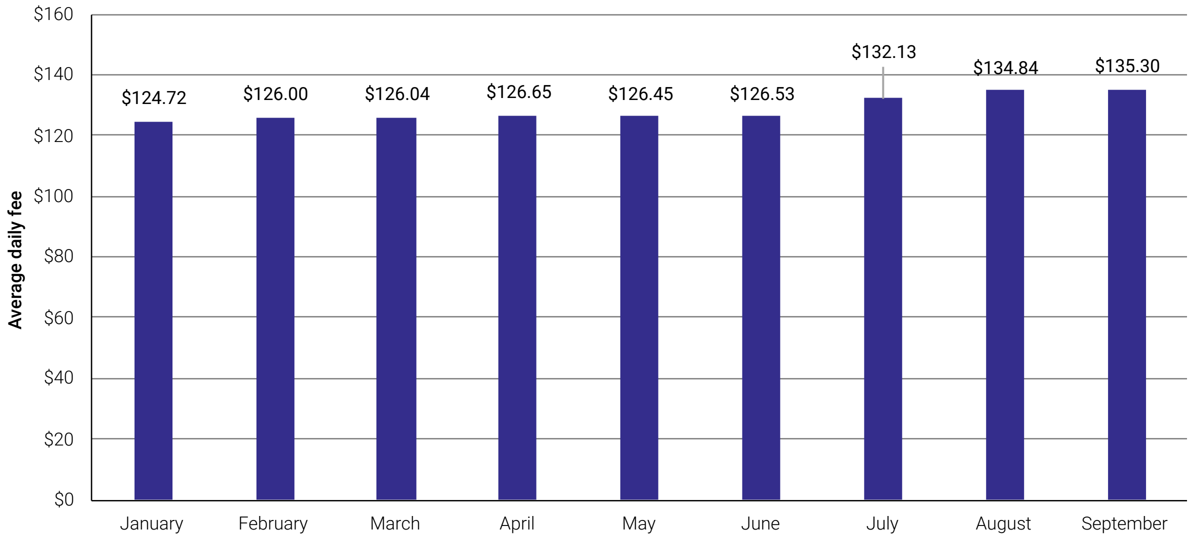
Source: ACCC analysis of Australian Bureau of Statistics and Department of Education administrative data.

Consistent with previous years, and as noted in our June interim report, the largest fee increase for centre based day care tends to occur in July (the September quarter) as this coincides with the indexation of the hourly rate cap. In 2023, the indexation also coincided with the introduction of the Australian Government's Family Assistance Legislation amendments (the Cheaper Child Care reforms), which made changes to the Child Care Subsidy rates, as discussed in chapter 2.[128]

As also discussed in chapter 2, large centre based day care providers may have aligned price increases with the reform changes to limit the impact of price increases on households' out-of-pocket expenses.

In the period since our June interim report, January to September 2023, the average daily fee for centre based day care increased by 8.5% (or $10.57) (figure 3.3).

Figure 3.3: Average daily fee for centre based day care, January to September 2023



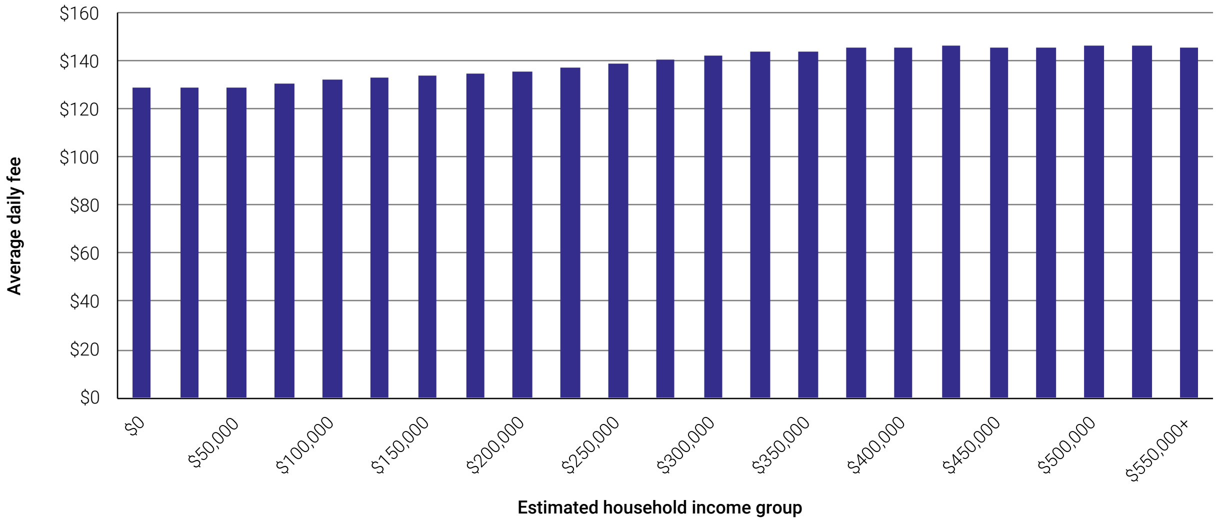
Source: ACCC analysis of Department of Education administrative data.

3.2.1 Households with low incomes experienced the largest percentage increase in average fees

The average daily fee for centre based day services varied by estimated household income group, increasing gradually in line with income increases (figure 3.4). In the September quarter 2023, there was about a $17 per day difference between the average fee for the lowest and highest income groups.

128 See Family Assistance Legislation Amendment (Cheaper Child Care) Bill 2022, Explanatory memorandum.

Figure 3.4: Average daily fee for centre based day care, by estimated household income group, September quarter 2023

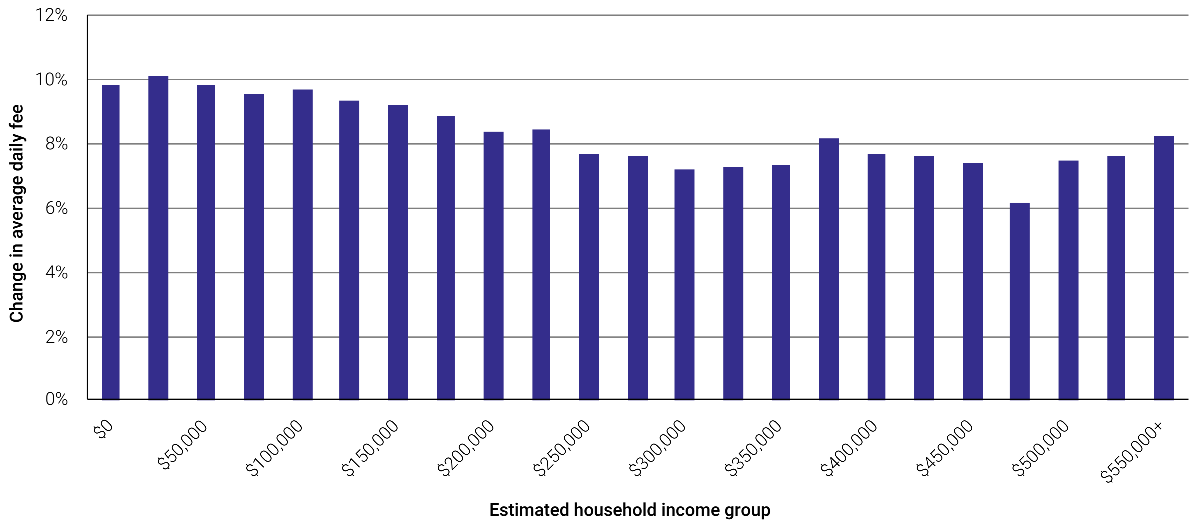


Note: Each column represents an estimated household income group range of $25,000. For example, the column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

Those households with an estimated income of less than $100,000 experienced the greatest increase in the average daily fee for centre based day care (about 10%) between the September quarter 2022 and the September quarter 2023 (figure 3.5).

Figure 3.5: Annual percentage change in average daily fee for centre based day care, by estimated household income group, September quarters 2022 to 2023



Note: Each column represents an estimated household income group range of $25,000. For example, the column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

However, we note that most of these households, those with an income up to $80,000, are eligible for the highest rate of Child Care Subsidy (90%) and the average daily out-of-pocket expense was $23.17 in the September quarter 2023. Further, following the changes to the Child Care Subsidy in July 2023 we note, on average, households earning less than $80,000 experienced a reduction of

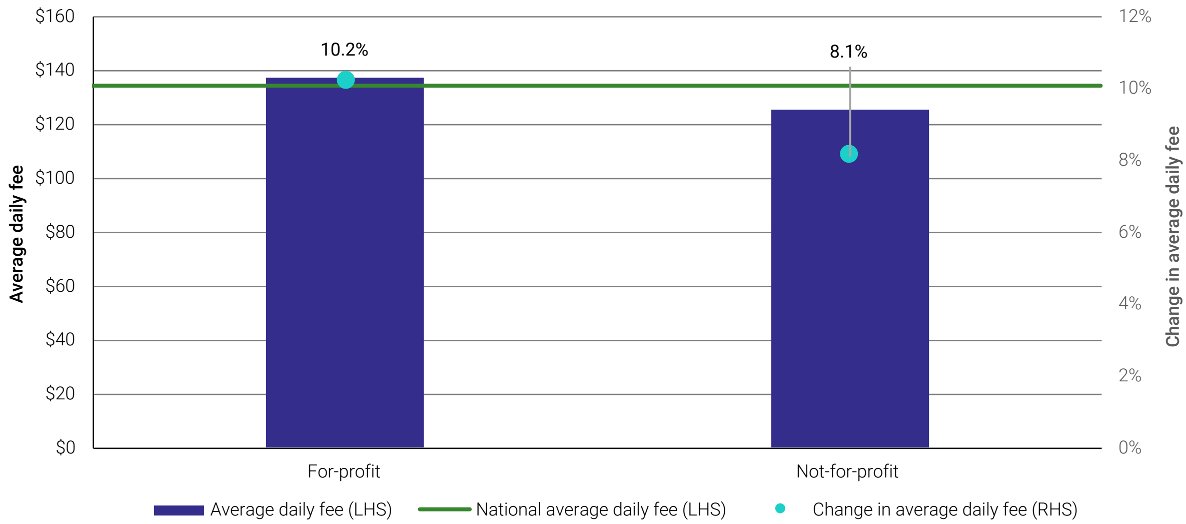
14.9% in out-of-pocket expense between the months of June and September 2023, as discussed in chapter 2.

We also note that, as discussed in our September interim report, some providers may be more likely to increase fees when their prices are below the hourly rate cap as they can increase revenue but know there will be minimal impact on households' out-of-pocket expense.[129]

3.2.2 For-profit providers increased their fees by more than not-for-profit providers in 2023

The average daily fee of for-profit providers of centre based day care was $137, compared to $125.20 for not-for-profit providers in the September quarter 2023. This is a 10.2% increase for for-profit providers ($12.68 per day) and an 8.1% increase for not-for-profit providers ($9.40 per day) from the September quarter 2022 (figure 3.6). The fee increase for both types of providers is above the hourly rate cap indexation (7.8%) for 2023.

Figure 3.6: Average daily fee for centre based day care by provider type for the September quarter 2023 and percentage change since September 2022

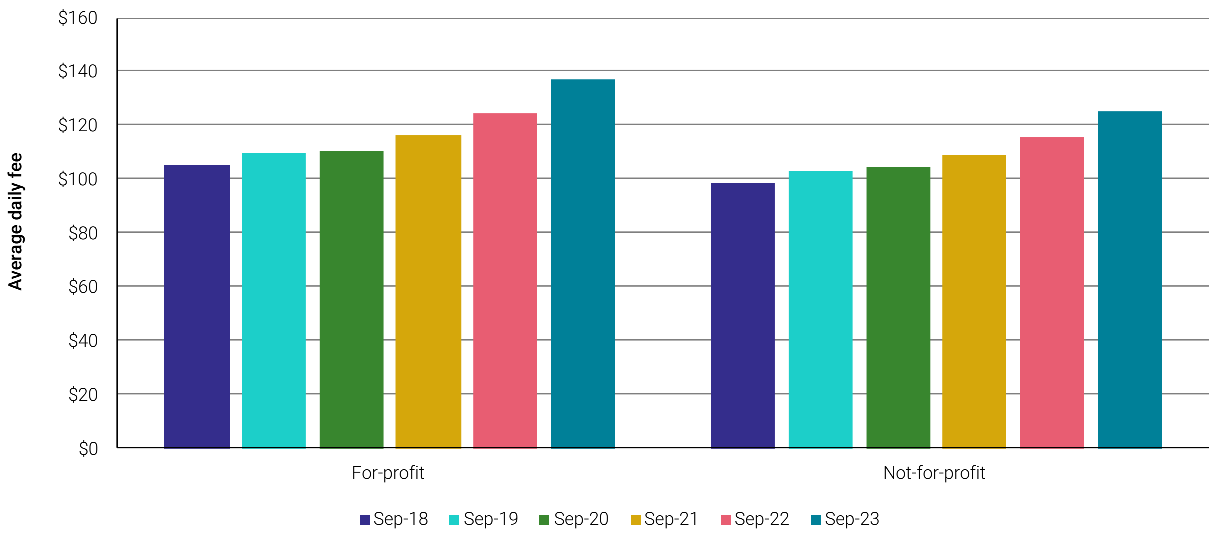


Source: ACCC analysis of Department of Education administrative data.

Since the September quarter 2018, the average daily fee of for-profit providers has increased by 30.4% (or $31.95 per day), compared to 27% (or $26.60 per day) for not-for-profit providers (figure 3.7).

129 ACCC, Childcare Inquiry September interim report, September 2023, p 111.

Figure 3.7: Average daily fee for centre based day care by provider type, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

However, in our September interim report, we found the average cost to supply a centre based day care service in 2022 was similar for large for-profit and large not-for-profit providers[130] and that for-profit providers have consistently had a higher profit margin compared to not-for-profit providers since 2018.[131]

We also noted that annual fee increases are likely to facilitate providers in maintaining their margins.[132]

3.2.3 Fee increases similar across providers of all sizes in 2023

The average daily fee of large providers of centre based day care was $143.81 in the September quarter 2023, which was higher than the national average daily fee.[133] The average daily fee for medium providers was $133.38, and $129.43 for small providers (figure 3.8).

Similar to our observations in the June interim report, the average daily fee of large providers continues to be higher than medium and small providers of centre based day care (by about 8% and 11% respectively).

As discussed in our September interim report, large providers of centre based day care had a higher average profit margin at a service level compared to medium and small providers, but also higher costs on average.[134]

130 ACCC, Childcare Inquiry September interim report, pp 53–54.

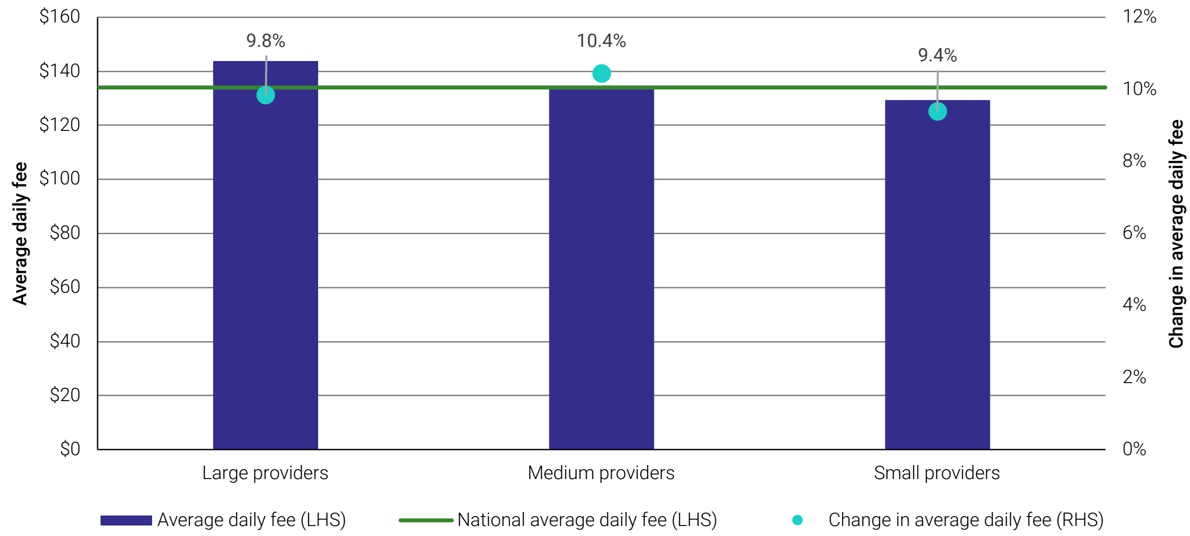
131 ACCC, Childcare Inquiry September interim report, p 130.

132 ACCC, Childcare Inquiry September interim report, pp 147–148.

133 In our analysis we consider 'large providers' to have 40 or more services across Australia, 'medium' providers to have 5 to 39 services, and 'small providers' to have less than 5 services. Of the small providers, the majority have only one service.

134 ACCC, Childcare Inquiry September interim report, pp 65, 128.

Figure 3.8: Average daily fee for centre based day care by provider size for the September quarter 2023 and percentage change since September quarter 2022

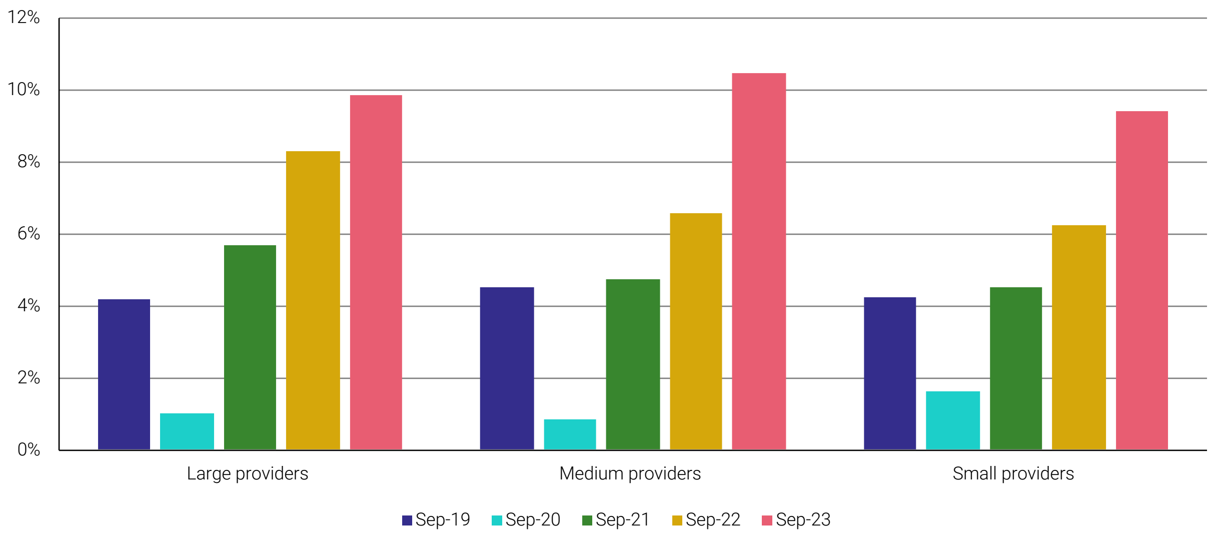


Source: ACCC analysis of Department of Education administrative data.

On average, medium providers increased their daily fee more than other providers between the September quarter 2022 to the September quarter 2023 (10.4%). Large and small providers increased their average daily fee by 9.8% and 9.4%, respectively.

The largest change in average daily fee since 2018 has occurred over the last 2 years across providers of all sizes (figure 3.9).

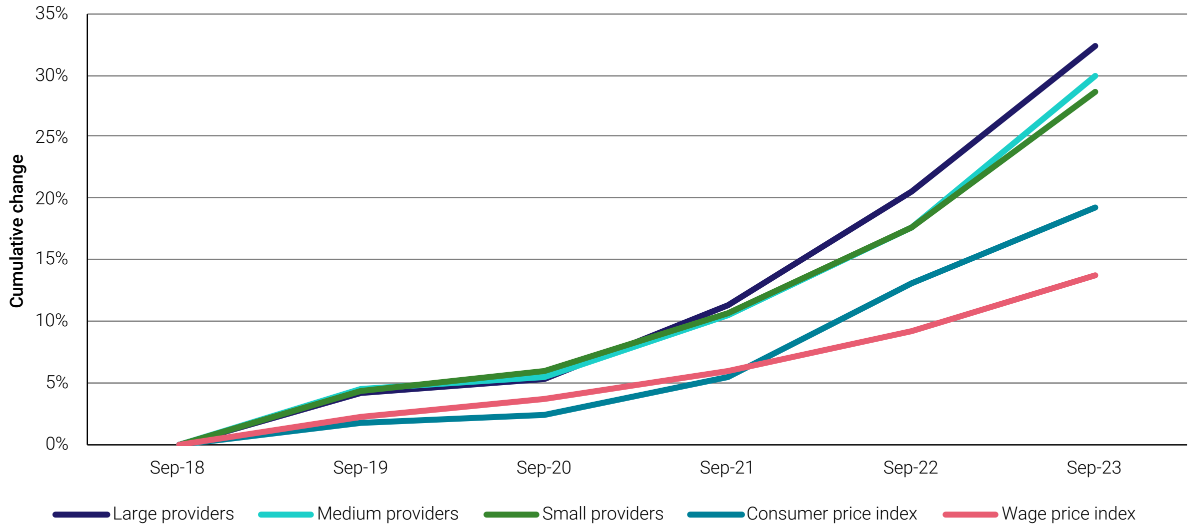
Figure 3.9: Annual percentage change in the average daily fee for centre based day care, by provider size, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

The growth in average daily fee has been greater than inflation and wages for all providers since 2018. From the September quarter 2021, the average daily fee for large providers started to increase at a faster rate compared to small and medium providers (figure 3.10).

Figure 3.10: Cumulative percentage change in the average daily fee for centre based day care by provider size, consumer price and wage price indices, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

3.2.4 Very Remote Australia experienced the largest fee growth in 2023

The average daily fee for centre based day care services continues to be highest in Major Cities of Australia ($137.30 per day) and lowest in Very Remote Australia ($93.28 per day).

There was a significant increase in all areas between September quarters 2022 and 2023, with the largest increase being in Very Remote Australia (14.0%) (figure 3.11).

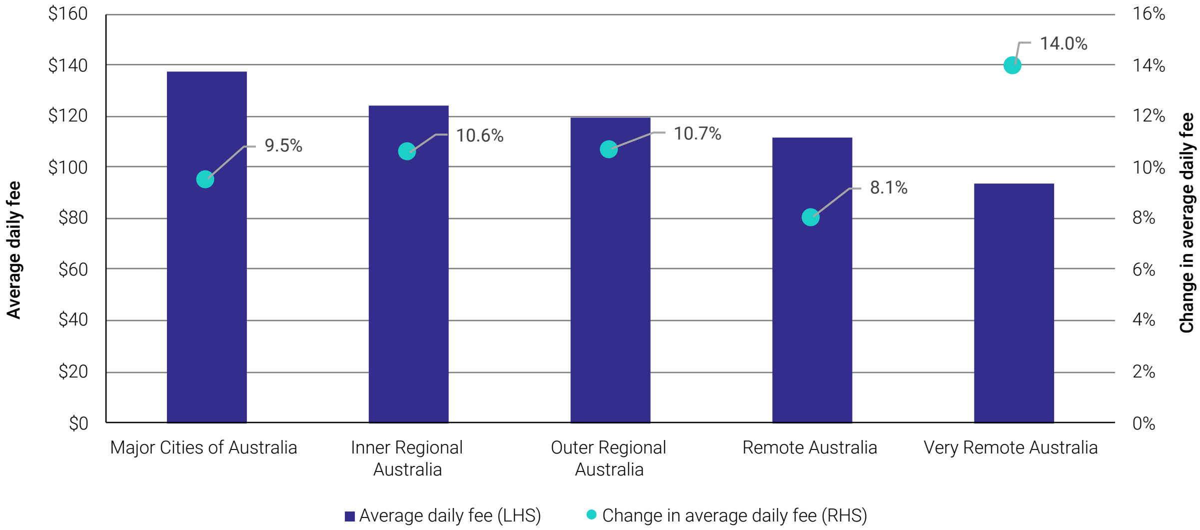
This increase appears to be driven by small providers in Very Remote Australia, which increased fees by 16% on average during this period. However, we note the average daily fee in this area remains much lower than other areas.

In our September interim report, we found that in 2022, the costs to supply a centre based day care service in Very Remote Australia were much higher than in other areas of Australia.[135] This was largely due to the higher labour costs in these areas, which is driven by staff shortages and the need to pay higher wages and other benefits to attract and retain staff as well as high recruitment fees.[136] As such, it is likely that the fee growth in Very Remote Australia is related to these higher costs of labour and continued challenges attracting staff.

135 ACCC, Childcare Inquiry September interim report, pp 73–74.

136 ACCC, Childcare Inquiry September interim report, p 75.

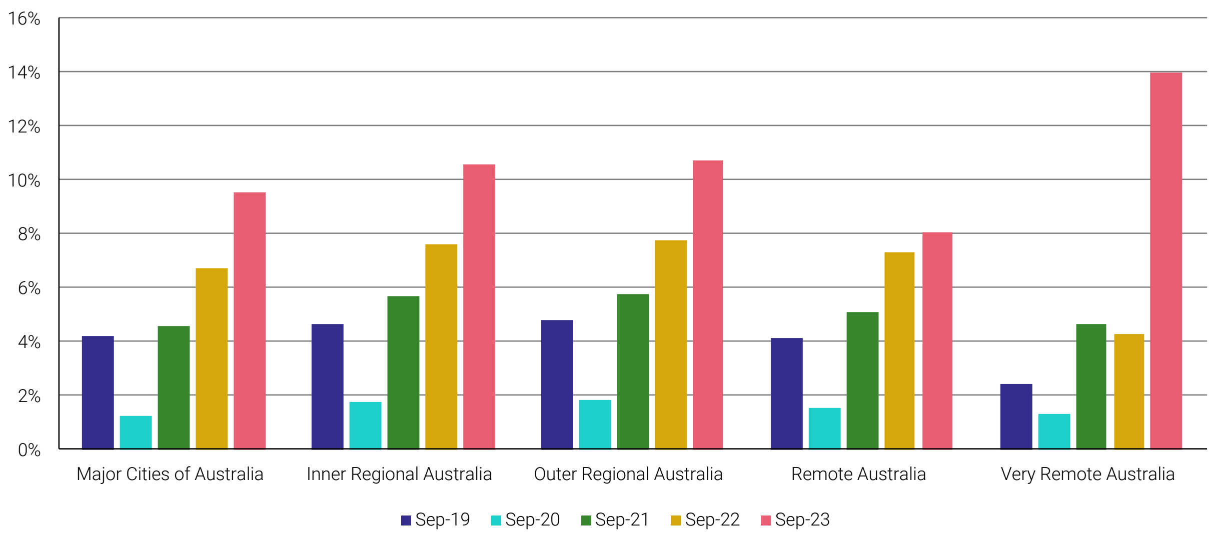
Figure 3.11: Average daily fee for centre based day care, for the September quarter 2023 and percentage change since September quarter 2022, by remoteness



Source: ACCC analysis of Department of Education administrative data.

Since the September quarter 2018, the average daily fee has grown, year-on-year, in all areas of Australia, but most significantly in Inner and Outer Regional Australia (figure 3.12).

Figure 3.12: Annual percentage change in the average daily fee for centre based day care, by remoteness area, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

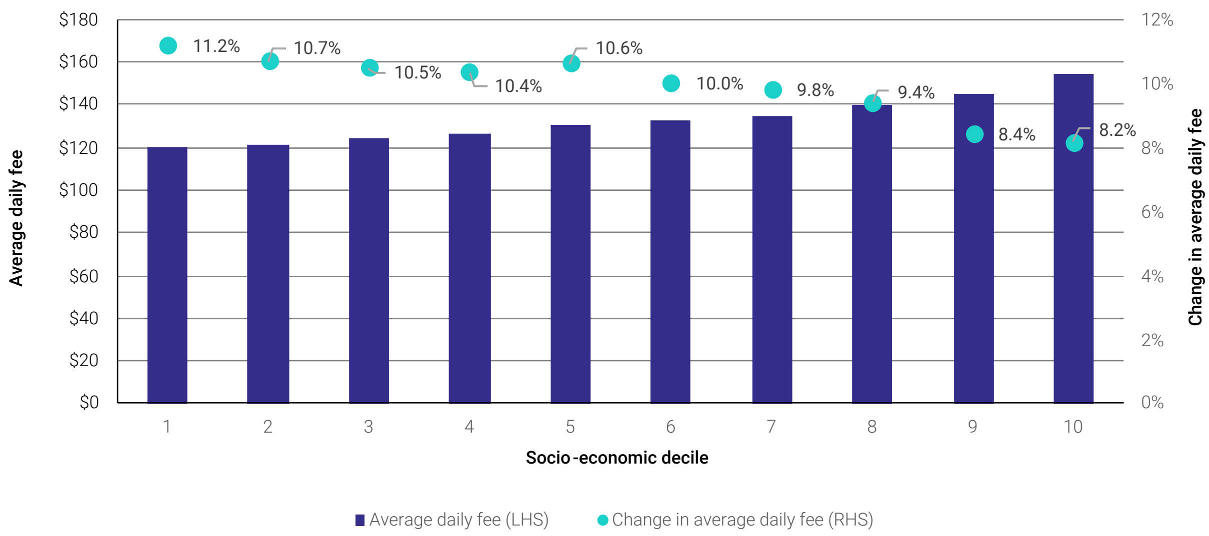
We note households in these areas are likely to receive a higher rate of Child Care Subsidy as there is a larger proportion of households (about 60%) that have an estimated family income of below $155,000 compared to Major Cities, Remote and Very Remote Australia where incomes are more varied. We also note the average hourly fee for centre based day care in Inner and Outer Regional Australia is below the hourly rate cap, which means any increase in fees would be eligible for a subsidy contribution (depending on the individual households' activity test hours). In the September quarter 2023, the out-of-pocket expense was lowest in these areas compared to the rest of Australia ($34.47 and $33.81, in Inner and Outer Regional Australia, respectively).

We note households in these areas are likely to receive a higher rate of Child Care Subsidy as there is a larger proportion of households (about 60%) that have an estimated family income of below $155,000 compared to Major Cities, Remote and Very Remote Australia where incomes are more varied. We also note the average hourly fee for centre based day care in Inner and Outer Regional Australia is below the hourly rate cap, which means any increase in fees would be eligible for a subsidy contribution (depending on the individual households' activity test hours). In the September quarter 2023, the out-of-pocket expense was lowest in these areas compared to the rest of Australia ($34.47 and $33.81, in Inner and Outer Regional Australia, respectively).

3.2.5 Average daily fees increased most in more disadvantaged areas

The average daily fee for centre based day care continues to be higher in socio-economic areas of most advantage. In the most advantaged area, the average daily fee was $154.55 in the September quarter 2023, compared to $120.74 in the most disadvantaged area (figure 3.13).

Figure 3.13: Average daily fee for centre based day care, for the September quarter 2023, and percentage change since September quarter 2022, by socio-economic decile[137]



Note: This analysis uses the Australian Bureau of Statistics Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of Department of Education administrative data and Australian Bureau of Statistics data.

However, the change in the average daily fee was highest in the most disadvantaged areas between the September quarters 2022 and 2023, increasing by 11.2% compared to 8.2% in the most advantaged areas.

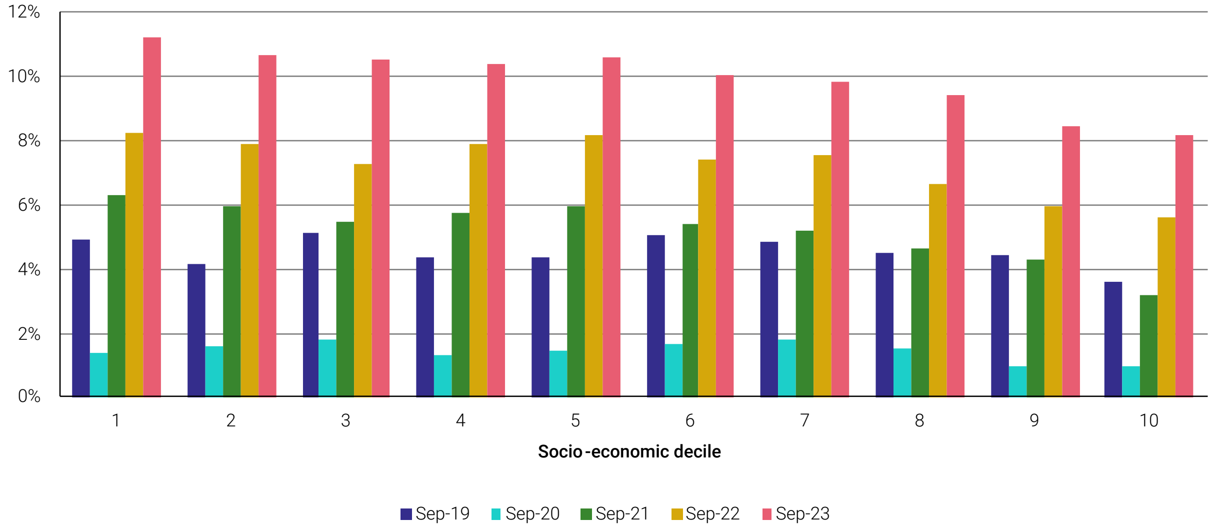
Since the introduction of the Child Care Subsidy in 2018, the largest increase in the average daily fee has been in the most disadvantaged areas (figure 3.14). However, despite this growth, the average daily fee is still much lower in these areas compared to the most advantaged areas. For example,

137 This analysis uses the SA2 level SEIFA (IRSAD) decile. The Statistical Area Level 2 (SA2) is the medium-sized general purpose areas and the purpose is to represent a community that interacts together socially and economically. There are 2,473 SA2s covering the whole of Australia without gaps or overlaps. SA2s generally have a population between 3,000 to 25,000 with an average of about 10,000 people. See Australian Bureau of Statistics (ABS), Statistical Area Level 2, accessed 1 December 2023. The Socio-Economic Index for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. It consists of 4 indexes including the Index of Relative Socio-Economic Advantage and Disadvantage (IRSAD). See ABS, Socio-Economic Indexes for Areas, accessed 1 December 2023.

in 2018 the average daily fee was $88.82 in the most disadvantaged area compared to $125.03 in the most advantaged area, and in 2023, it was $120.74 compared to $154.16, respectively.

We note the lower average daily fee in the more disadvantaged areas allows more room for providers to increase prices but still remain below the hourly rate cap, which means that the burden of the fee increase is not fully passed on to households. Households in these areas are also more likely to be receiving a higher rate of Child Care Subsidy.

Figure 3.14: Annual percentage change in average daily fee for centre based day care, by socio-economic decile, September quarters 2018 to 2023



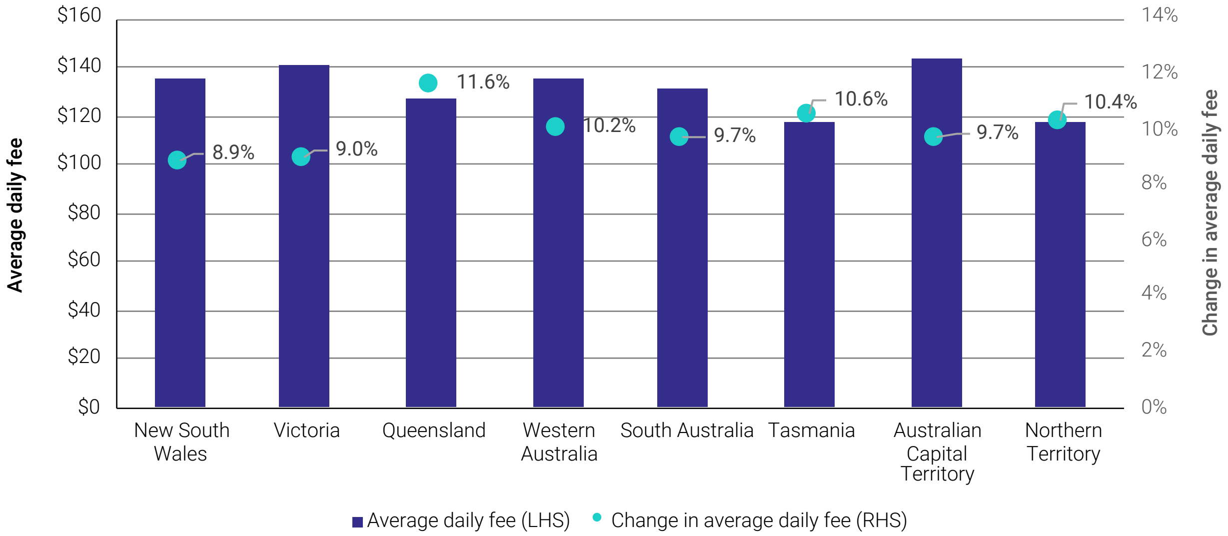
Note: This chart shows year-on-year change and does not sum to the total change over the period. This analysis uses the Australian Bureau of Statistics Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of Department of Education administrative data and Australian Bureau of Statistics data.

3.2.6 Fees remain highest in the Australian Capital Territory

The highest average daily fee for centre based day care was in the Australian Capital Territory ($145.53 per day), followed by Victoria ($140.38 per day) (figure 3.15), as also observed in our June interim report.

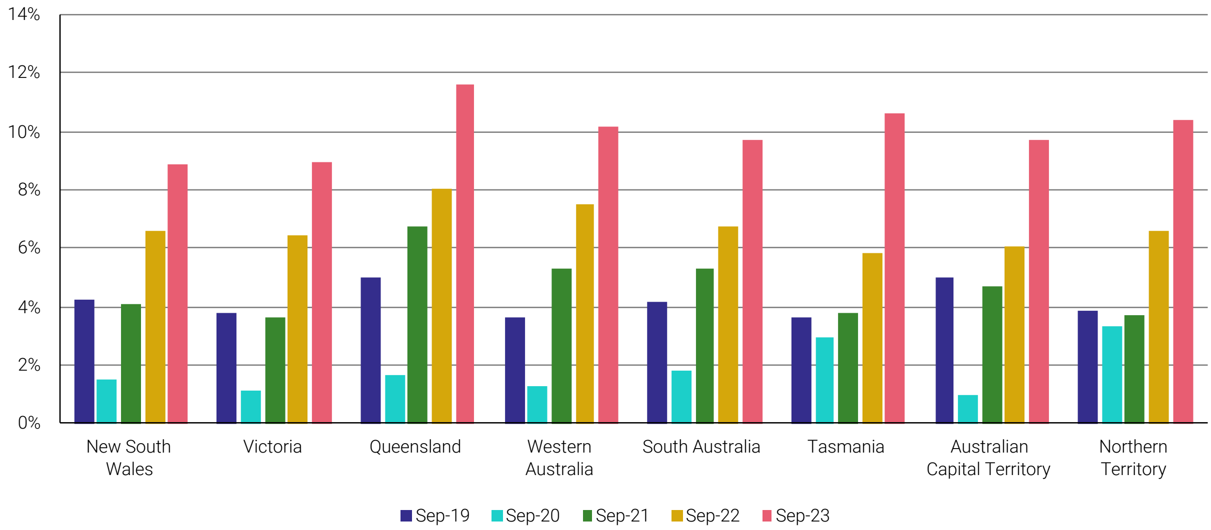
Figure 3.15: Average daily fee for centre based day care, by state and territory for the September quarter 2023, and percentage change since September quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Since the September quarter 2018, the average daily fee has increased in all states and territories, with the largest increase being in Queensland (as also observed in our June interim report) (figure 3.16).

Figure 3.16: Annual percentage change in average daily fee for centre based day care, by state and territory, September quarters 2018 to 2023



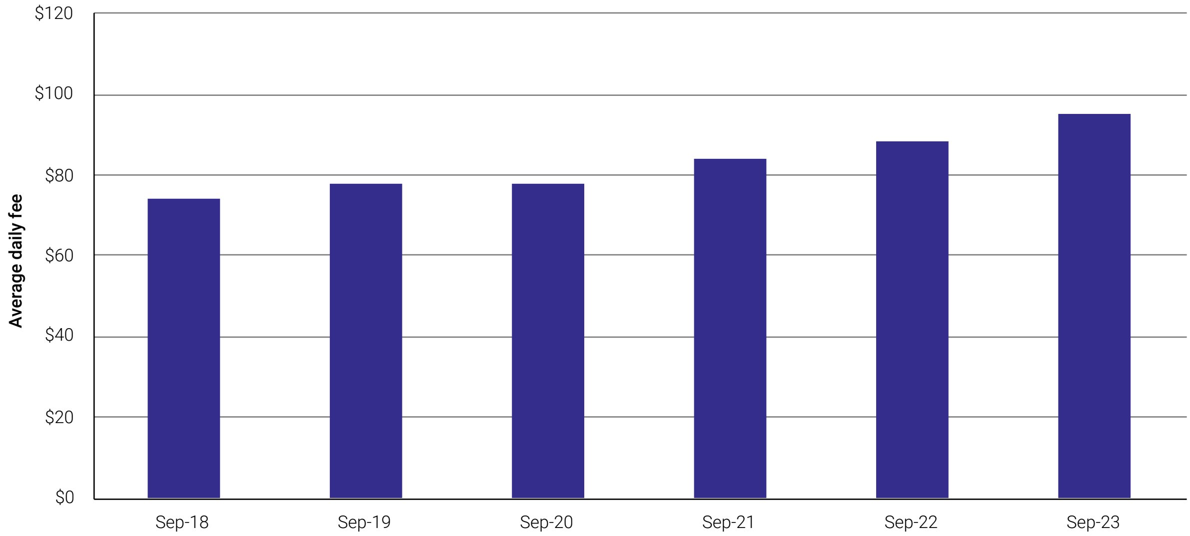
Source: ACCC analysis of Department of Education administrative data.

3.3 Family day care

For family day care, the average daily fee per child was $95.45 in the September quarter 2023 (figure 3.17). This is an increase of 7.9% from the September quarter 2022 (or $6.99 per day) and is the largest fee increase for family day care, year-on-year, since the Child Care Subsidy was introduced in 2018.

This increase is in line with the indexation of the hourly rate cap implemented from July 2023, as discussed in chapter 2, which was 7.8% for 2023–24.

Figure 3.17: Average daily fee for family day care, September quarters 2018 to 2023

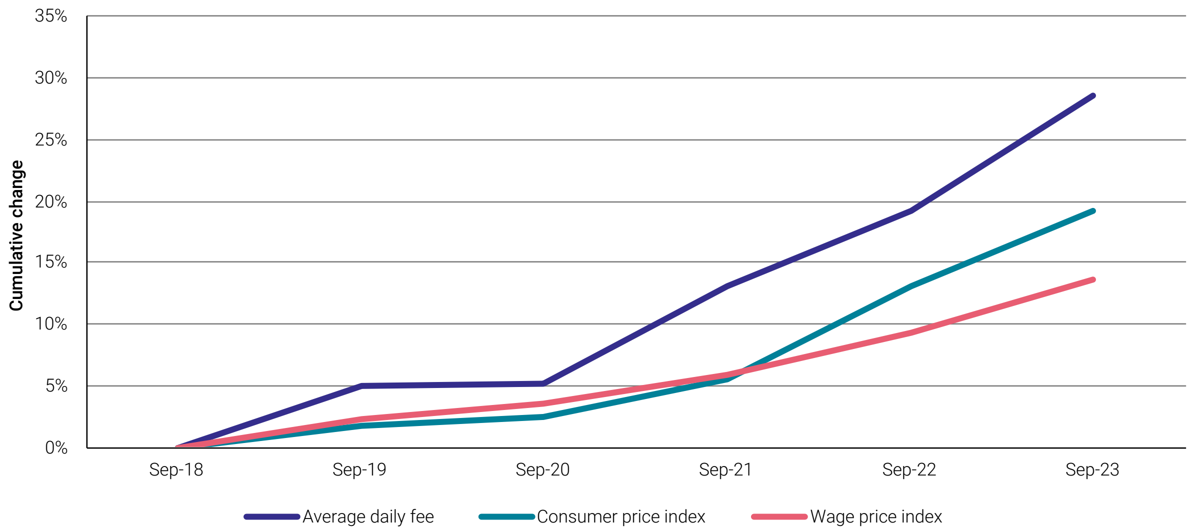


Source: ACCC analysis of Department of Education administrative data.

The average daily fee increased by 28.6% (or $21.25 per day) between the September quarters 2018 and 2023. This increase is more than growth in inflation or wages over this time (figure 3.18).

Once adjusted for inflation, the average daily fee for family day care services has increased by 7.9% since the September quarter 2018.

Figure 3.18: Cumulative percentage change in the average daily fee for family day care, consumer price and wage price indices, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

3.3.1 Average daily fees for family day care are lowest for households with low income

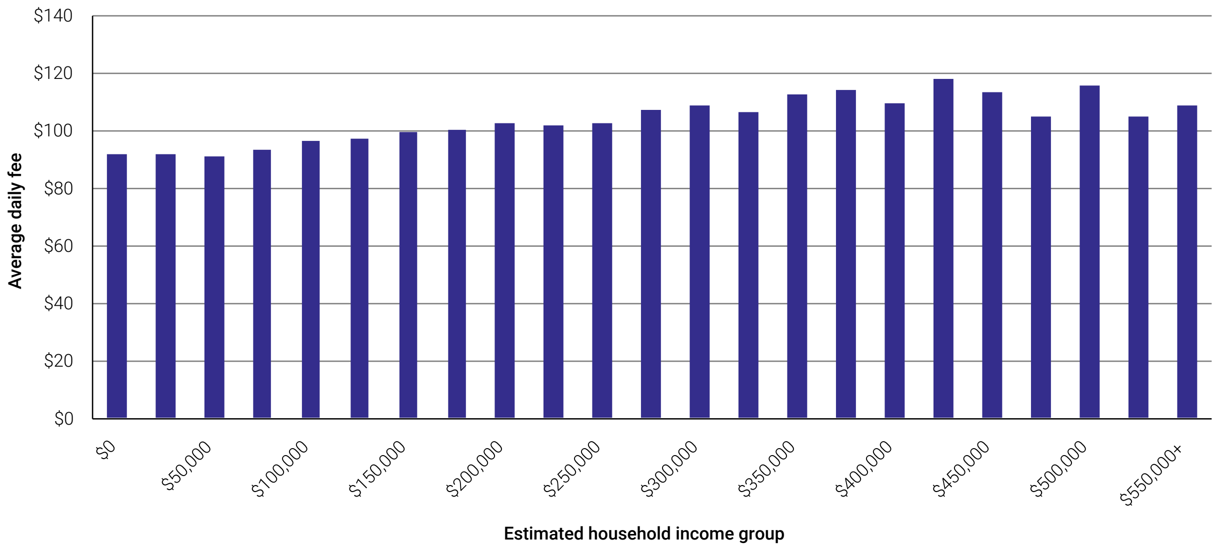
The average daily fee for family day services varied by estimated household income, generally increasing gradually in line with income in the September quarter 2023, except for some higher income levels (figure 3.19).

However, we note there are far fewer households with high incomes using family day care services and this analysis should be interpreted with caution. We estimate around 60% of households using family day care services had incomes below $150,000 in the September quarter 2023.

Further, we find family day care services are slightly more concentrated in areas of less advantage, with around 19% of services located in the most disadvantaged area, compared with around 4% in the most advantaged area, in the September quarter 2023.[138] We note, for family day care services, the location information relates to location of the service head office rather than the location of individual educators, but it is likely the educators are close to their service head office.

138 The most disadvantaged area is SA2 SEIFA IRSAD decile 1, and the most advantaged area is decile 10.

Figure 3.19: Average daily fee for family day care, by estimated household income group, September quarter 2023



Note: Each column represents an estimated household income group range of $25,000. For example, the column labelled $0 represents households with an estimated income between $0 to below $25,000.

Source: ACCC analysis of Department of Education administrative data.

3.3.2 For-profit family day care services continue to have lower average fees

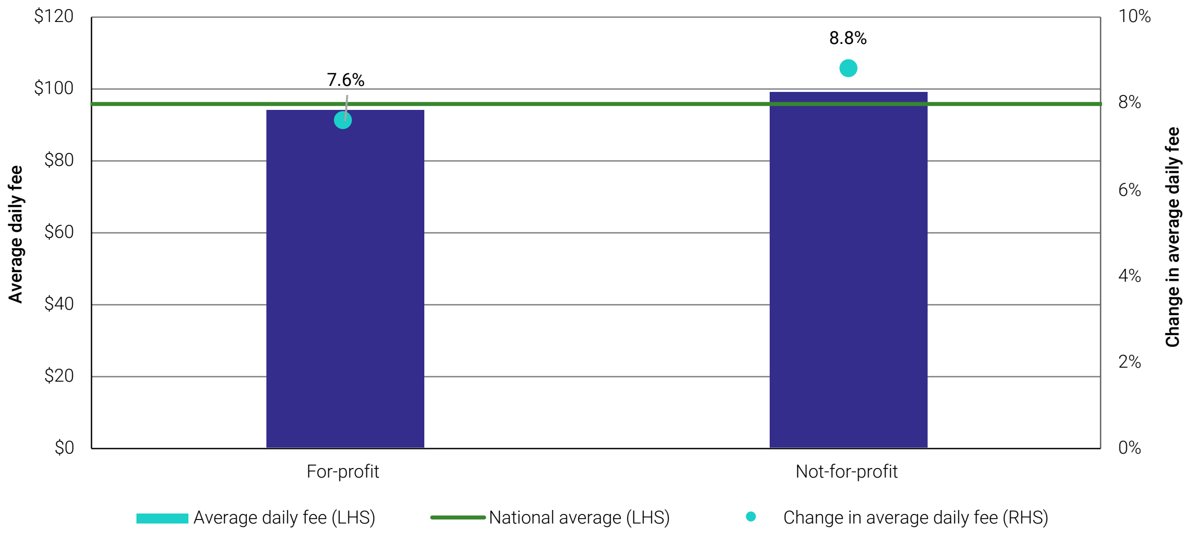
The average daily fee of for-profit providers of family day care was $93.82 in the September quarter 2023 (figure 3.20). This is 5.3% lower than not-for-profit providers, which had an average daily fee of $99.02.

In contrast to centre based day care and outside school hours care, the average daily fee of for-profit providers of family day care continues to be lower than not-for-profit providers, as also observed in our June interim report.

Average daily fees of both for-profit and not-for-profit providers increased between September quarters 2022 and 2023. In addition to having a lower average fee, the percentage increase in the average daily fee between September quarters 2022 and 2023 was lower for for-profit providers (7.6%), than not-for-profit providers (8.8%) (figure 3.20). In contrast to not-for-profit providers, the 7.6% increase in the average daily fee for for-profit providers was slightly below the indexation of the hourly rate cap in 2023–24 (at 7.8%).

Despite the price difference, we find there is a greater share of for-profit family day care services (about 59%), compared to not-for-profit services (41%). Unfortunately, we do not have sufficient information about the costs for for-profit and not-for-profit family day care services to comment on the reason for this price difference. However, we do note that many not-for-profit family day care services are run by local councils, and this may involve some additional fees for the educators, compared to for-profit services.

Figure 3.20: Average daily fee for family day care by provider type, for the September quarter 2023, and percentage change since September quarter 2022



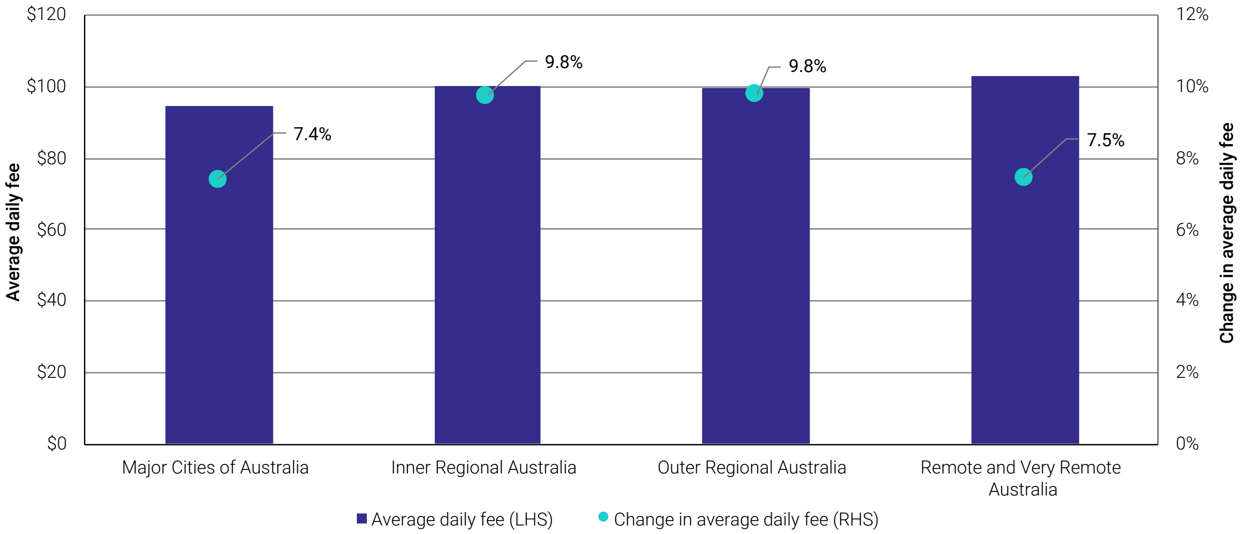
Source: ACCC analysis of Department of Education administrative data.

3.3.3 Major Cities continue to have the lowest fees for family day care

Major Cities of Australia had the lowest average daily fee ($94.29) for family day care services in the September quarter 2023, as well as the lowest change in the average daily fee between September quarters 2022 and 2023 (7.4%) (figure 3.21). We note the average hours of care per day were very similar across the different remoteness areas.

We note for family day care, the location information relates to location of the service head office rather than the location of individual educators. Further, there are very few family day services located in Remote and Very Remote Australia.

Figure 3.21: Average daily fee for family day care by remoteness area, for the September quarter 2023, and percentage change since September quarter 2022

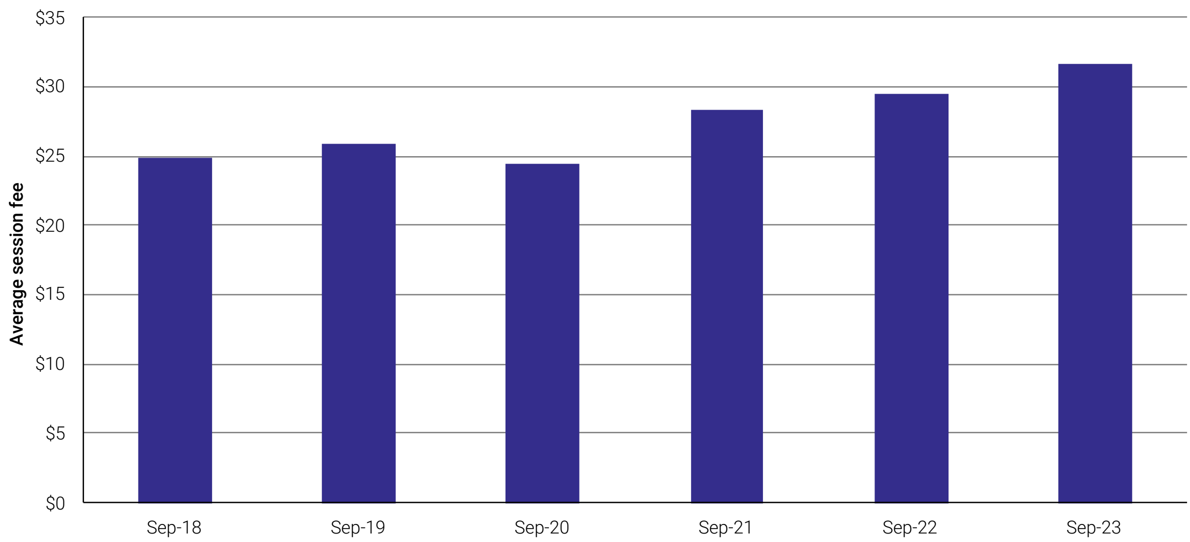


Note: This analysis combines data for Remote and Very Remote Australia due to low sample size and for confidentiality.
Source: ACCC analysis of Department of Education administrative data.

3.4 Outside school hours care

For outside school hours care, the average session fee was $31.62 in the September quarter 2023 (figure 3.22). This is an increase of 7.2% (or $2.13 per session) from the September quarter 2022. This is below the indexation of the hourly rate cap implemented from July 2023, as discussed in chapter 2, which was 7.8% for 2023–24.

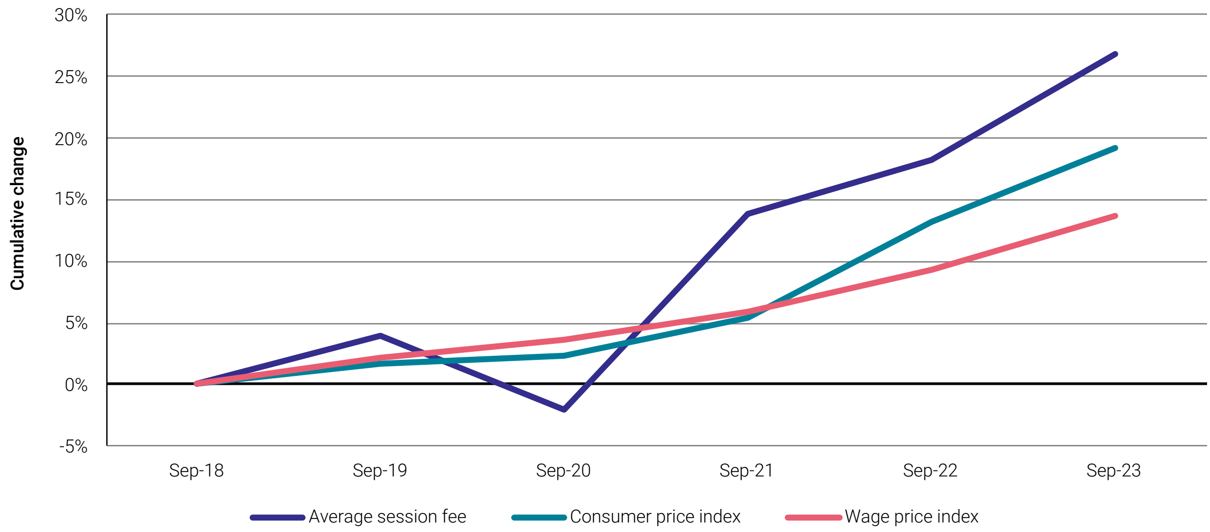
Figure 3.22: Average session fee for outside school hours care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

The average session fee increased by 26.8% between the September quarter 2018 and the September quarter 2023 (figure 3.23). This increase is more than growth in inflation or wages over the same period, however, the change is less than other care types.

Figure 3.23: Cumulative percentage change in the average session fee for outside school hours care, consumer price and wage price indices, September quarters 2018 to 2023



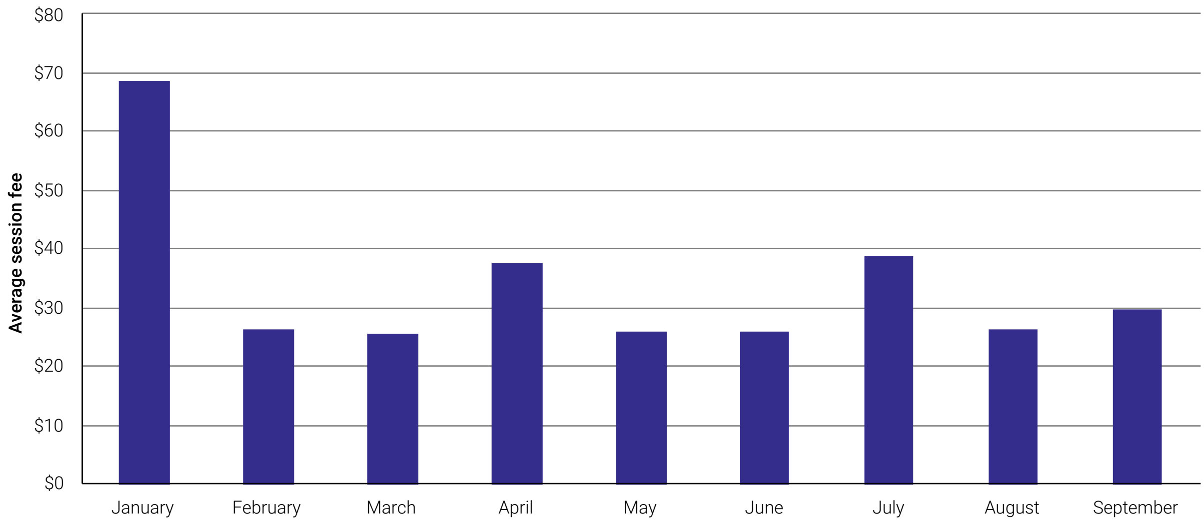
Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

The change in average session fee over time is non-linear, and reflects the seasonal nature of these services, including the provision of vacation care during school holiday periods with longer sessions than before and after school care.

This seasonality is most evident in January, with an average session fee of $68.68 in 2023 (figure 3.24) and average session length of about 10 hours, when children are likely to be in vacation care. Similarly, April and July 2023 also show higher fees and longer average sessions, consistent with the timing of school holidays.

Between June and September 2023, following changes to the Child Care Subsidy, the average session fee increased from $26.02 to $29.66 per session, an increase of 14% or $3.64 per session (figure 3.24). However, we note this may be impacted by school holidays, with many states starting their spring holidays either in the middle or towards the end of September.

Figure 3.24: Average session fee for outside school hours care, January to September 2023



Source: ACCC analysis of Department of Education administrative data.

3.4.1 Outside school hours care licence agreements likely constrain fee growth

Once adjusted for inflation, the average session fee for outside school hours care increased by $1.89 (6.37%) in real terms between September quarter 2018 to September quarter 2023, compared with a nominal increase of $6.68 (26.8%) (figure 3.25).

As observed in our September interim report and discussed in chapter 2, the market for outside school hours care operates very differently compared to other care types. Providers typically operate under a license agreement with a school, which usually include provisions about fee changes. The need to recontract and tender to operate a service may also encourage more competitive pricing.[139]

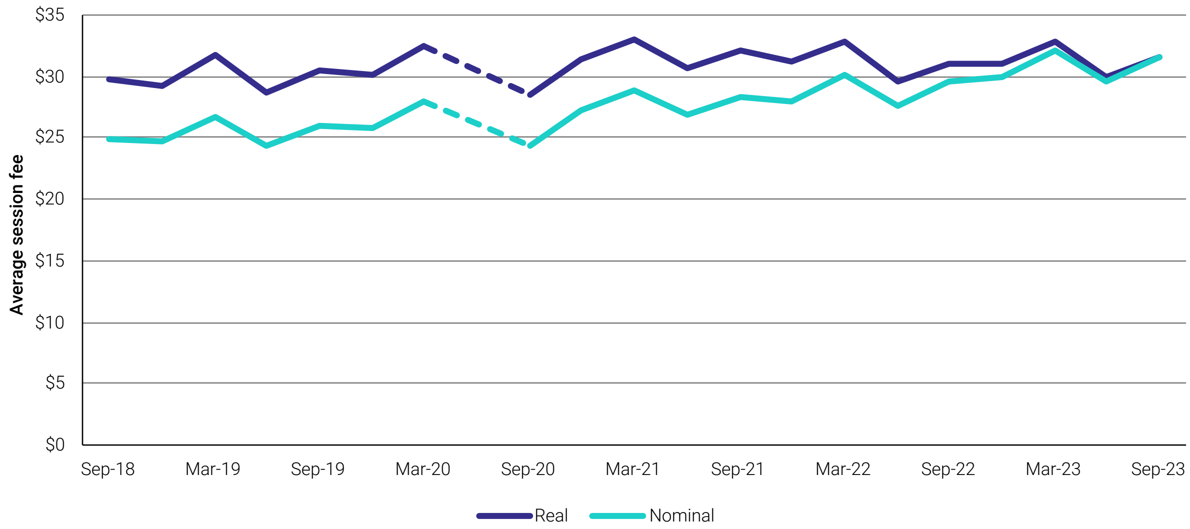
It is likely that the average fee growth, while still greater than inflation, has been more subdued in outside school hours care compared to other care types due to these licence agreements. As discussed in chapter 2, we also find that, unlike other services, on average, fees for outside school hours care are well below the hourly rate cap.

This was also reflected in a submission from the Outside School Hours Council Australia to the September interim report, which noted the prices are locked in for extended periods due to contracts with schools and providers are unable to regularly adjust prices.[140]

139 ACCC, Childcare Inquiry September interim report, pp 114–121.

140 Submission 34, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

Figure 3.25: Average session fee for outside school hours care, real and nominal, quarter-on-quarter September quarter 2018 to September quarter 2023



Note: This analysis shows the average session fee for each quarter from July 2018 to September 2023, except for the June quarter 2020 due to COVID-19.

Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

3.4.2 For-profit providers continue to have higher average session fees, though increased their fees by less than not-for-profit providers since 2022

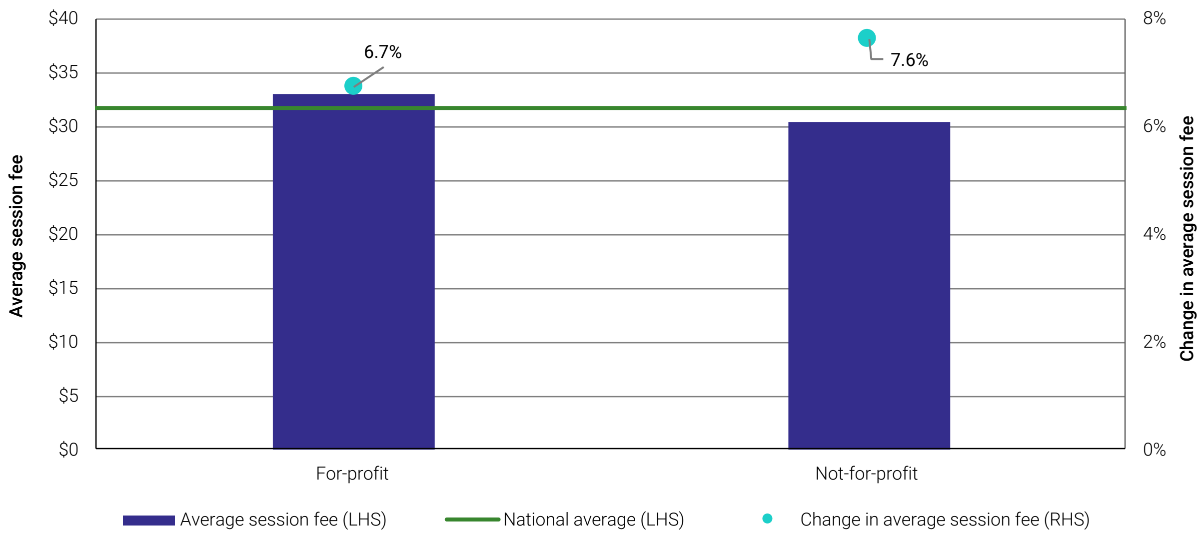
The average session fee of for-profit providers of outside school hours care was $33.03 in the September quarter 2023. This was 9% higher than not-for-profit providers, which had an average session fee of $30.29 (figure 3.26). We note that for-profit and not-for-profit providers have very similar session lengths on average.

Average session fees of both for-profit and not-for-profit providers increased between the September quarters 2022 and 2023. While the average session fee is higher for for-profit providers, the percentage increase in the average session fee of for-profit providers (6.7%) was slightly lower than not-for-profit providers (7.6%) (figure 3.26).

We note that in our September report, we found that not-for-profit providers had lower costs on average than for-profit providers.[141]

141 ACCC, Childcare Inquiry September interim report, p 59.

Figure 3.26: Average session fee for outside school hours care, for the September quarter 2023, and percentage change since September quarter 2022, by provider type



Source: ACCC analysis of Department of Education administrative data.

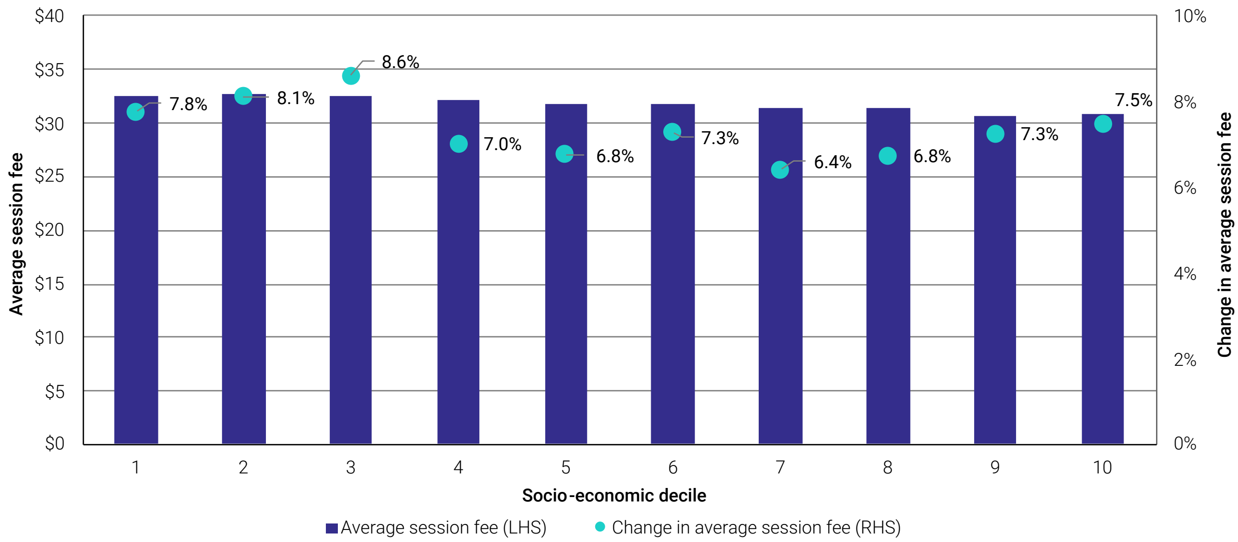
3.4.3 Average session fees increased slightly more in areas of disadvantage for outside school hours care

The average session fee is similar across all socio-economic areas but slightly higher in the more disadvantaged areas, as also observed in our June interim report (figure 3.27). Our analysis also indicates that the average session length is similar, but slightly higher in more disadvantaged areas, which may explain the higher fee.

Average session fees increased across all areas between the September quarters 2022 and 2023. The increase was similar across all areas, though slightly higher in the lower socio-economic areas (deciles 1–3) between 7.8% to 8.6%, compared to between 6.4% to 7.5% across the other areas (figure 3.27).[142]

142 This refers to SA2 SEIFA (IRSAD) deciles.

Figure 3.27: Average session fee for outside school hours care, for the September quarter 2023, and percentage change since September quarter 2022, by socio-economic decile



Note: This analysis uses the Australian Bureau of Statistics Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of Department of Education administrative data and Australian Bureau of Statistics data.

3.4.4 Average session fees increased by 35% in Very Remote Australia since 2022

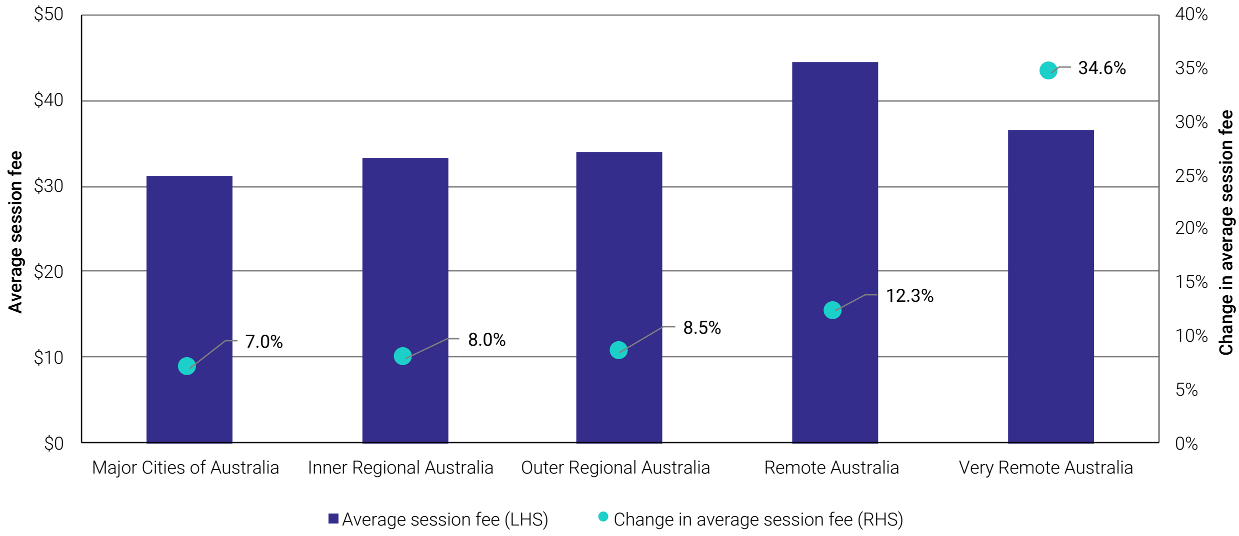
The average session fee for outside school hours care services continues to be highest in Remote Australia ($44.46 per session) and lowest in Major Cities ($31.19 per session) in the September quarter 2023 (figure 3.28). The average session lengths are also longest in Remote Australia (4.2 hours) and Very Remote Australia (4.1 hours) compared to Major Cities (3.6 hours), which may partly explain the higher average session fee in these areas.

In our September interim report, we found there was little variation in average costs by remoteness area based on the information provided to the ACCC.[143] However, we note that there are few services in Very Remote Australia, and this analysis should be interpretated with caution.

All areas experienced an increase in average session fees between September quarters in 2022 and 2023. Very Remote Australia experienced the largest increase of 34.6% (or $9.39 per session). This is far higher than other areas including Remote Australia, which experienced the second largest increase (12.3% or $4.88 per session) (figure 3.28). We note this increase in average session fees in Very Remote Australia appears to be driven by a small number of small providers in Queensland.

143 ACCC, Childcare Inquiry September interim report, pp 73–74.

Figure 3.28: Average session fee for outside school hours care, for the September quarter 2023, and percentage change since September quarter 2022, by remoteness



Source: ACCC analysis of Department of Education administrative data.

3.4.5 Tasmania experienced the biggest increase in fees of all states and territories since 2022

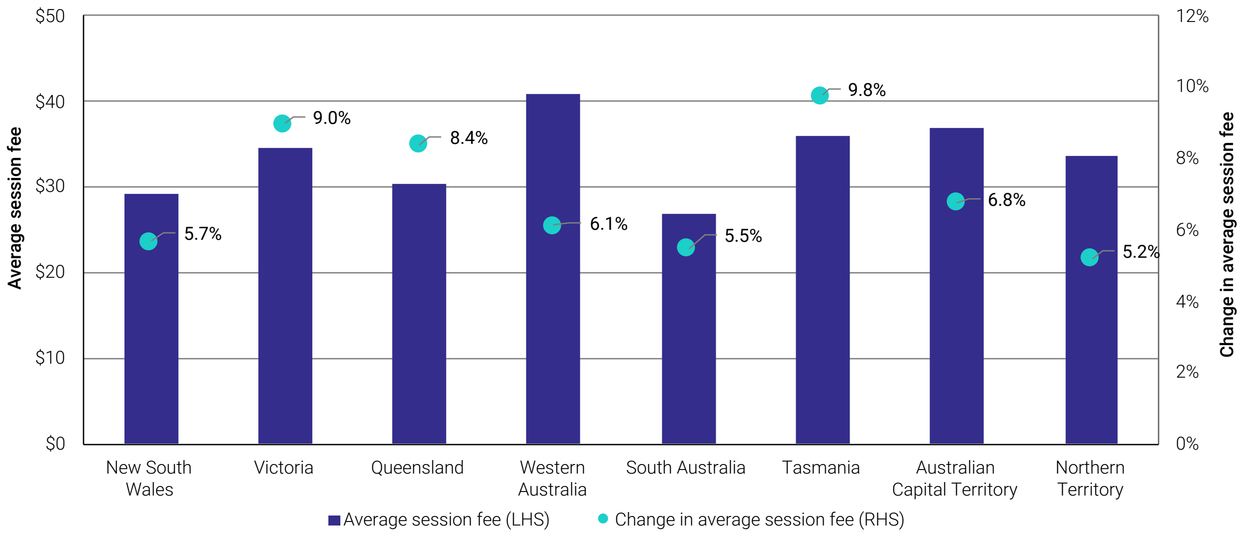
The highest average session fee for outside school hours care in the September quarter 2023 was in Western Australia ($40.95 per session), followed by the Australian Capital Territory ($36.99 per session) (figure 3.29), as also observed in our June interim report.

We note, as discussed in our September interim report, that average costs per hour are highest in the Australian Capital Territory for outside school hours care, with Western Australia also having relatively high costs.[144]

However, Tasmania experienced the largest increase in the average session fee from September quarter 2022 to September quarter 2023 (9.8%) (figure 3.29). This was also the largest increase in absolute terms ($3.19 per session).

144 ACCC, Childcare Inquiry September interim report, p 83.

Figure 3.29: Average session fee for outside school hours care, for the September quarter 2023, and percentage change since September quarter 2022, by state and territory

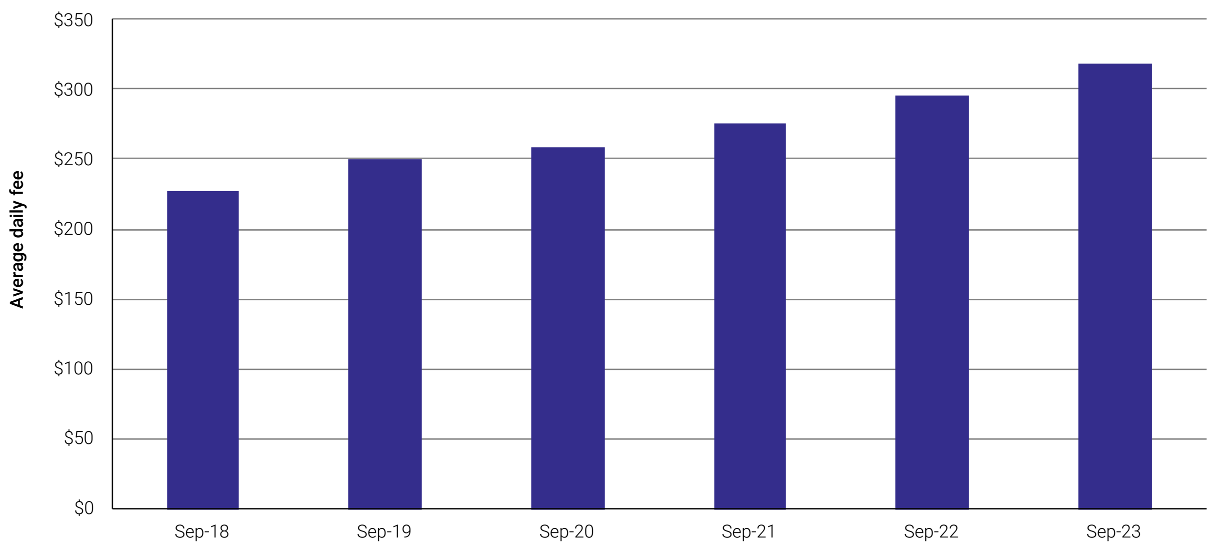


Source: ACCC analysis of Department of Education administrative data.

3.5 In home care

The average daily fee per family for in home care services was $318.71 in the September quarter 2023. This is an increase of 7.8% from the September quarter 2022 (or $22.98 per family per day) and an increase of 40.1% compared to the September quarter 2018 (or $91.15 per family per day) (figure 3.30).

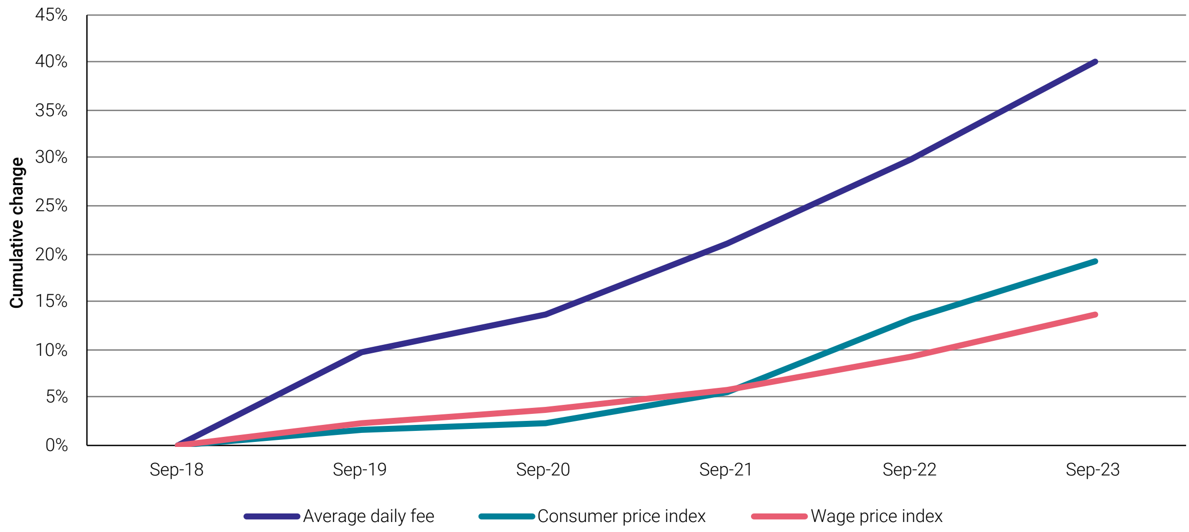
Figure 3.30: Average daily fee per family for in home care, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

This increase is significantly more than inflation and wage growth since 2018 (figure 3.31). Once adjusted for inflation, the average daily fee for in home care services increased by 17.5% (or $47.44 per family per day) over this period.

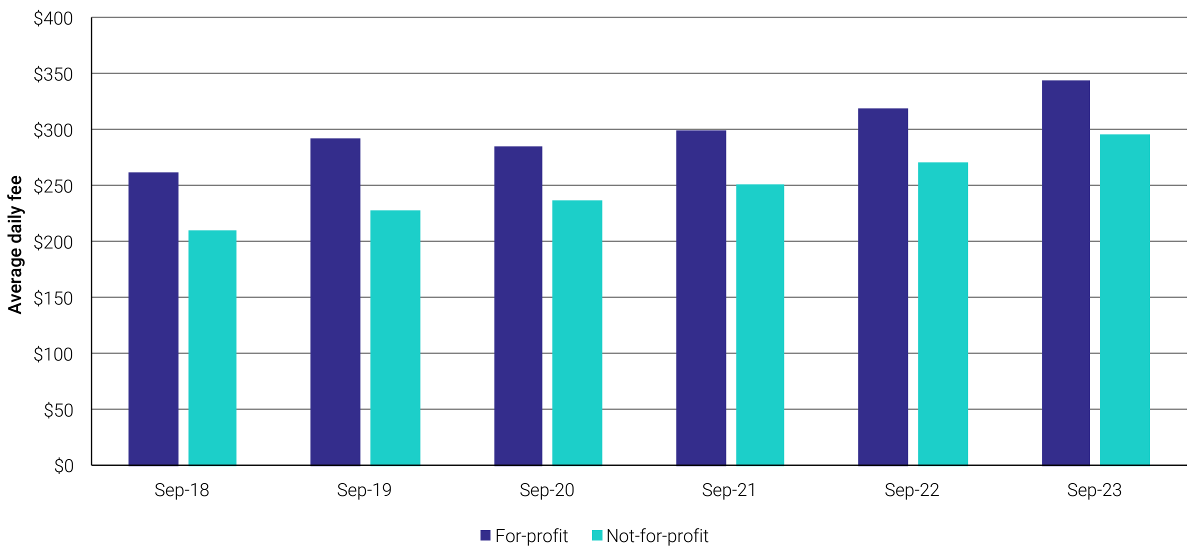
Figure 3.31: Cumulative percentage change in the average daily fee per family for in home care, consumer price and wage price indices, September quarters 2018 to 2023



Source: ACCC analysis of Australian Bureau of Statistics data and Department of Education administrative data.

Since September quarter 2018, the average daily fee for in home care has been consistently higher for for-profit providers compared to not-for-profit providers (figure 3.32). In the September quarter 2023, for-profit providers charged, on average, 16.2% more than not-for-profit providers.[145]

Figure 3.32: Average daily fee per family for in home care by provider type, September quarters 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

145 In the September quarter 2023, for-profit providers accounted for about 60% of in home care services.

In home care services remain the most expensive of all types of care as they involve a specialised type of care and often multiple children. Since 2018, the price of these services has grown more than the other types of care.

We also find the number of in home services has declined since 2018 (falling from 56 services in the September quarter 2018 to 34 in the September quarter 2023), and that the number of families using in home care services has also declined, by about 300 families over this period. However, we note, as discussed in chapter 4, in home care is intended to be a temporary service for most families and not necessarily a long-term care option.

In home care services are also more likely, compared to other care types, to require households to pay for additional expenses beyond the daily fee, such as travel and accommodation expenses for educators. This, among other factors, may lead to affordability concerns, as raised by stakeholders at the in home care roundtable, discussed further in chapter 8.

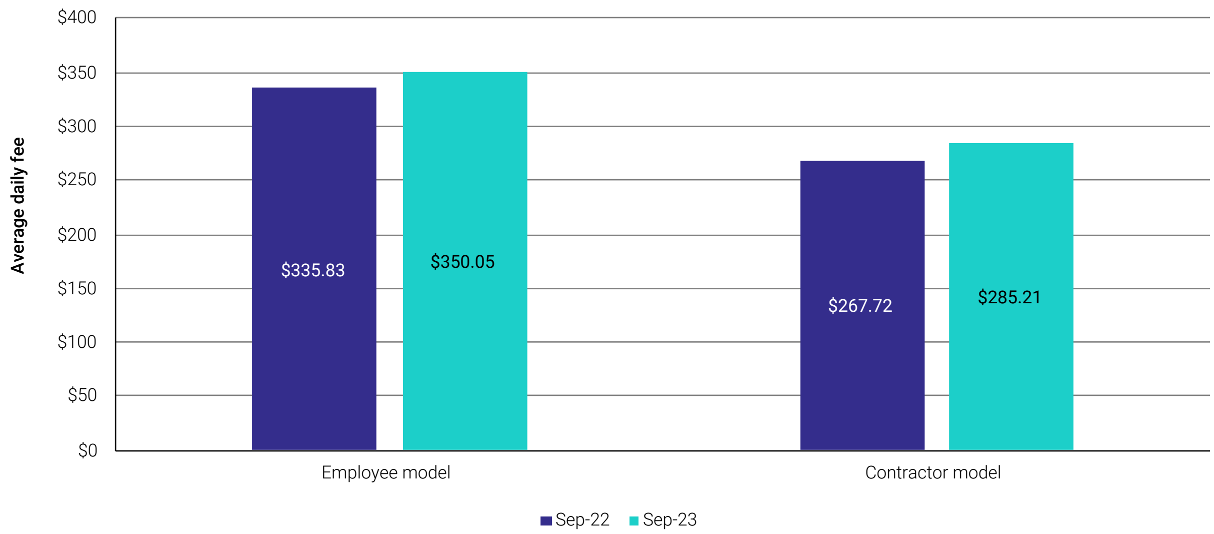
3.5.1 Employee model services have a higher average fee than contractor model services

In home care services can operate under different types of models including an employee model or a contractor model, as discussed in chapter 6.

In the September quarter 2023, the average daily fee for the employee model was 22.7% more than the contractor model (or $64.83 per day). Services using the contract model raised their fees more than services using the employee model between the September quarters 2022 and 2023 (6.5% compared to 4.2%) (figure 3.33). The charged session length is also similar under both models, around 7 hours per day.

The difference in price likely reflects the difference in labour costs, as discussed in chapter 6, where services using a contractor model are likely able to keep fees lower by reducing the income of educators providing care. In contrast, the largest proportion of costs for services using an employee model was labour.

Figure 3.33: Average daily fee for in home care by operating model, September quarters 2022 and 2023



Note: This analysis is based on a small sample of services and should be treated with caution.
Source: ACCC analysis of Department of Education administrative data and data obtained from childcare providers.

4. Costs and profits

4.1 Key points

The following key points draw on analysis in the June and September interim reports:

- Labour is the main driver of costs for supplying childcare, accounting for 69% or more of total costs, depending on various factors. Labour costs have increased significantly for large providers of centre based day care over the past 5 years, while for large providers of outside school hours care, the increase was more modest.
- Large not-for-profit providers of centre based day care and outside school hours care have lower land and related costs than for-profit providers. However, these savings appear to be invested into labour.
- Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, the costs to supply different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness or most advantage.
- Costs increase for centre based day care services with higher shares of children below 3 years old. Most services had between 30% and 60% of their charged hours delivered to children under 3 years old, highlighting that services are tightly controlling enrolments of this cohort in order to control costs.
- Centre based day care services with higher ratings under the National Quality Framework have higher labour costs than lower rated services.
- The childcare sector is widely viewed as a safe and strong investment with guaranteed returns, backed by a government safety net. Revenue in childcare services is forecast to grow at an annualised 4% between 2023 and 2028. Childcare real estate investment is attractive due to the long-term leases and stable tenants backed by government support, as well as high underlying land values.
- Annual fee increases help to offset any increases in operating costs and likely help to maintain consistent margins.

The following key points draw on new analysis contained in this chapter:

- Most childcare entities or businesses do not appear to be making excess profits, and approximately 25% of childcare providers structured as companies are making almost no profit or suffering a loss.
- Large for-profit providers of centre based day care minimise childcare labour costs by paying closer to the award and hiring less experienced teachers.
- Large providers of centre based day care pay higher wages in Remote and Very Remote Australia to attract and retain staff.
- Increased land and related costs are likely driven by increased demand, alongside supply issues such as higher costs in development. We have not found evidence of large providers shifting profit to related entities although there could be benefit in more detailed examination of the relationships between landlords and centre based childcare providers.

In this chapter, further analysis of the costs and profits incurred by childcare services is presented, including:

- examining wages and the relationship providers have with property developers and landlords
- additional profit analysis across the entire childcare sector.

The chapter is presented as follows:

- Section 4.1 sets out key points made in this chapter.
- Section 4.2 explores the levels of pay for educators and teachers when compared to their Awards.
- Section 4.3 discusses the relationship between childcare property developers and childcare providers.
- Section 4.4 provides some additional analysis on childcare profits.

Analysis of these areas was conducted using information collected from large providers using our compulsory information gathering powers. De-identified Business Income Tax summaries were provided by the Australian Bureau of Statistics and are also considered to provide further analysis of profits.

4.2 Educator and teacher pay rates in comparison to the award

The ACCC's September interim report highlighted that labour accounts for the greatest share of costs for centre based day care providers and that these costs increased significantly between 2018 and 2022.[146] This section examines how pay rates differ by factors such as award level, geographic location, and provider type.

Box 4.1: Educator and Teacher Awards

Awards

Childcare educators are covered under the Children's Services Award,[147] while early childhood teachers are covered by the Educational Services (Teachers) Award.[148] Educator and teacher wages are linked to the award levels where higher levels are entitled to higher pay.

The Children's Services Award levels are classifications that are linked to qualifications and duties exercisable at that level:

- Levels 1 and 2 do not require a qualification and generally provide support to educators.[149] Staff at levels 1 and 2 typically do not count towards educator ratios.
- Level 3 is the level of primary carers, where a Certificate III or Diploma in Children's Services (or equivalent) is required.
- Level 4 applies to staff in charge of a group of children, such as an Authorised Supervisor. A Diploma in Children's Services (or equivalent) is required for this role.

146 ACCC, Childcare Inquiry September Interim report, p 10.

147 See Australian Government Fair Work Ombudsman, Children's Services Award [MA000120], accessed 5 December 2023.

148 See Australian Government Fair Work Ombudsman, Educational Services (Teachers) Award [MA000077], accessed 5 December 2023.

149 Level 2 childcare educators may be classified as such due to attainment of a Certificate II in Children's Services.

- Level 5 generally covers Assistant Directors or Co-ordinators, and a Diploma in Children's Services (or equivalent) is required.
- Level 6 relates to Centre Directors, where a Diploma in Children's Services (or equivalent) is generally required. Pay grades consider the level of experience and the size of the centre.
- Across levels 3 to 6, there are also sub levels for those staff working towards the required qualification. These levels can also count towards the educator ratios.

The Educational Services (Teachers) Award works to a level classification from 1 to 5.

- Level 1 is a graduate teacher and all other teachers (as defined), including those holding provisional or conditional accreditation/registration.
- Level 2 is a teacher with proficient accreditation/registration or equivalent.
- Level 3 is a teacher with proficient accreditation/registration or equivalent after 3 years' satisfactory service at a proficient level.
- Level 4 is a teacher with proficient accreditation/registration or equivalent after 6 years' satisfactory service at a proficient level.
- Level 5 is a teacher with highly accomplished/lead teacher accreditation/registration or equivalent.

Data used in analysis of award wages was collected only from large providers of centre based day care and reflects staffing arrangements as at August 2023.

Many of these large providers operate under enterprise agreements. To compare rates of pay covered by enterprise agreements, levels were matched against the awards based on naming or definitions outlined in enterprise agreements. Classifications of teachers covered by enterprise agreements were typically matched against the previous version of the Educational Services (Teachers) Award (pre-2022), before being matched to the new award through the award transitional arrangements.[150]

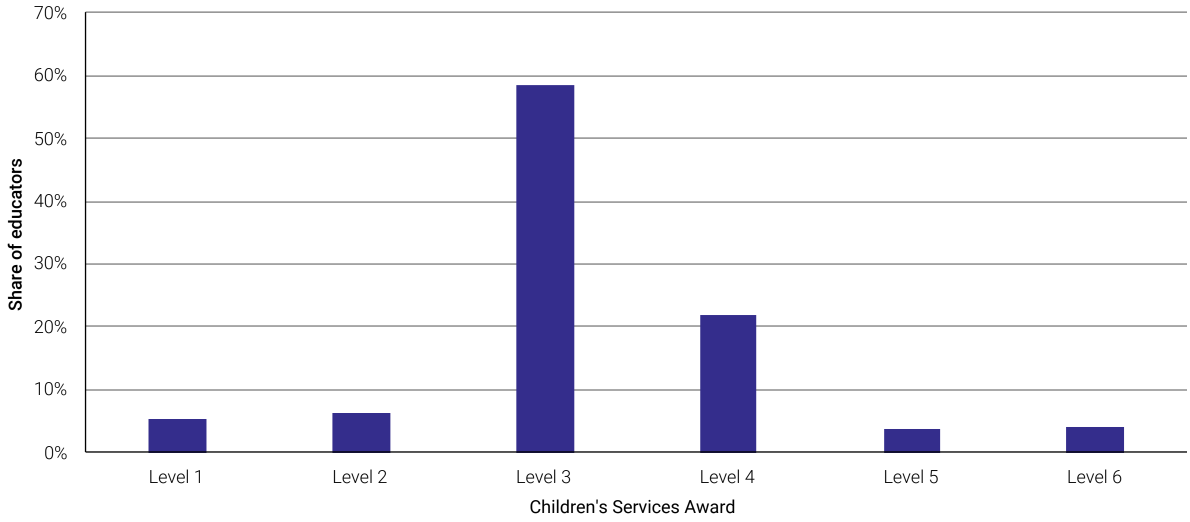
Award wages used for comparison were based on the most common rate at each level (or sub level) without considering any casual or overtime loadings.

4.2.1 For-profit providers of centre based day care tend to hire graduate teachers

Most educators fit the classification of Children's Services Award level 3, accounting for 59% of centre based day care educators at large providers (figure 4.1). This is in line with expectations, as level 3 staff are Certificate or Diploma qualified and will typically count for the purposes of educator-to-child ratios. Providers appear to not employ many staff at levels 1 and 2, as these are generally under-qualified staff who do not count for the purposes of maintaining ratios. There are also relatively low proportions of level 5 and 6 educators, again consistent with expectations, as the roles are necessarily constrained within individual services.

150 See Australian Government Fair Work Ombudsman, Educational Services (Teachers) Award [MA000077] – Schedule G – Transitional Arrangements, accessed 5 December 2023.

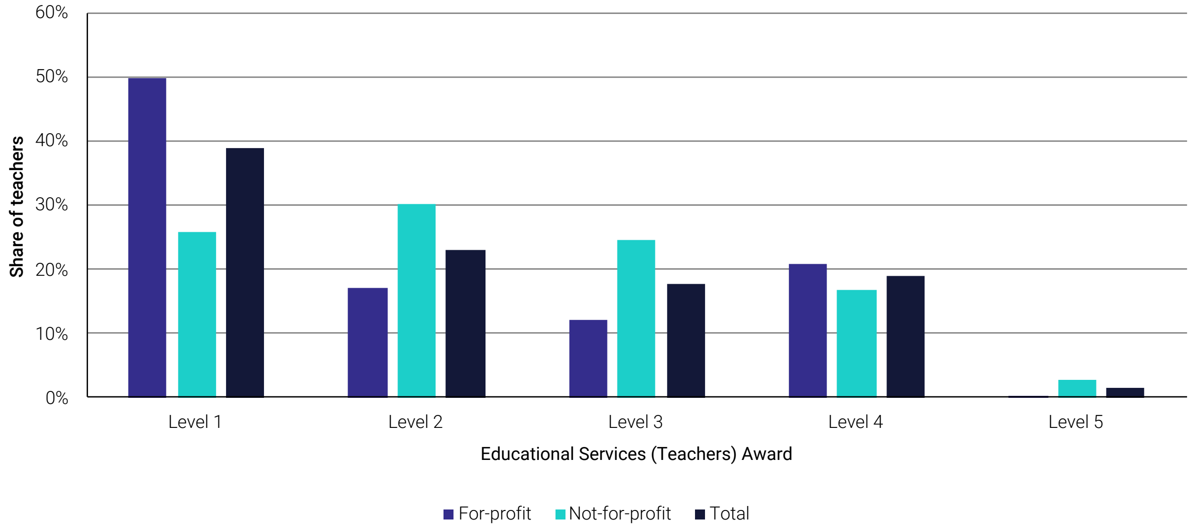
Figure 4.1: Share of educators at large providers of centre based day care, by Children's Services Award level, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Most early childhood teachers are classified at level 1 under the Educational Services (Teachers) Award, accounting for 39% of centre based day care teachers at large providers (figure 4.2). Under the Educational Services (Teachers) Award, this represents graduate teachers and newly qualified teachers entering the childcare sector. For-profit providers are driving the high proportion of level 1 or graduate teachers, while not-for-profit providers had a more even distribution of teachers across the levels. This indicates that for-profit providers may be unable to attract more experienced staff or are unwilling to pay for teachers at higher levels when they are not required under the National Regulations.

Figure 4.2: Share of teachers at large providers of centre based day care, by Educational Services (Teachers) Award level and provider type, August 2023



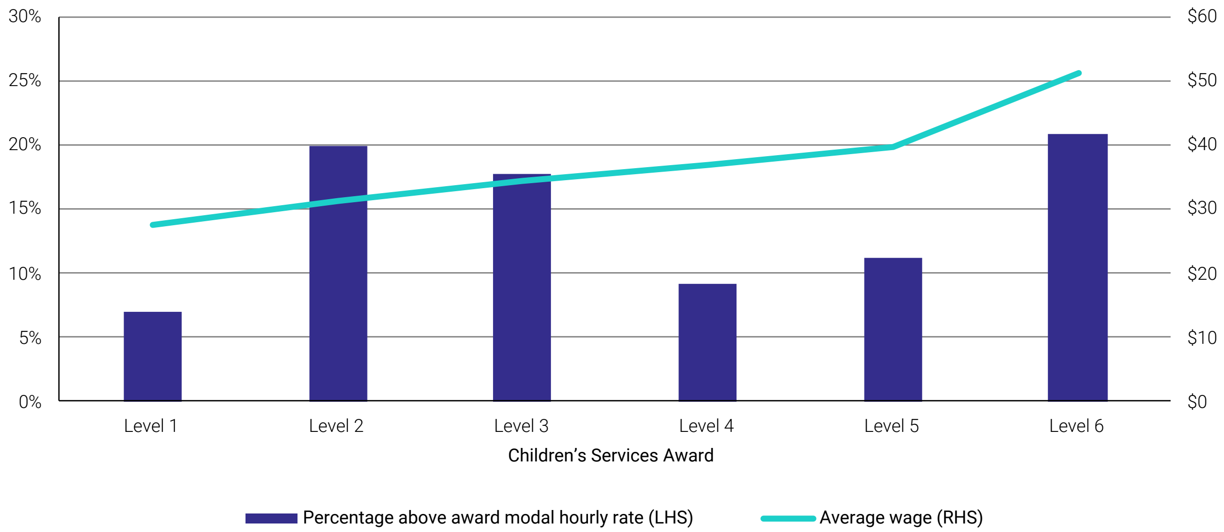
Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The lowest proportion of early childhood teachers are covered under level 5 of the Educational Services (Teachers) Award, accounting for only 1% of centre based day care teachers at large providers. This is most likely because a comparable level did not exist under the recently replaced previous award, difficulty in acquiring the required accreditation, along with no requirement for teachers at this level at childcare services under the National Regulations.[151]

4.2.2 Not-for-profit providers of centre based day care pay educators and teachers higher levels above the award

The primary contact staff, who are covered by level 3 of the Children's Services Award, were paid 18% above the Children Services Award on average. This likely reflects demand for qualified staff to meet ratio requirements. Childcare centre directors, who fall into level 6 of the Children Services Award, were paid 21% above the award rate on average, which is consistent with our previous reports, which noted that centre directors were key drivers of quality and also played a significant part in retaining quality staff. While there is a significant variation (between 7% and 21%) from the lowest to highest average percentage paid above the award, the majority of educators are paid significantly above award rates.

Figure 4.3: Average hourly wage and average percentage paid to educators above the award hourly rate at large providers of centre based day care, by Children's Services Award level, August 2023



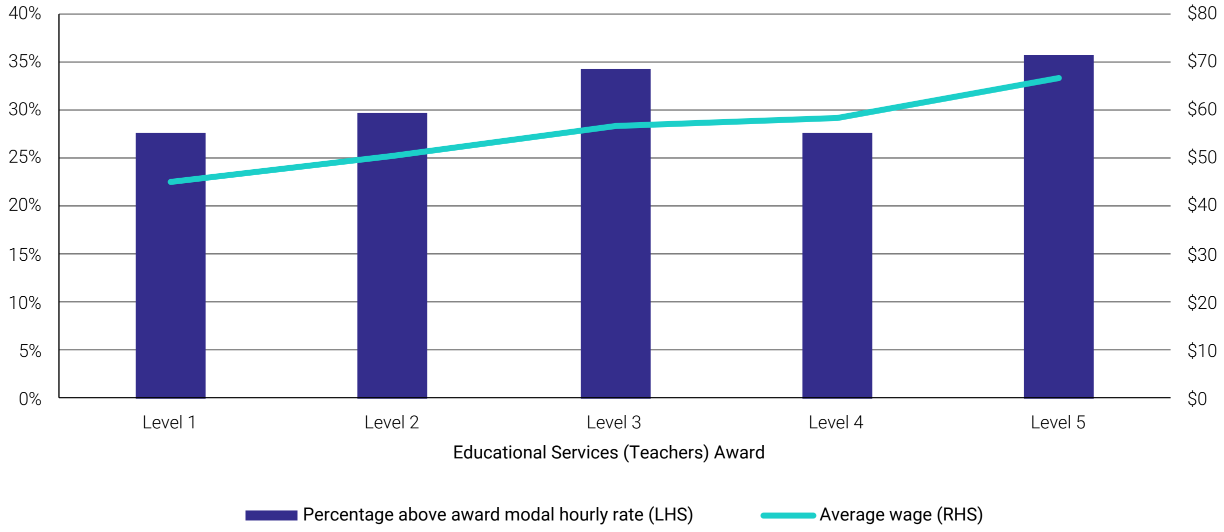
Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The income of early childhood teachers under the Educational Services (Teachers) Award reflects a trend of the lowest levels being paid a lower percentage above the award, while higher levels have higher average pay above the award rates (figure 4.4). However, in contrast to educators covered by the Childrens Services Award, all early childhood teachers are paid significantly above the Educational Services (Teachers) Award, highlighting the demand for qualified teachers.

151 See Australian Institute for Teaching and School Leadership, Guide to the Certification of Highly Accomplished and Lead Teachers Independent Schools Victoria, *Education and Care Services National Regulations*.

Figure 4.4: Average hourly wage and percentage paid to teachers above the award hourly rate at large providers of centre based day care, by Educational Services (Teachers) Award level, August 2023



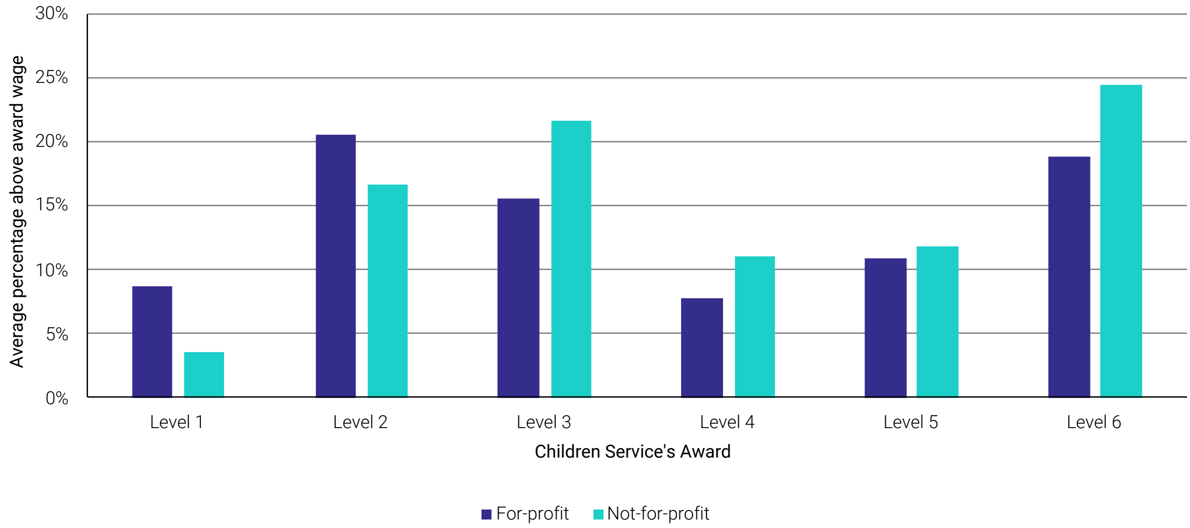
Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Qualified early childhood educators (that is, level 3 or higher) were typically paid higher rates by not-for-profit providers, regardless of level (figure 4.5). This is consistent with our September interim report,[152] which noted that not-for-profit providers invest savings from land into staff wages and labour costs. Typical educators, covered under level 3 of the Children's Services Award, were paid $35.48/hr on average at not-for-profit providers, compared to $33.69/hr at for-profit providers. Interestingly, for-profit providers paid underqualified educators a higher rate than not-for-profit providers, but it is unclear why this would be the case.

152 ACCC, Childcare Inquiry September interim report, p 12.

Figure 4.5: Average percentage paid to educators above the award hourly rate at large providers of centre based day care, by level and provider type for Children Service's Award, August 2023

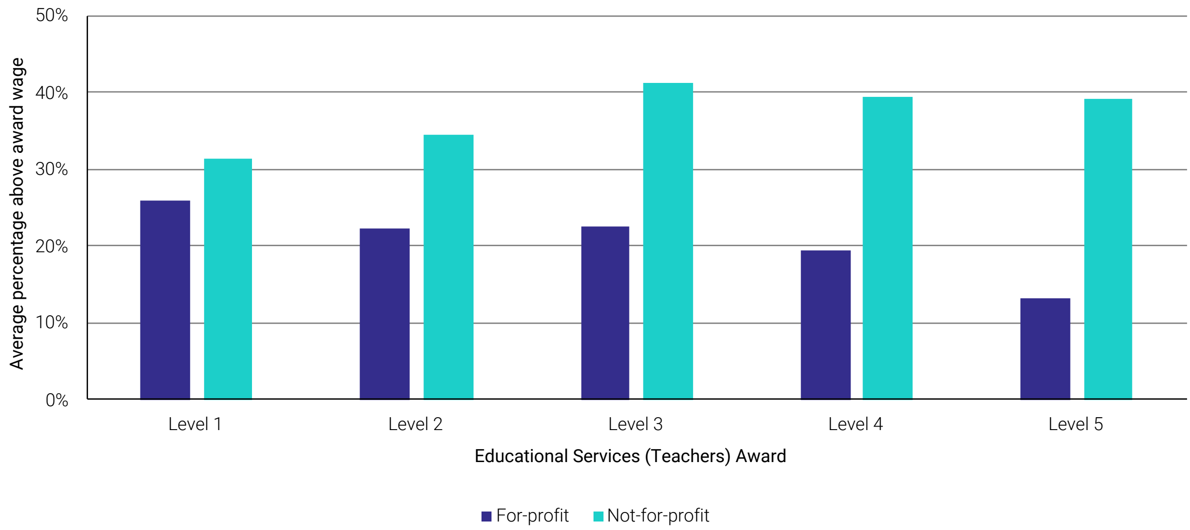


Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Not-for-profit providers paid early childhood teachers $54.78 per hour on average, while for-profit providers paid $48.00 per hour. Higher wages at not-for-profit providers were consistent across all classifications under the Educational Services (Teachers) Award, in line with qualified educators and demonstrating the value not-for-profit providers put on qualified staff (figure 4.6).

Figure 4.6: Average percentage paid to teachers above the award hourly rate at large providers of centre based day care, by level and provider type for Educational Services (Teachers) Award, August 2023



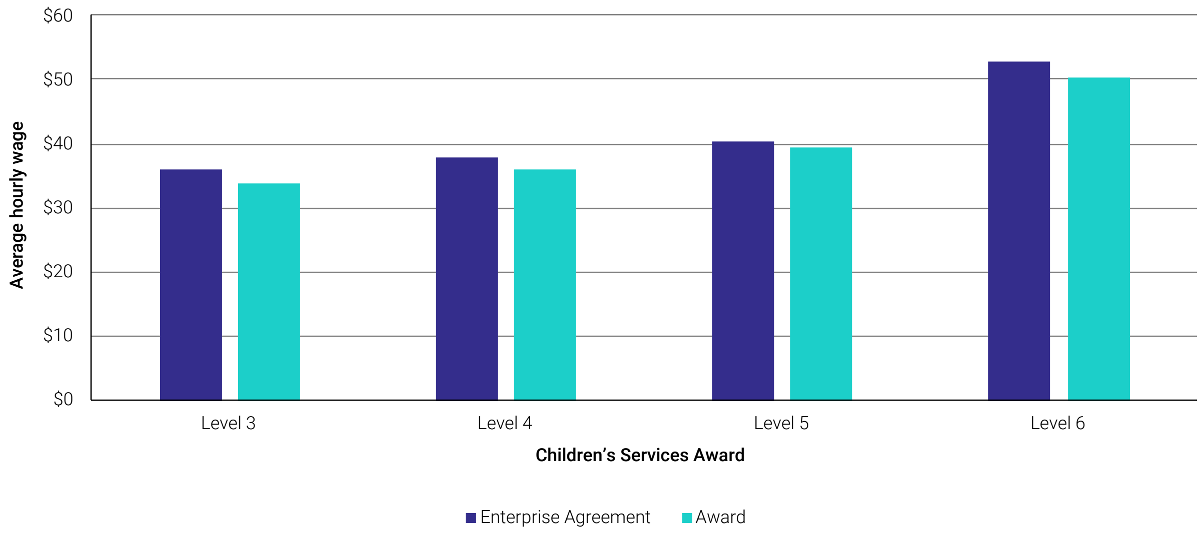
Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

4.2.3 Educators and teachers covered by an Enterprise Agreement are paid more than those on the award

On average, qualified educators at large centre based day cares covered by an enterprise agreement are paid more per hour than educators covered under the relevant Award (figure 4.7). This was consistent across all levels of qualified educator, although the largest difference was at level 3, where staff under an enterprise agreement were paid more than 6% higher than their counterparts without an enterprise agreement.

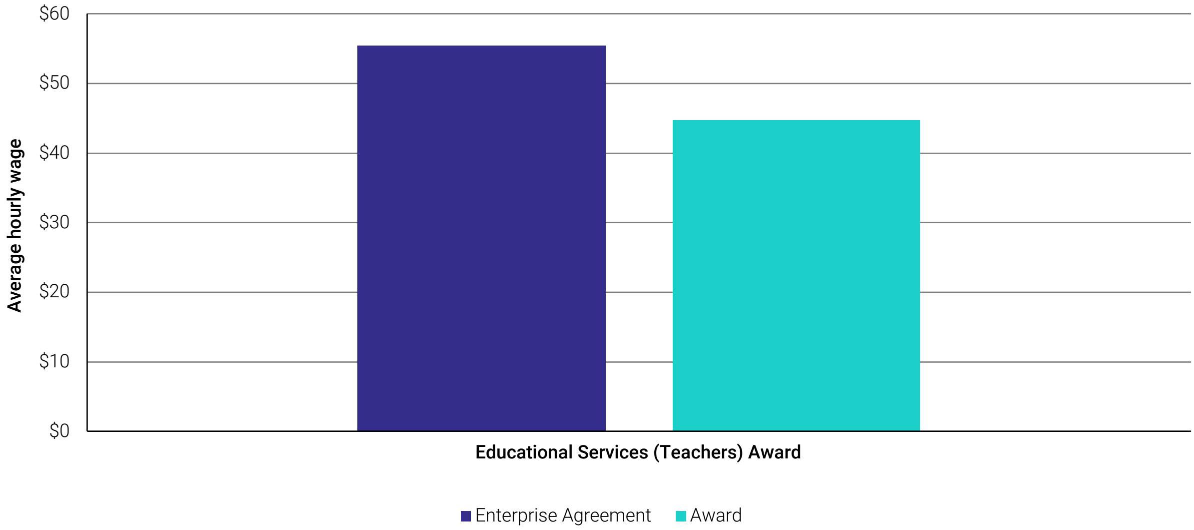
Figure 4.7: Average hourly wage of educators at large providers of centre based day care, by Enterprise Agreement and Children's Services Award, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Early childhood teachers were also better off on an enterprise agreement than those covered by the Educational Services (Teachers) Award (figure 4.8). On average, teachers were paid 14% more on an Enterprise Agreement than the Award per hour. Beyond material pay differences, the large discrepancy in pay between those covered by enterprise agreements or the Award is likely to be influenced by early childhood teachers belonging to different classifications.

Figure 4.8: Average hourly wage of teachers at large providers of centre based day care, by Enterprise Agreement and Educational Services (Teachers) Award, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

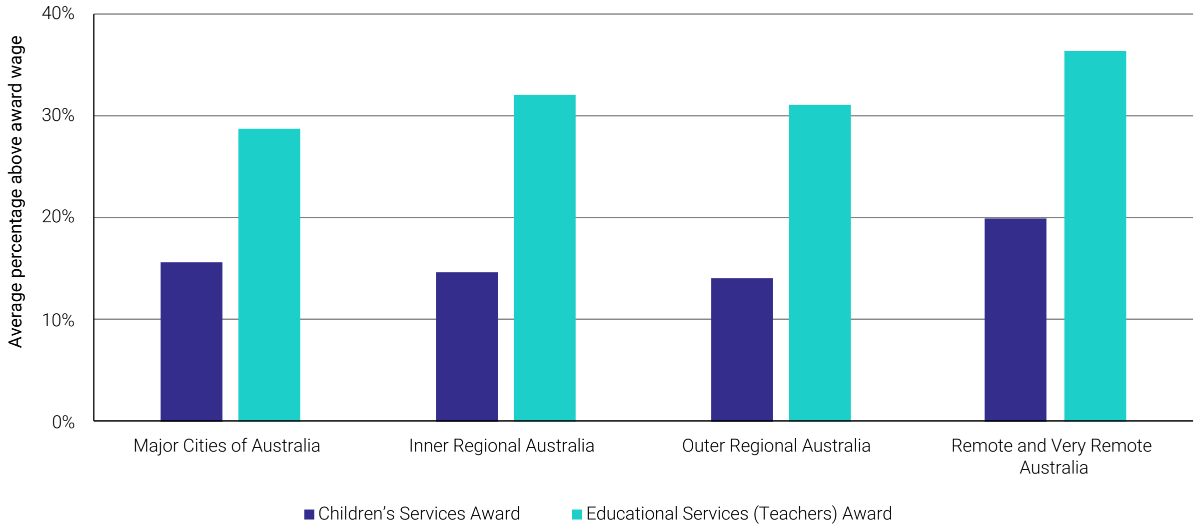
4.2.4 Providers are paying higher wages to educators and teachers in remote and very remote Australia in order to attract staff

Educators in Remote and Very Remote Australia are paid well above the Award (20%) by large centre based day care providers, which can be explained by services offering higher wages to attract educators and early childhood teachers into these areas where there is a shortage of staff. This trend is consistent with childcare services in Remote and Very Remote Australia having higher labour costs, as stated in the September interim report.[153] Educators in Major Cities and Inner and Outer Regional areas were paid between 14% and 15% above the average Award rates (figure 4.9). This trend indicates a higher availability of staff in more urbanised regions, noting there has been a shortage of staff reported across all of Australia.

The same trend can be seen for early childhood teachers who are paid a higher average percentage above the average award wage in Remote and Very Remote Australia (36%) when compared to Major Cities (29%) and Inner and Outer Regional Australia (32% and 31%, respectively) (figure 4.9). The increased wage can also be explained by teacher shortages in Remote and Very Remote areas.

153 ACCC, Childcare Inquiry September interim report, p 74.

Figure 4.9: Average percentage paid to educators and teachers above the award hourly rate at large providers of centre based day care, by remoteness area, August 2023

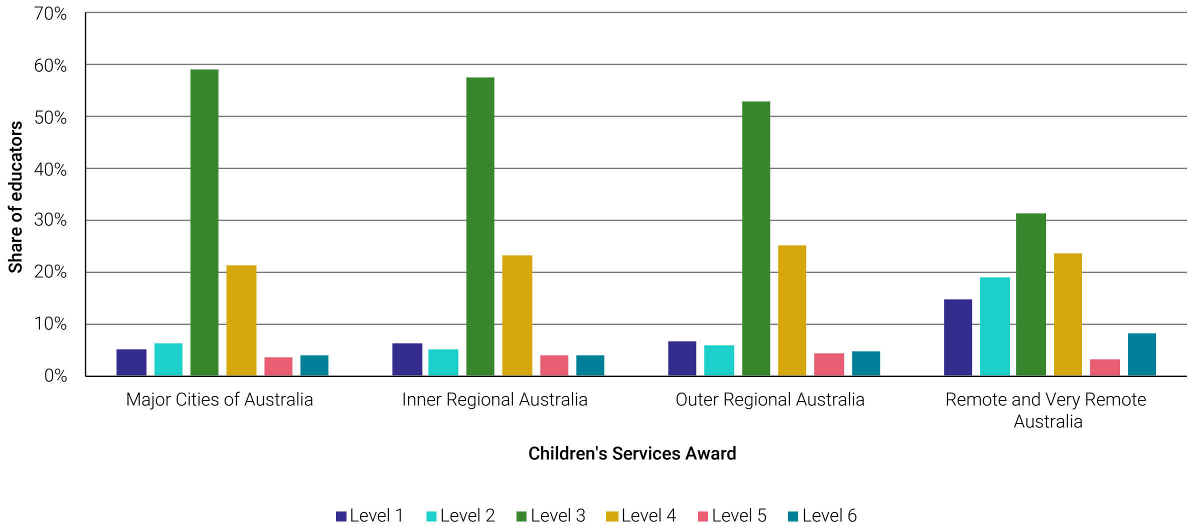


Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

For services in Remote and Very Remote Australia, unqualified educators covered by Children's Services Award level 1 and 2 are overrepresented when compared to Major Cities and Regional areas (figure 4.10). This highlights the staffing shortages in these areas and the ability to attract qualified staff, as levels 1 and 2 represent those who have not attained a qualification above Certificate III in Early Childhood Education and Care.

Figure 4.10: Share of educators at large providers of centre based day care, by Children's Services Award level and remoteness, August 2023

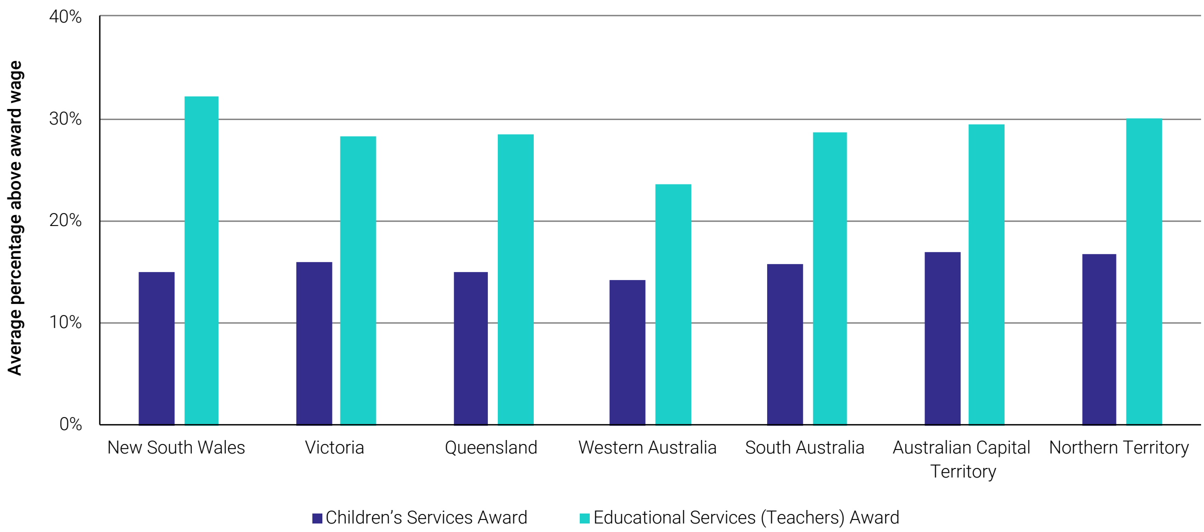


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

No trends for remoteness in early childhood teachers were observed, however, there are fewer teachers in absolute numbers in Remote and Very Remote areas. Analysis of staff waivers, including educator and teacher requirements in remote areas is discussed in more detail in chapter 5.

Providers were largely consistent in paying staff above the Award across states and territories for both Awards, other than early childhood teachers in Western Australia who, on average, received only 23% above the Educational Services (Teachers) Award, compared to 28–32% for teachers in other states and territories. For educators under the Childrens Service Award, the percentage paid above the Award was between 14–18% (figure 4.11).

Figure 4.11: Average percentage paid to educators and teachers above the award hourly rate at large providers of centre based day care, by state and territory, August 2023



Note: Tasmania is excluded due to small sample size. Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

4.2.5 Services with higher quality ratings paid educators and teachers higher wages

There is a correlation between providers of large centre based day care paying staff higher wages and achieving higher quality ratings under the National Quality Standard. This is consistent with the finding in the September interim report where it was noted that the highest expenses are incurred by services with a higher National Quality Standard rating.[154]

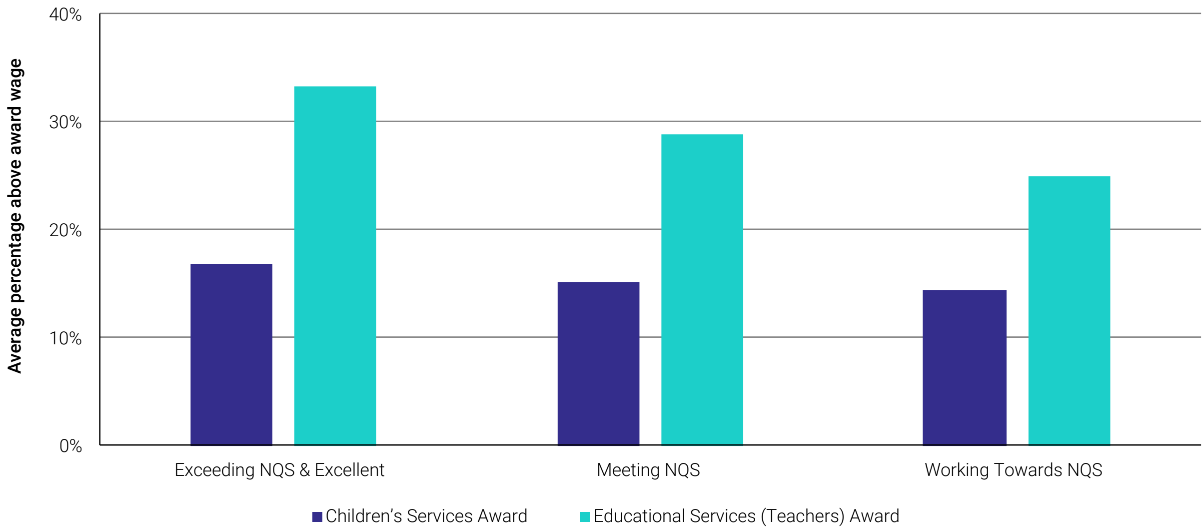
Providers with a higher quality rating under the National Quality Standard were paying early childhood teachers higher rates above the Educational Services (Teachers) Award. A significant variation (8%) exists between the providers that are rated at the highest and lowest quality standards and their average pay above the award. Providers with 'Exceeding National Quality Standard' and 'Excellent', on average, pay their teachers 33% above the Award. Conversely, providers that achieve the lower rating of 'Working Towards National Quality Standard' pay their teachers 25% above the award.

For educators, there is a weaker trend of paying higher wages above the Children Services Award with achieving a higher rating under the National Quality Standard. Providers that are rated 'Exceeding National Quality Standard' and 'Excellent' pay their educators, on average, 17% above the award. Conversely, providers that achieve the lower ratings of 'Meeting National Quality Standard' and

154 ACCC, Childcare Inquiry September interim report, pp 87–88.

'Working Towards National Quality Standard' pay their educators, on average 15% and 14% above the Award, respectively (figure 4.12).

Figure 4.12: Average percentage of educators and teachers paid above the award at large providers of centre based day care, by National Quality Standard rating, August 2023



Note: Award wages used for comparison were based on the most commonly reported hourly award rate at each level (or sub level) without considering any casual or overtime loadings.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

4.3 The relationship between land costs, childcare providers and childcare centre owners

Childcare providers have highlighted that rent has been one of their key drivers of increased costs in recent years. In our September interim report, we observed that between 2018–2022, land and related costs for childcare providers increased faster than Consumer Price Index.[155]

The following section examines some of the factors that could impact costs, such as the relationship between childcare centre owners and childcare providers, and how this affects land and related costs.

4.3.1 Centre based day care centres are seen as a reliable investment compared to other commercial property investments

As outlined in our September interim report, childcare properties are considered a safe investment, in contrast to other office and retail properties.[156] Low risk in childcare centre investment is driven by long lease terms with similarly long extension options, rent increases tied to Consumer Price Index with periodic market rent reviews, and growing government investment in the childcare sector. Affinity Education Group also notes in its submission that childcare centres are usually developed in residential zones, and operators are subject to land value inflation and the associated housing

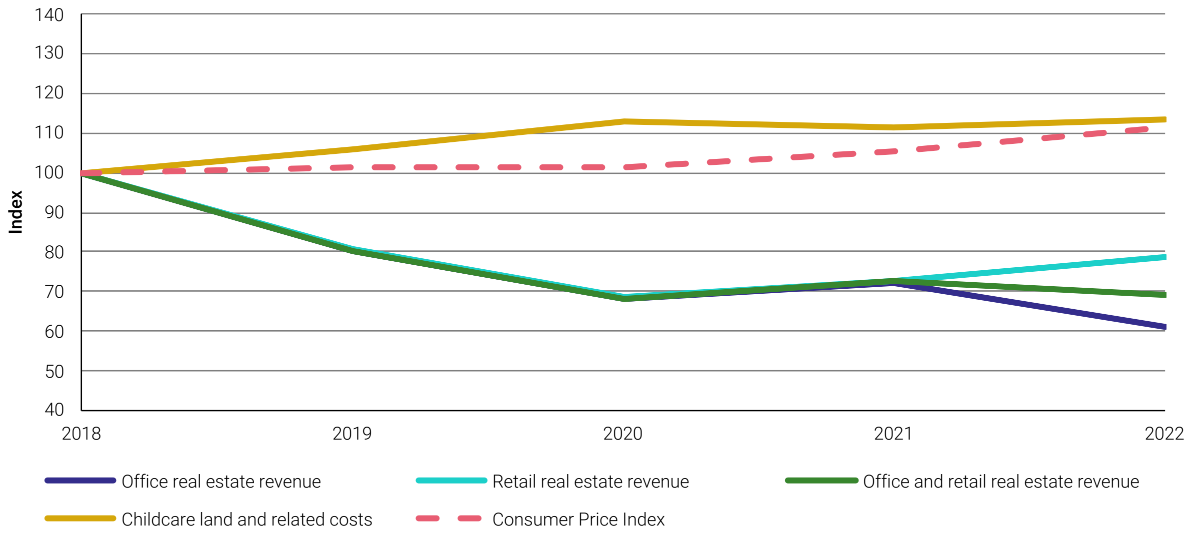
155 ACCC, Childcare Inquiry September interim report, p 51.

156 ACCC, Childcare Inquiry September interim report, p 153.

affordability challenges being experienced across Australia.[157] Increasing land values of residentially zoned childcare centres also increases the attractiveness of investment in this asset class.

Yearly rental increases and periodic market reviews, combined with increasing land values, has resulted in increased land costs for childcare providers since 2018, growing faster than Consumer Price Index (figure 4.13). In contrast, commercial office and retail property operators have generally experienced a decrease in their revenue over the same period.

Figure 4.13: Office and retail property revenue, land and related costs for childcare centres and consumer price index, 2018–22[158],[159]



Source: ACCC analysis of data obtained from childcare providers and IBISWorld Retail and Office Property Operators Industry Reports.

As outlined in the in the September interim report, there are a few large childcare property owners in the childcare sector, with large providers reporting that many of their centres are leased from Charter Hall Social Infrastructure Real Estate Investment Trust ('Charter Hall') and Arena Real Estate Investment Trust ('Arena').[160] More recently, Australian Unity has entered the market, with other real estate investment trusts announcing an intention to enter the market.[161] Other investors in the childcare sector have been reported to be high net-worth individuals.[162]

The major real estate investment trusts own hundreds of childcare centres between them; however, this still accounts for less than 10% of the total childcare centres in Australia.[163] This level of ownership is unlikely to allow the major real estate investment trusts to engage in price setting or cartel behaviours that affect the full market.

157 Submission 45, Affinity Education Group, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

158 IBISWorld, Retail Property Operators in Australia Nov 23, p 17.

159 IBISWorld, Office Property Operators in Australia Nov 23, p 18.

160 ACCC, Childcare Inquiry September Interim report, p 154.

161 Australian Unity, Australian Unity launches new Childcare Property Fund, Australian Unity website, 31 March 2022, accessed 30 October 2023; Federation Asset Management, Sentinel Childcare REIT, Federation website, accessed 30 October 2023.

162 M Neil, 'How everyday investors can tap into the growing childcare sector', *Morningstar*, 3 April 2023, accessed 13 November 2023; L Schlesinger, 'Childcare centres in demand at sold-out property auction', *Australian Financial Review*, 4 July 2023, accessed 13 November 2023.

163 Charter Hall, Charter Hall Social Infrastructure REIT (ASX:CQE), Charter Hall website, accessed 13 November 2023; Arena, Our portfolio, Arena website, accessed 13 November 2023; Australian Unity, Childcare Property Fund, Australian Unity website, accessed 13 November 2023.

4.3.2 Not many providers rent or lease sites from related entities, and we have not found evidence of profit shifting

One explanation for increasing land and related costs, proposed in submissions, is the shifting of potential profits away from a childcare provider towards a related entity that owns the childcare centre.[164] Two large providers reported renting or leasing childcare centres from related entities, representing 14% and 26% of their total services in each case. Given the small number of providers engaged in this practice, and relatively low proportion of services leased from related entities, it appears unlikely large centre based day care providers are engaging in profit shifting. However, it still may be occurring in some parts of the childcare sector.

To further this analysis, we also examined the public and reported owners of some of the large childcare providers, to check for common ownership across the major owners of childcare centre properties – Charter Hall and Arena. The Vanguard Group (US), Vanguard Investment Australia Ltd, and BlackRock Fund Advisers were shareholders in both Charter Hall and Arena, and held stakes in a few large providers (G8, Only About Children, Montessori). However, the percentage of the shareholding did not appear sufficient to give these private equity funds sufficient decision-making power to unduly influence property and land decisions (less than 10%). Additionally, we found no evidence of this behaviour in board documents collected through the ACCC's compulsory information collection process.

That said, the ACCC has only been able to collect a small and limited amount of information about some childcare providers. The increased activity by private equity groups in childcare property investments may warrant further and more detailed examination to ensure government funds are being directed towards the economic and social objectives intended.

4.3.3 Developers appear to be the driving force in greenfield centre development

Through the ACCC-hosted roundtables, providers outlined a view that land developers are driving the development of new centres, consistent with the low levels of centre ownership evident in the childcare sector. We saw multiple examples of developers or an intermediary group approaching providers before submitting a development application to engage in a long-term lease. Some providers did note that the greenfield process could start with the provider approaching developers with a potential opportunity, however, we did not see many examples of this through the documents we obtained from companies.

As outlined in the ACCC's September interim report, providers will assess their supply decisions, including whether to engage with developers, on a range of factors including demographics and competition.[165] One provider noted that childcare centre developers will typically assess locations according to similar criteria as centre owners, meaning developers consider female workforce participation, age demographics and socio-economic factors.

When undertaking development of a greenfield site, providers may engage with the process in 2 different ways. The most common is a turnkey greenfield development, under which a landowner will manage the development of the childcare centre, including centre fit-out before the childcare provider takes over final touches and operating the centres. However, in a smaller number of cases, providers may take a more active role in development, as far as submitting development applications for construction by a contracted company. This allows providers to develop more bespoke options that fit their interests, although this results in higher risk.

164 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

165 ACCC, Childcare Inquiry September interim report, pp 16, 101.

A more recent approach is for an incubator entity to start new childcare developments before selling these assets to a more established provider, once key occupancy thresholds are met. This reduces risk for the established provider when taking on a centre in a new area. In some instances, the incubator may be related to an existing provider, or operate separately.[166]

The time taken to develop a childcare centre from an initial approach between developer/owner and provider to opening the doors has been increasing. Providers have been noting that the process to get development approval has slowed, construction is taking longer and costing more which is increasing the risk in greenfield development. In documents obtained by the ACCC, one provider noted that the current environment has favoured well-capitalised developers, in comparison to smaller developers and opportunistic individuals who were less likely to take a development application to completion

4.4 Additional profit analysis

The ACCC undertook additional analysis using aggregated and de-identified tax records, to confirm our previous analysis on cost and profits of childcare providers.

We have used de-identified Business Income Tax records for financial years 2018–19 to 2020–21 to examine aggregate costs, revenue and profits for childcare entities, allowing for separate analysis of companies, trusts and partnerships.[167] Data was extracted from the Australian Bureau of Statistics' Business Longitudinal Analysis Data Environment (BLADE), taking a sample of entities identified as a childcare business. Distribution of profits was also examined to determine whether there are significant sections of the market that have low or excess margins.

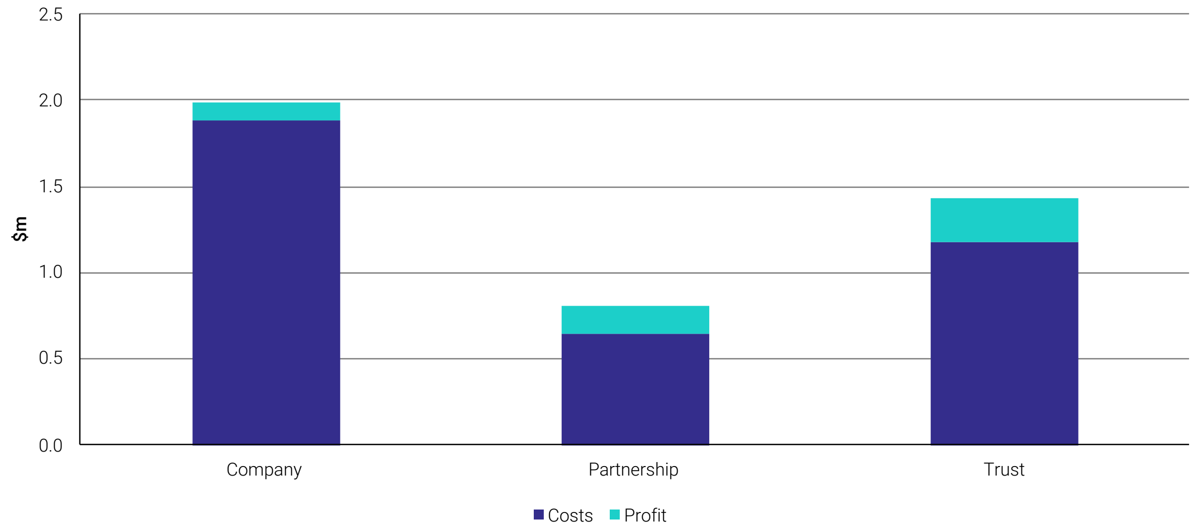
4.4.1 On average, profits do not appear excessive across the childcare sector

Analysis of the major expenses through Business Income Tax records shows that different childcare business types typically have similar cost revenue ratios. Across the different business structures, incorporated childcare businesses are operating with the largest turnover, averaging just under $2 million per year (figure 4.14), while smaller, less sophisticated operations which are typically run as partnerships averaged less than $1 million in revenue, indicating they are typically operated as single service operations.

166 Jo Roberts, 'Mayfield to acquire 14 centres and secure greenfield pipeline in deal with Genius Childcare', *The Sector*, 29 October 2021, accessed 13 November 2023; Jo Roberts, 'Nido Education stock market listing process kicks off with $99m book build', *The Sector*, 4 September 2023, accessed 13 November 2023; Grassroots Childcare, Grassroots Childcare, Grassroots Childcare website, n.d, accessed 13 November 2023.

167 A company is a separate legal entity with limited liability. A partnership is made up of 2 or more people who distribute income or losses. A trust is where a trustee (individual or company) holds the business for the benefit of others (the beneficiaries).

Figure 4.14: Average revenue and costs of childcare entities by business structure, 2020–21

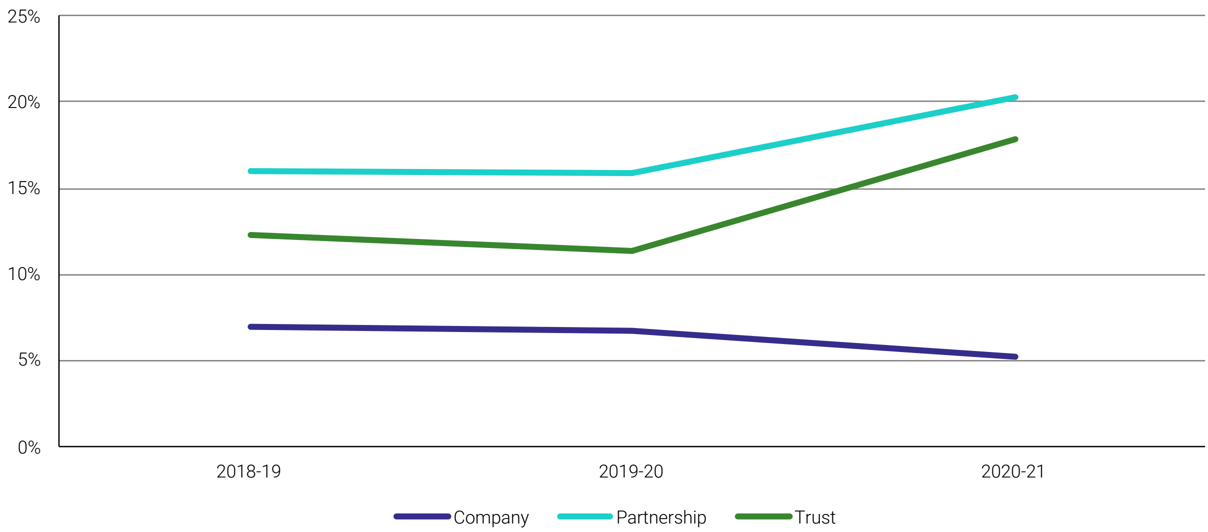


Note: Companies represent 55% of the sampled businesses. Partnerships represent 7% of the sampled businesses. Trusts represent 38% of the sampled businesses.

Source: Based on Australian Bureau of Statistics data.

Between 2018–19 and 2020–21, profit has been relatively stable across companies, while trusts and partnerships saw an uptick in 2020–21 (figure 4.15). This is despite a loss of enrolments and charged hours in 2020 and 2021 during the COVID pandemic; likely due to the range of viability supports and business continuity payments made by governments during this period.

Figure 4.15: Profit margin of childcare entities by business structure, 2018–19 to 2020–21



Note: Companies represent 55% of the sampled businesses. Partnerships represent 7% of the sampled businesses. Trusts represent 38% of the sampled businesses.

Source: Based on Australian Bureau of Statistics data.

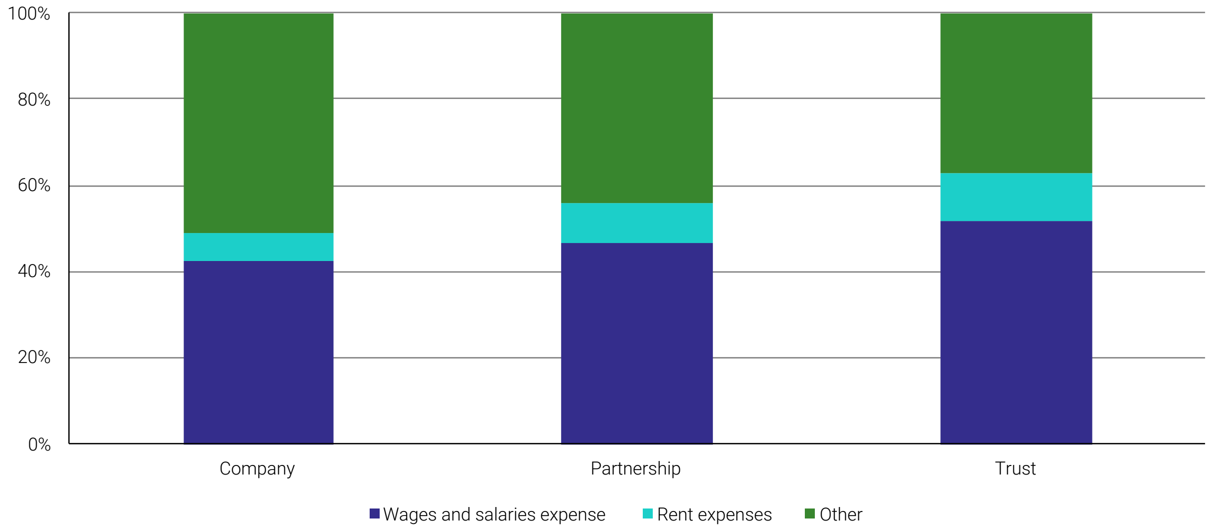
Trends here for childcare companies differ to previous analysis at section 3.1 of our September interim report due to differences in counting methodologies.[168] Data presented here represents the aggregate profit margin of the entire sector, while previously we reported the average profit

168 ACCC, Childcare Inquiry September interim report, p 125.

margin across sampled entities.[169] This indicates that the large companies with a greater impact on aggregated revenue and expenses operate on lower profit margins, consistent with other analysis presented in the September interim report.

Partnerships and trusts were spending more on wages and salaries than companies (figure 4.16). We expect this is due to companies investing more into capital, as larger entities may be more likely to expand their business. Proportions spent on wages and salaries was lower than what we reported in our September Interim Report, however, this is likely due to differences in the reported data, with superannuation, contracting and agencies' costs excluded from wages and salaries expenses for Business Income Tax purposes.[170]

Figure 4.16: Average costs of childcare entities by business structure and cost category, 2020–21



Note: Companies represent 85% of the sampled businesses. Partnerships represent 1% of the sampled businesses. Trusts represent 14% of the sampled businesses.

Source: Based on Australian Bureau of Statistics data.

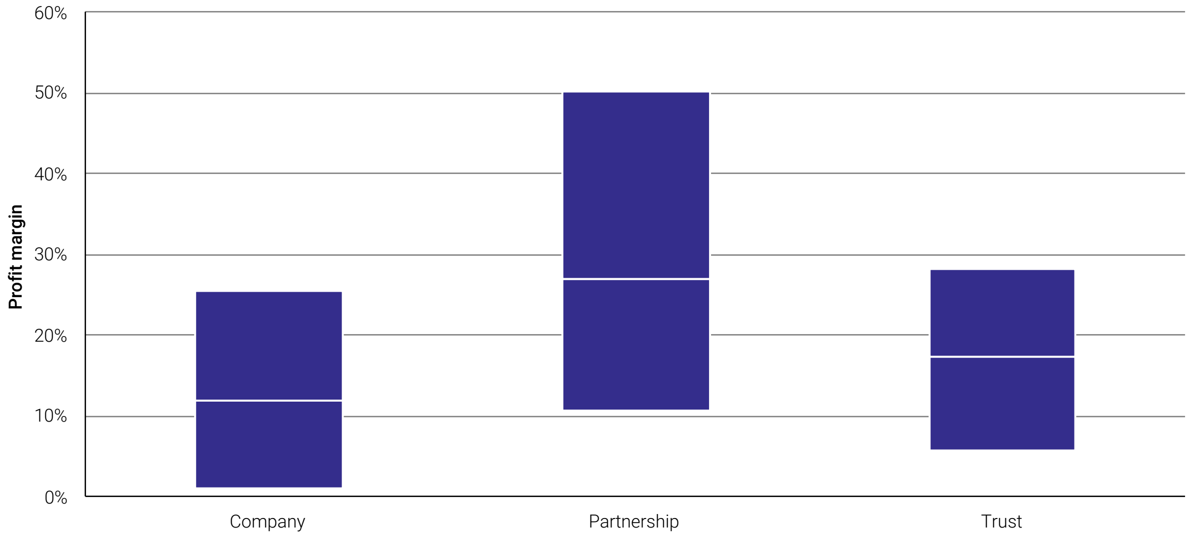
4.4.2 Almost 25% of childcare companies earn little to no profit, or generate a loss

While average margins were generally positive across the childcare sector, there was significant variance, which indicates there may be viability issues for some providers (figure 4.17). The bottom quartile of childcare companies had profit margins of less than 1%, which is unsustainable for an ongoing business. Partnerships and trusts were operating at higher margins, and there is less indication that a significant number of these entities were operating at very low or negative margins. There were some indications of partnerships earning significant profits, with 25% of these childcare businesses having profit margins over 50%. Where these partnership businesses have high profits this likely reflects owners' wages, where owners work at the childcare centre and take part of the profit as their effective wage.

169 Profit calculation represents aggregate sector revenue minus aggregate sector costs. Data extracted from BLADE was in aggregate form for companies, partnerships and trusts. The ACCC were unable to disaggregate this data to align the methodology of profit margin calculation with the September interim report.

170 ACCC, Childcare Inquiry September interim report, pp 43, 124–125.

Figure 4.17: Distribution of profit margins of childcare entities by business structure, 2020–21



Note: Each box represents the interquartile range (the middle 50% of services). The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. Companies represent 58% of the sampled businesses. Partnerships represent 7% of the sampled businesses. Trusts represent 36% if the sampled businesses.

Source: Based on Australian Bureau of Statistics data.

5. Competition and market dynamics

5.1 Key points

The following points relate to **centre based day care** and draw on analysis from the June and September interim reports:

- Childcare is a human service with highly emotive and personal considerations and values influencing parents' and guardians' decisions. While we can generalise about households' decision-making process in relation to childcare, in practice decisions will be strongly influenced by personal circumstances.
- Affordability, location and availability are important threshold considerations that parents and guardians use to narrow down the centre based day care services they will consider and compare.
- Parents and guardians access childcare services locally. The median distance parents and guardians travel to a centre based day care service in Major Cities is around 2 kilometres.
- Quality is critical when parents and guardians compare centre based day care services, and they consider a wide range of quality indicators. The quality of educators and educator-child relationships is particularly important to parents and guardians.
- The price of childcare plays an important and influential role in parents' and guardians' decision making in determining *how* much childcare to use.
  - Parents and guardians will consider prevailing market prices in their local and will make a decision on whether to use childcare, and how much.
- However, despite how important the overall cost of childcare is to parents and guardians, childcare users are generally less sensitive to small variations in price compared to many other markets.
- Once parents and guardians have determined how much childcare to use, price plays a less influential role and providers compete more on quality to attract and retain children and families. Parents and guardians look for a service priced around the prevailing market price, and which delivers value for money taking into account quality. As a result, there is little variance of prices within local markets, although prices can have high variance between markets.
- Centre based day care providers' supply decisions are usually influenced by expectations of viability. This influences both where a provider chooses to operate, as well as how to supply their services (including at what price).
- Staffing shortages, and associated high labour costs, are having a significant impact on providers' ability to supply childcare services. These impacts are particularly pronounced in regional and remote areas.

- In some cases, providers choose to support the continued operation of loss-making services for reasons of social responsibility. This is often in areas of low socio-economic advantage, or areas with a high proportion of children from First Nations households.

The following points relate to **outside school hours care** and draw on analysis from the June and September interim reports:

- Children generally attend the outside school hours care associated with their school. As such, demand for outside school hours care is primarily price driven, and parents decide between using the service or not using it.
- Providers compete through tender processes for the right to operate a service.
  - This encourages providers to compete on both price and quality. License agreements limit providers' ability to increase fees over the term of a contract, and the need to recontract may encourage ongoing competitive pricing.
- While price variation among outside school hours care services in a local area is still relatively low, it is more significant than for centre based day care. This likely reflects that parents and guardians have limited or no choice of service, and that providers compete on price.

The following points relate to new analysis contained in this chapter:

- Regional and remote households with children under the age of 2 face the greatest challenges accessing centre based day care.
  - In Inner Regional Australia, there are more than 3 times the number of waitlist places held by children aged under 2 years than there are places offered.
  - More limited availability of childcare places for younger children is consistent with providers restricting places for this age group, due to the high costs associated with providing care to children below the age of 3 (driven by higher educator-to-child ratios).
  - There is lower supply of childcare services in areas of less advantage.
- Staffing constraints are most acute in less advantaged and remote areas, and 1 in 4 centre based day care services are unable to meet requirements to provide access to the required number of early childhood teachers.
  - The use of waivers from educator qualification and early childhood teacher requirements has increased over time. This is more pronounced in remote areas and areas of less advantage.
  - For-profit services are more likely to hold waivers than not-for-profit services.
- First Nations households may face additional barriers to accessing formal childcare, including challenges finding services that are available and able to provide culturally appropriate/safe care, as well navigating the system more generally (including qualifying for and applying for the Child Care Subsidy).
- Households with children with disability and/or complex needs face greater challenges accessing childcare. Inadequate levels of funding and difficulties accessing funding for children with disability and/or complex needs means providers may be unable to provide care for some children, or incur significant additional costs to do so.

- Culturally and linguistically diverse households also face additional challenges accessing formal childcare, including eligibility issues in relation to the Child Care Subsidy, communication and language barriers, and difficulties finding culturally inclusive services.
- Family day care is an important alternative childcare choice for culturally and linguistically diverse households but the availability of these services is reducing.

This chapter builds on the competition and market analysis presented in our June and September interim reports, by exploring the extent to which particular cohorts of households and children face greater challenges accessing childcare.

The chapter is structured as follows:

- Section 5.1 outlines key points.
- Section 5.2 looks at staffing constraints in different areas, particularly the use of waivers that permit services to operate with less staff or less qualified staff than required under regulations.
- Section 5.3 explores the availability of childcare by age group, by comparing waitlist places and offered places for large providers of centre based day care.
- Section 5.4 looks at availability of childcare for diverse cohorts, including First Nations children, households in remote areas and areas of less advantage, households from a culturally and linguistically diverse background and children with complex needs.

This chapter focuses primarily on centre based day care and outside school hours care due to both data availability and the significant proportion of childcare services these services account for.

5.2 Waiver usage shows that staffing constraints are more acute in less advantaged and remote areas

Waivers under the National Quality Framework are issued by the state regulatory authority in situations where a service provider is unable to meet legislated requirements in relation to a service's physical environment or staffing arrangements, either on a permanent or temporary basis.

This section examines the prominence of waiver usage by services, by remoteness, level of socio-economic advantage and disadvantage and state in 2022. Our analysis looks at the proportion of services that had each category of waiver, with a particular focus on waivers relating to staffing arrangements as these provide an important insight into where staffing constraints are most prevalent.

5.2.1 Types of waivers under the National Quality Framework

Waivers are issued for centre based day care, outside school hours care and family day care. There are 2 types of waivers that state regulatory authorities can issue:

- Temporary waivers that may be granted for up to 12 months. Most staffing waivers fall into this category.
- Service waivers may be granted if a provider is unable to meet requirements for an ongoing period. There is no specific expiry date for a service waiver. Most physical environment waivers fall into this category.

Our analysis looks at the 5 most common active waivers held by centre based day care and outside school hours care services. The National Guidelines for these requirements are summarised below.

- **Early childhood teacher requirements**: Centre based services must engage or have access to an early childhood teacher based on the number of children in attendance at the service. Outside school hours care services do not generally need to meet this requirement.
- **General educator qualifications**: Services must meet minimum educator qualification requirements for working with children of preschool age and under in centre based day care services. For outside school hours care, there is no national requirement for general educator qualification, though jurisdictions do dictate qualifications.
- **Outdoor space requirements**: The service premises must have at least 7 square metres of unencumbered outdoor space for each child being educated and cared for at the service.
- **Indoor space requirements**: There must be at least 3.25 square metres of unencumbered indoor space for each child being educated and cared for at a centre based or family day care service.
- **Educator-to-child ratios**: Services must meet minimum educator-to-child ratios where educators directly work with children. These ratios depend on the age of children and the jurisdictional requirements.

There are also other categories of waivers, such as waivers for ventilation and natural light, supervision requirements for educators and premises designed to facilitate supervision. However, we found the use of these waivers by services was comparatively far less common.

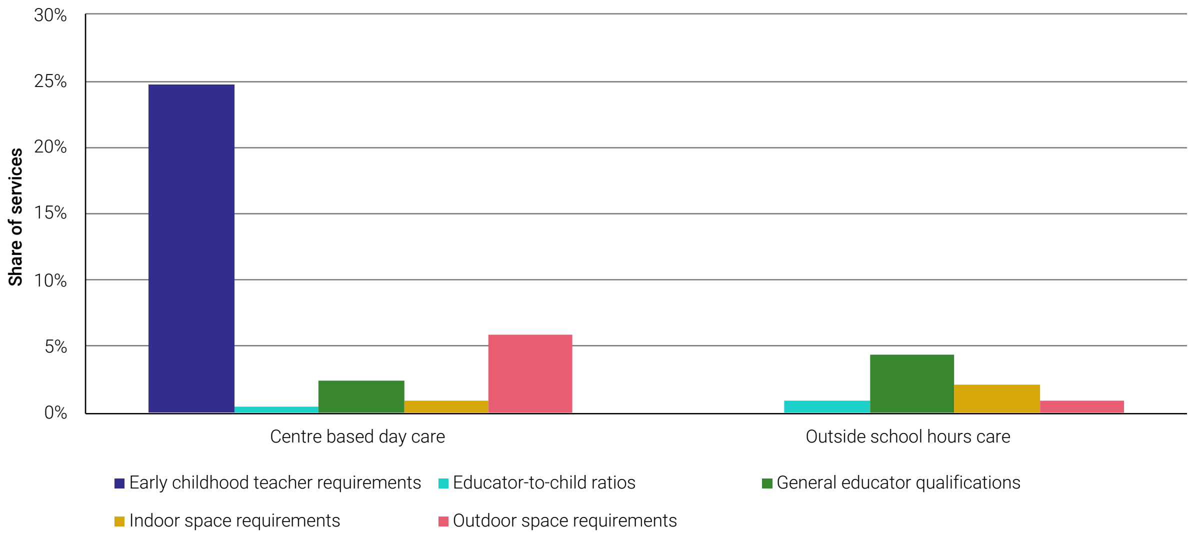
5.2.2 Centre based day care services were more likely to hold a waiver than outside school hours care services, and this is increasing over time

Centre based day care services were far more likely to hold a waiver than outside school hours care services during the period of our analysis. As shown in figure 5.1, this is primarily due to the heavy use of waivers for early childhood teacher requirements (25% of services), followed by waivers for outdoor space requirements (6% of services). Notably, more services held waivers for general educator qualifications than for educator-to-child ratios. This may indicate that services see value in using unqualified staff rather than seeking a ratio waiver, potentially due to protecting their service offering, or due to a relatively higher burden in seeking an educator-to-child ratio waiver.

Outside school hours care services are less likely to use early childhood teacher requirement waivers, as early childhood teachers are only required when caring for children under school age. The small number of services with early childhood teacher requirement waivers likely relate to vacation care services or dual function services.

It appears that for outside school hours care services, the primary reasons for needing a waiver are educator shortages and lack of indoor space (figure 5.1). Outside school hours care services used a higher proportion of waivers for general educator qualifications at 4%, compared to 2% for centre based day care services. Waivers for indoor space requirements are more prominent for outside school hours care services, likely because centre based day care services are more likely to be purpose-built whereas outside school hours care services are usually delivered on school sites that were built without consideration of National Quality Framework requirements.

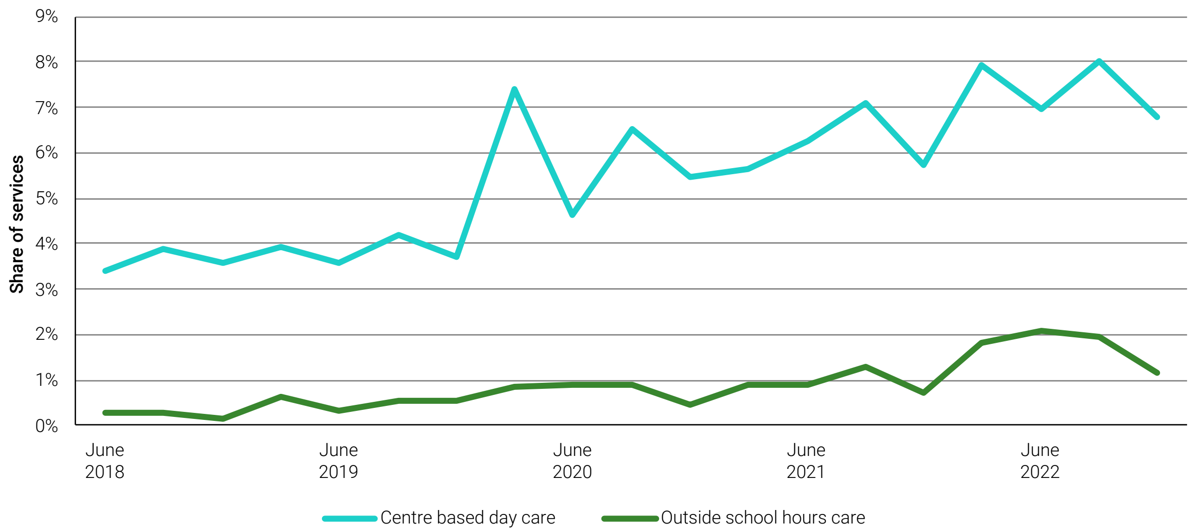
Figure 5.1: Share of services holding a waiver, by service type and waiver category, 2022



Source: ACCC analysis of ACECQA data.

The trend of waivers held is significantly greater for centre based day care when compared to outside school hours care, increasing by 122% and 111% respectively from 2019 to 2022 (figure 5.2). This may indicate centre based day care as a sector is increasingly struggling to meet regulations.

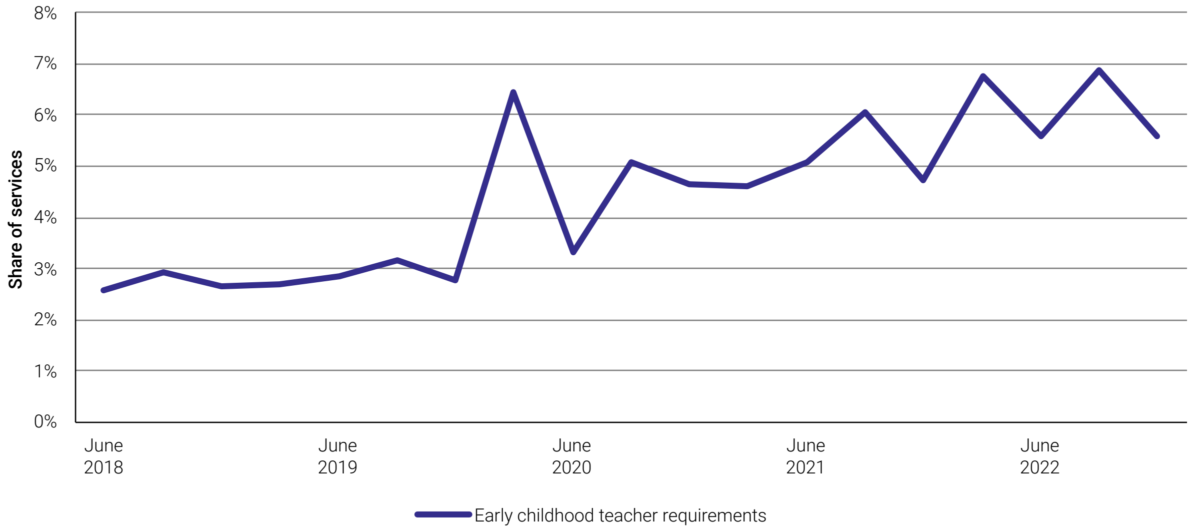
Figure 5.2: Share of services holding a waiver, by service type, 2018 to 2022



Source: ACCC analysis of ACECQA data.

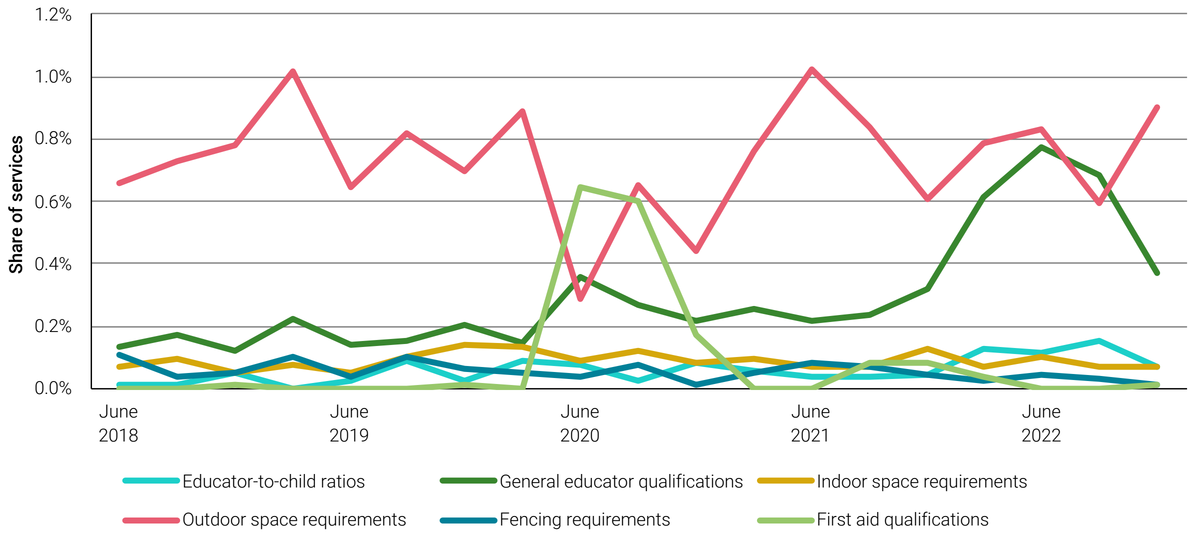
Early childhood teacher requirements have been the driving force in the increased use of waivers by centre based day care services (figure 5.3). This coincides with the COVID-19 pandemic, and reflects reports that the pandemic exacerbated existing staff shortages. General educator qualification waivers also began to rise in late 2021, although the number of these waivers has been decreasing since mid-2022 (figure 5.4).

Figure 5.3: Share of centre based day care services holding a waiver for early childhood teacher requirements, 2018 to 2022



Source: ACCC analysis of ACECQA data.

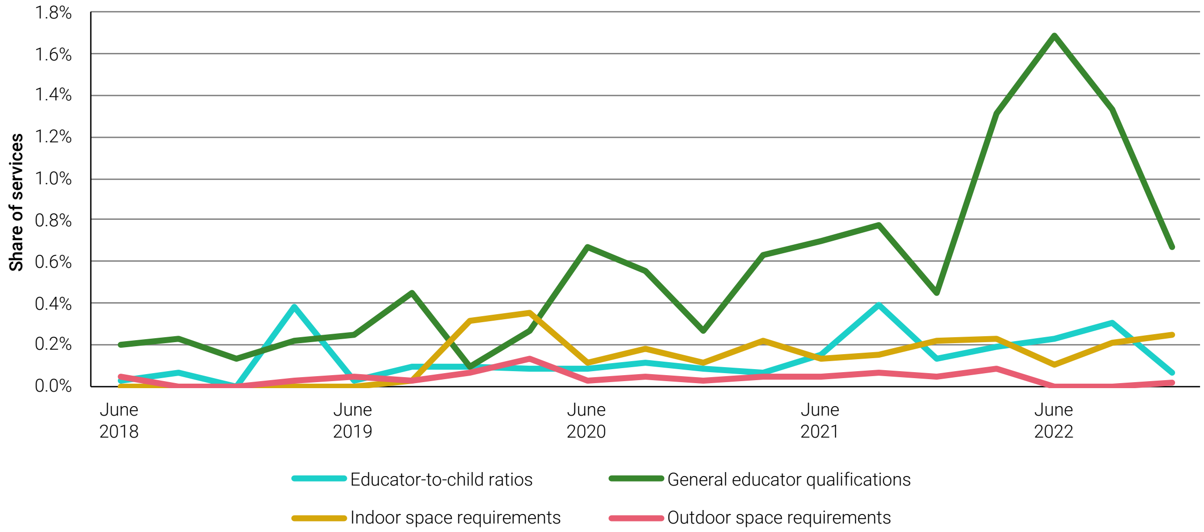
Figure 5.4: Share of centre based day care services holding a waiver, by waiver category, 2018 to 2022



Source: ACCC analysis of ACECQA data.

Likewise, waivers for general educator qualifications have been driving the increase in waivers held by outside school hours services over time (figure 5.5).

Figure 5.5: Share of outside school hours care services holding a waiver, by waiver category, 2018 to 2022



Source: ACCC analysis of ACECQA data.

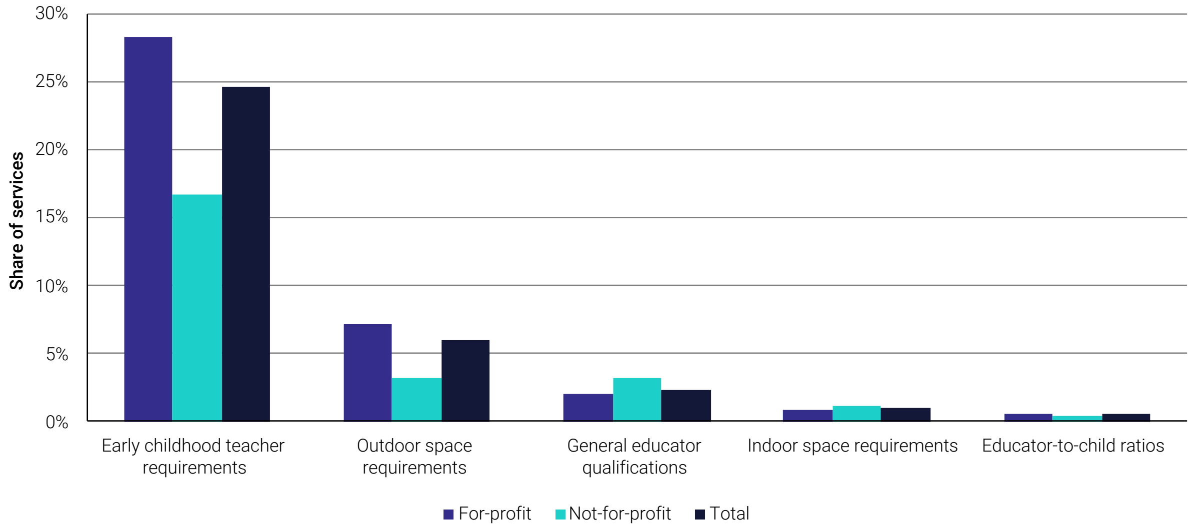
5.2.3 More for-profit services tended to hold waivers compared to not-for-profit services

In 2022, the most common waiver for centre based day care services was to waive early childhood teacher requirements. A greater proportion of for-profit services appeared to experience difficulty in meeting their early childhood teacher requirements, where 28% of for-profit services held a waiver compared to 17% of not-for-profit services. The second most common waiver for centre based day care services was for outdoor space requirements. Again, for-profit services (7%) were more likely to hold a waiver than not-for-profit services (3%), which may relate to the fact that for-profit providers are more likely to operate in metropolitan areas.[171]

Unlike other waivers, there was a greater share of not-for-profit services that had a waiver for general educator qualifications at 3%, compared to 2% of for-profit services. This could be due to the locations where not-for-profit services operate, such as in remote areas (see analysis at section 5.2.4).

171 ACCC, Childcare Inquiry June interim report, June 2023, pp 45–46.

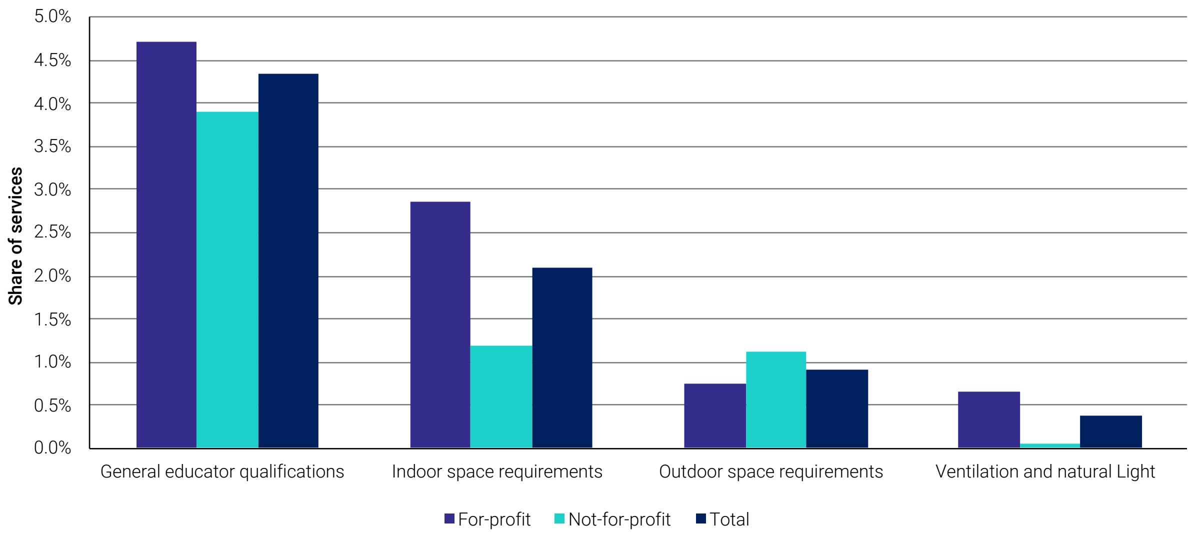
Figure 5.6: Share of centre based day care services holding a waiver, by waiver category and provider type, 2022



Source: ACCC analysis of ACECQA data.

We observe a similar trend for outside school hours care services, where generally more for-profit services held waivers (figure 5.7).

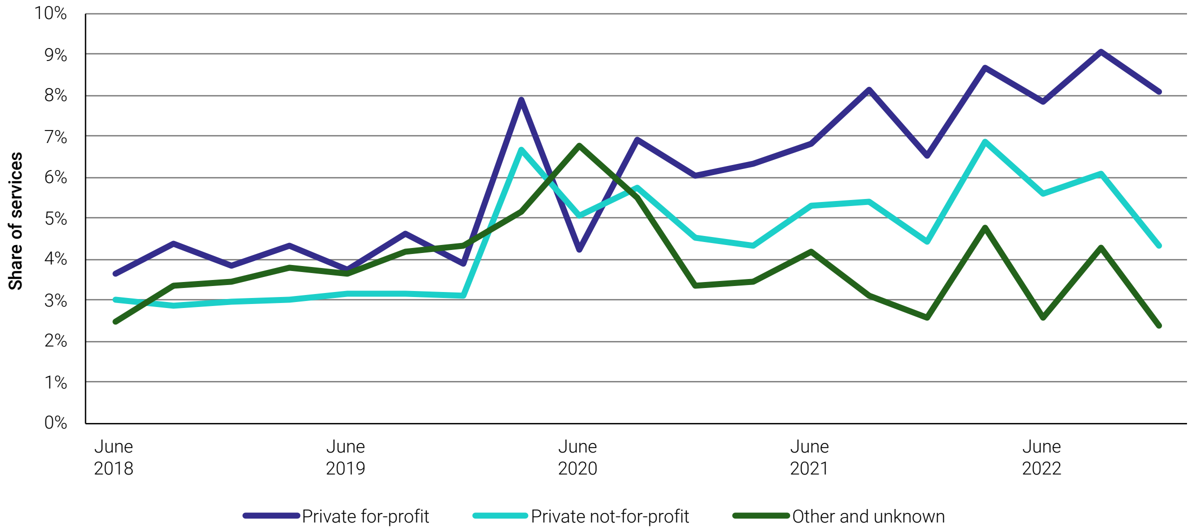
Figure 5.7: Share of outside school hours care services holding a waiver, by waiver category and provider type, 2022



Source: ACCC analysis of ACECQA data.

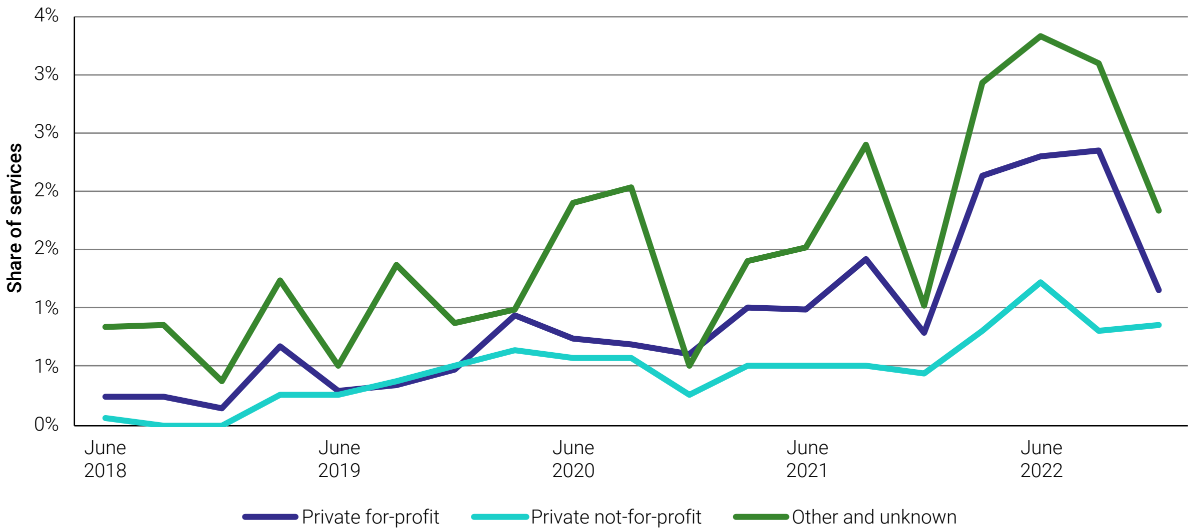
Both for-profit centre based day care services and outside school hours care services have been driving the trend of increasing number of waivers held by services over the last 5 years (figure 5.8 and figure 5.9). Again, this is particularly the case with for-profit centre based day care services, reflecting the impact of waivers held by for-profit services in the overall increasing trend of waivers held by centre based day care services (figure 5.2 in section 5.2.2).

Figure 5.8: Share of centre based day care services holding a waiver, by provider type, 2018 to 2022



Source: ACCC analysis of ACECQA data.

Figure 5.9: Share of outside school hours care services holding a waiver, by provider type, 2018 to 2022



Source: ACCC analysis of ACECQA data.

5.2.4 Greater staffing constraints in regional and remote areas

There are a higher proportion of staffing waivers for centre based day care in regional and remote areas

A higher proportion of services in regional and remote areas of Australia use staffing waivers, highlighting staffing shortages in these areas (figure 5.10). We observe staffing waivers were more common for services across regional and remote areas, whereas in Major Cities the issue of sufficient space tends to be more prominent.

The use of staffing waivers in remote and regional areas likely indicates that it is more difficult to attract qualified teachers and educators for services in these areas. Given the greater prevalence of not-for-profit childcare centres operating in Remote and Very Remote Australia, this may explain why a greater share of not-for-profit services had general educator qualification waivers relative to for-profit services (figure 5.6).

Increased waiver usage in regional and remote areas was noted by participants at our educator roundtable discussion.[172] Similar observations were made at our First Nations roundtable discussion, with participants noting that the number of services in remote areas operating under staffing waivers suggests there are significant issues with workforce availability in these areas especially.[173] Some of the challenges faced by providers in these areas and the impact on First Nations children and communities are set out in box 5.1 below. During outreach, one provider in a Very Remote area of Western Australia mentioned that changes in waiver length from 12 months to 6 or 3 months was exacerbating pressures on providers (both financially, as well as time and resources required for re-application).

Box 5.1: Dealing with workforce shortages and pressures is key in all areas of childcare provision and is particularly pronounced for First Nations children and communities

The ACCC's First Nations roundtables highlighted a staffing crisis that many childcare providers are having to deal with, with the sustainability of the childcare workforce being a major challenge. The availability and cost of staffing is especially problematic for small services in remote areas.

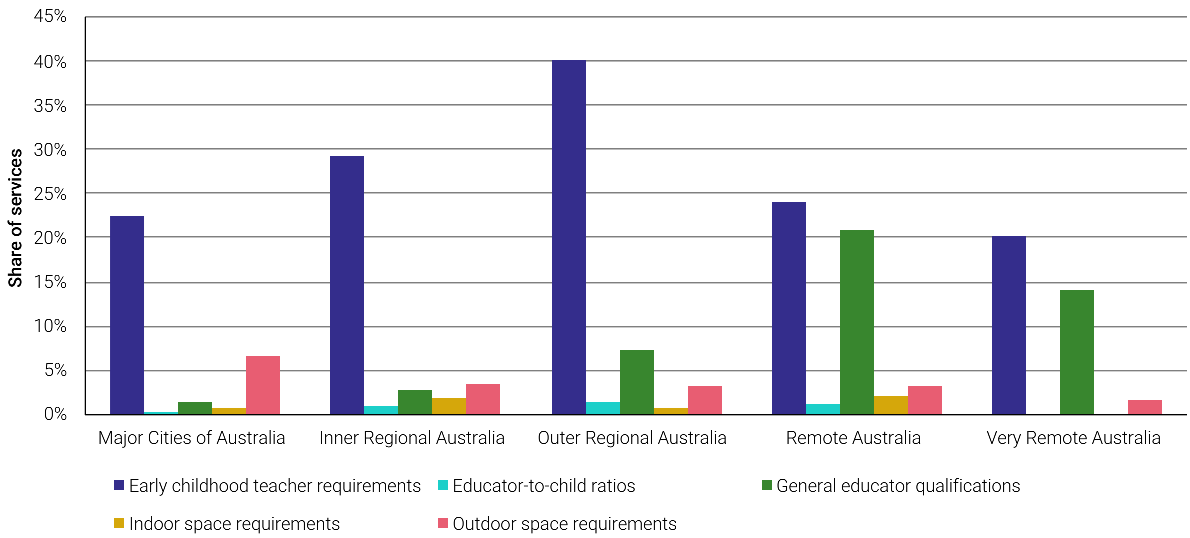
Providers are managing staff who feel stretched by heavy workloads and dealing with the increased presence of trauma in both educators and children, as well as balancing important cultural commitments. Many educators are uncomfortable taking time off for matters of cultural significance, such as Sorry Business, or when facing burnout, because of the added burden it places on their colleagues. This is taking place in an environment of severe workforce shortages, putting pressure on providers to employ less qualified and less experienced educators to ensure that childcare services continue to operate. As a result, First Nations children in remote areas are often being placed into the care of workers with the least qualifications and experience.

The National Regulations have some transitional provisions that reduce early childhood teacher access requirements for services in Remote and Very Remote Australia, or to meet access requirements virtually, which also explains why there is higher use of early teacher requirement waivers in Outer Regional Australia in comparison. The transitional arrangement ends for most states and territories on 31 December 2024, although it ended in Queensland on 31 December 2021.

172 ACCC, Childcare Inquiry childcare educators roundtable summary, 11 August 2023, p 3.

173 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 7.

Figure 5.10: Share of centre based day care services holding a waiver, by remoteness and waiver category, 2022



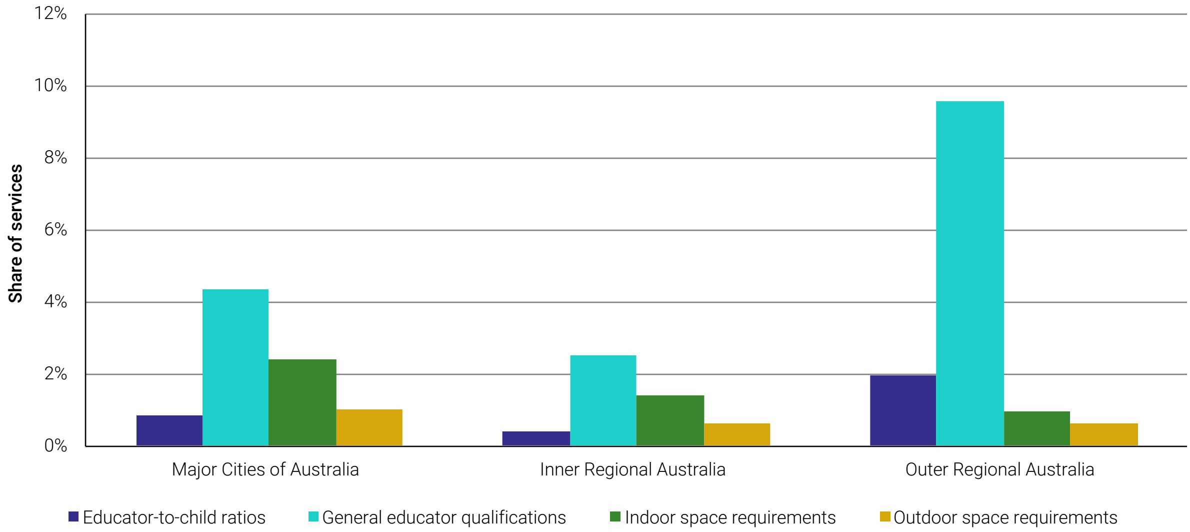
Source: ACCC analysis of ACECQA data.

It is worth noting that waiver usage in Remote and Very Remote Australia may under-represent staffing and physical environment issues. While most services are subject to the National Quality Framework, former Budget Based Funded services may be exempt for historical and policy reasons, often because they are or have been unlikely to meet the National Quality Standards. This is usually because they provide a much needed service to otherwise unserved communities and a high proportion of these services are located in Remote and Very Remote Australia.

Staffing shortages for outside school hours care services are most acute in Outer Regional Australia

Staffing shortages appeared to be most acute in Outer Regional Australia for outside school hours care services, evidenced by higher proportions of services with waivers for general educator qualifications (10%) (figure 5.11). We were unable to include waivers for outside school hours care services in Remote and Very Remote Australia due to data limitations.

Figure 5.11: Share of outside school hours care services holding a waiver, by remoteness and waiver category, 2022



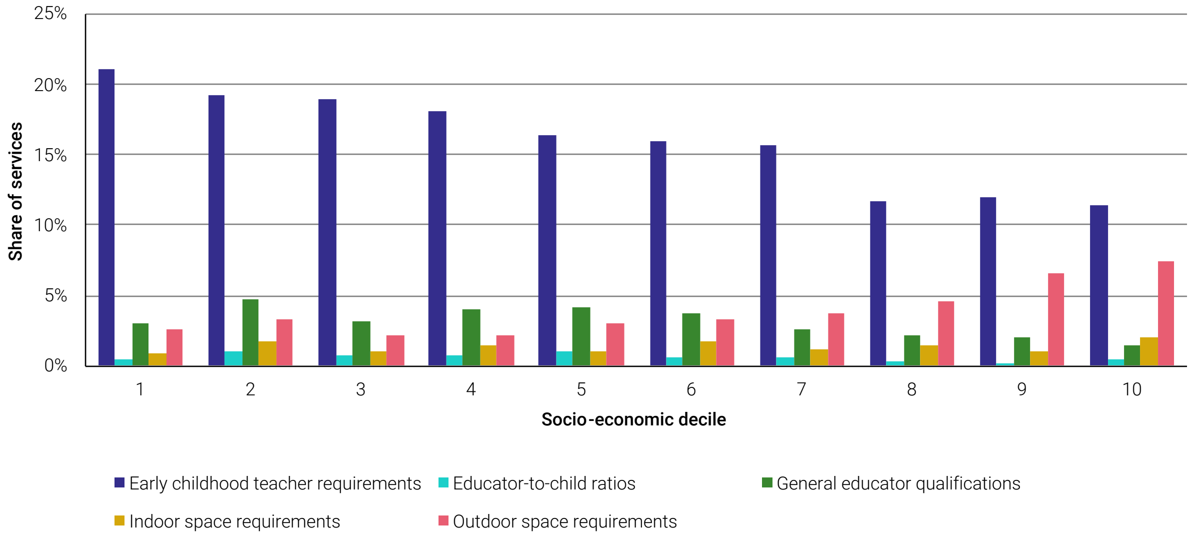
Source: ACCC analysis of ACECQA data.

5.2.5 Staffing constraints are more acute in lower socio-economic areas, while limits on space are more common in higher socio-economic areas

Staffing constraints appear greater in lower socio-economic areas, as evidenced by a higher use of staffing related waivers (figure 5.12). Our analysis found a higher prevalence of services who held waivers for early childhood teacher requirements at lower socio-economic deciles, with the proportion of services holding this type of waiver decreasing as socio-economic deciles increase. We also see a lower proportion of services with waivers for general educator qualifications in the most advantaged areas. This may reflect greater supply of educators in areas of higher socio-economic advantage, possibly due to services in these areas having a greater capacity to attract or retain staff as they are able to charge more. However, we did not see increased pay when examining the award wages for early childhood teachers in areas of higher socio-economic advantage (chapter 4).

Outside of staffing qualification requirements, services in advantaged areas are more likely to require waivers for outdoor space requirements (figure 5.12). From socio-economic deciles 7 to 10 onwards, there is a greater and increasing proportion of services with waivers for outdoor space requirements relative to waivers for general educator qualifications. This is likely due to correlation with population density and areas of higher socio-economic advantage, where space becomes more limited and there are higher land costs.

Figure 5.12: Share of centre based day care services holding a waiver, by socio-economic decile and waiver category, 2022

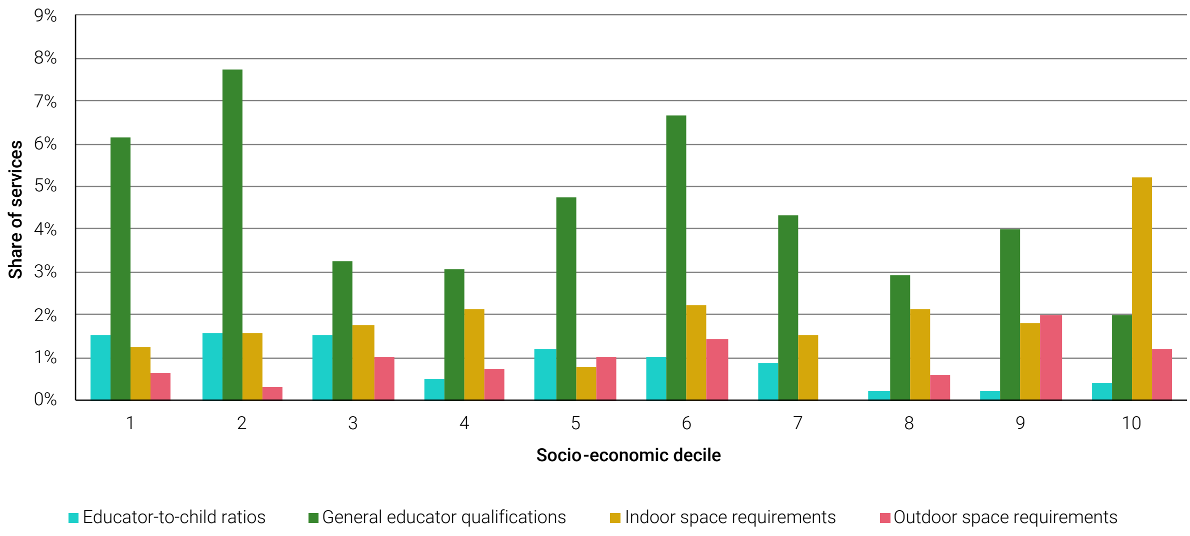


Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of ACECQA data.

Outside school hours care services similarly experience greater staffing pressures in lower socio-economic areas, while in higher socio-economic areas there appears to be greater limits on indoor space (figure 5.13).

Figure 5.13: Share of outside school hours care services holding a waiver, by socio-economic decile and waiver category, 2022



Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of ACECQA data.

5.2.6 Staffing constraints common across all states

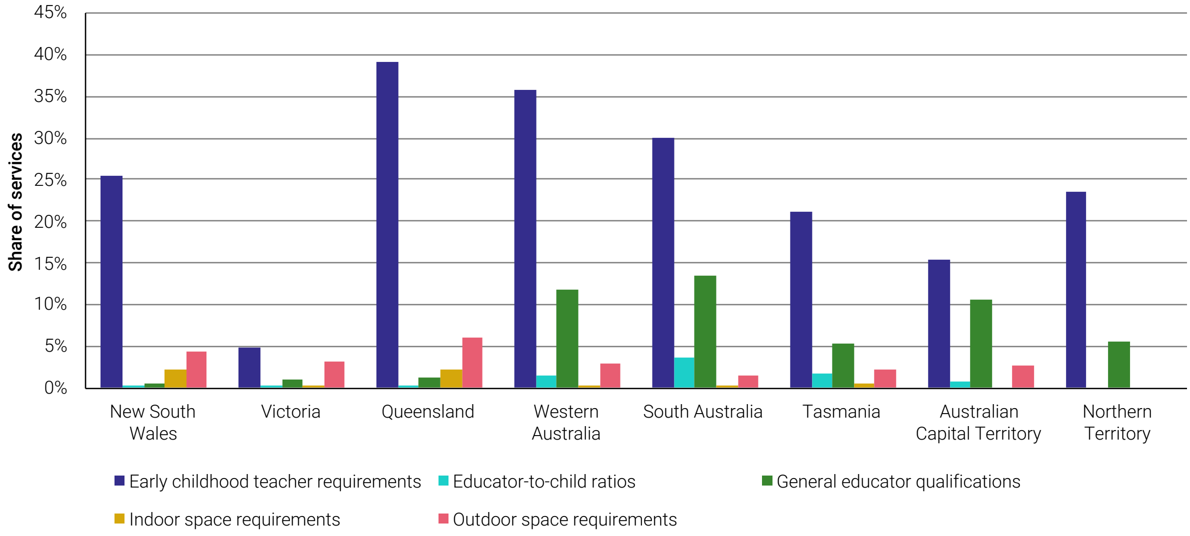
All states are subject to National Regulations in order to meet regulatory requirements for running their service, even though state and territory legislation may dictate slight differences in educator-to-child ratios. The states vary greatly in the proportion of centre based day care services that had waivers in 2022, although early childhood teacher and general educator requirement waivers generally remained the most prevalent.

Queensland had the greatest proportion of centre based day care services with waivers for early childhood teacher requirements at 39%, followed by Western Australia (36%) and South Australia (30%) (figure 5.14). Queensland was one of the few states to end some of the transitional provisions of the National Regulations early (Regulation 239A and 242), which may have contributed to an increased use in waivers.

Compared with other states, Victoria had a small proportion of services with waivers overall, with the highest being 5% of services holding waivers for early childhood teacher requirements. It is not entirely clear why this may be the case, as in 2021, Victoria also ended a transitional provision that allowed teachers working towards their qualifications to be counted as part of the National Regulations. Without a corresponding increase in the number of qualified early childhood teachers at the same time the transitional provision ended, it would be expected that the ceasing of the transitional provision would increase the number of waivers required. The Victorian State Government did introduce a new scheme to attract interstate early childhood teachers to their state,[174] however, this did not align with a reduction in waivers.

Interestingly, the proportion of services in each state with a waiver for general educator qualifications or educator-to-child ratios does not align with differences in the required educator-to-child ratios, with only a small amount of variance in ratios between jurisdictions. This likely indicates other factors are driving waiver requests, such as varying levels of educator shortages in each state.

Figure 5.14: Share of centre based day care services holding a waiver, by state or territory and waiver category, 2022

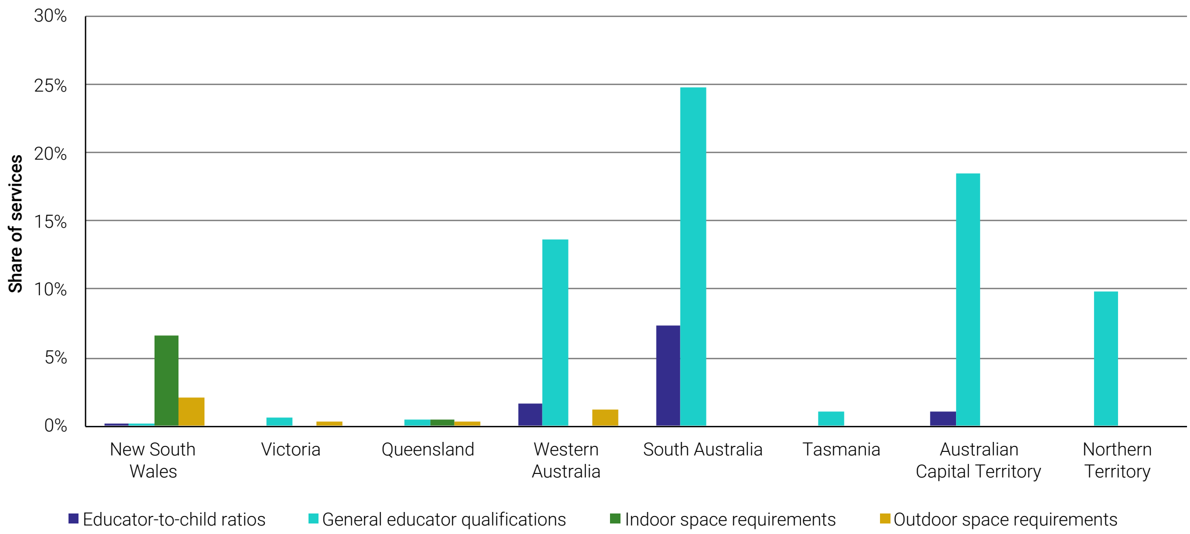


Source: ACCC analysis of ACECQA data.

174 State of Victoria (Department of Education and Training), Teacher Incentive Guidelines, 19 July 2022, accessed 22 November 2023.

Outside school hours care services in South Australia (25%) and Australian Capital Territory (19%) appeared to experience particularly acute shortages of educators in 2022, reflected in their use of general educator qualification waivers (figure 5.15). Services in Western Australia (14%) and Northern Territory (10%) also appeared to experience a shortage of educators, albeit to a lesser extent. All types of waivers for outside school hours care services in the rest of the states (Victoria, Queensland, Tasmania and New South Wales) were very low, except in New South Wales where the only significant waiver category was for indoor space requirements (7%).

Figure 5.15: Share of outside school hours care services holding a waiver, by state or territory and waiver category, 2022



Source: ACCC analysis of ACECQA data.

5.2.7 Supply of outside school hours care is also impacted by staffing constraints, as well as other regulatory burdens

In our provider roundtable discussion, providers of outside school hours care also raised the issue of staffing shortages constraining their supply of services. Participants noted this was particularly challenging in remote areas, where difficulties finding staff (particularly for part-time roles) meant services may not be viable and would need to close.[175] The same point was also raised in our First Nations roundtable discussion, where participants indicated attracting skilled staff on relatively low wages was difficult generally, but was a particular challenge for outside school hours care services that need to employ qualified staff for only 3 hours a day.[176]

In addition to staffing constraints, outside school hours care services have told us that they face additional barriers which impact their ability to supply services. Providers at our roundtable discussion noted that slow regulatory processes quickly become bottlenecks for services, which can result in temporary closures. The example was given of a school requiring a service to temporarily use an alternative space (such as a school library) for a week. The service would be unable to operate in the alternative space without regulatory approval, which could take several months, so parents would instead be required to find alternative care for that period.[177]

175 ACCC, Childcare Inquiry childcare provider roundtable summary,15 September 2023, p 4.

176 ACCC, Childcare Inquiry First Nations roundtable summary (in person) 8 September 2023, p 8.

177 ACCC, Childcare Inquiry childcare provider roundtable summary, 15 September 2023, p 5.

At our roundtable discussions, providers of outside school hours care also expressed frustration with discrepancies in regulations that govern schools and regulations that govern childcare. Inconsistencies between the 2 mean that a classroom deemed appropriate for children during school hours may be considered a non-compliant space for the operation of outside school hours care after 3pm.[178] Furthermore, providers noted that because schools are not established with outside school hours care services in mind, the sector lacks appropriate facilities, space and infrastructure for its operations.[179] Some of these challenges are set out in box 5.2.

Box 5.2: Current tendering processes for outside school hours care can be problematic

In a roundtable discussion, childcare providers raised concerns about the contracting arrangements between schools and outside school hours care services. It was suggested that it is problematic having school committees operating as landlords and managing contracts, as they are not trained in appropriate governance and probity processes. There can also be an unfair power balance between the schools and the outside school hours care provider.

One roundtable attendee described a situation where a school advised a provider at short notice that their site needed to shut for maintenance over the school holidays, but they were also notified that they must keep paying rent during this time. Another attendee described a situation where a school told a provider to fund capital expenditure on a building that was the school's responsibility under the contract. When the provider objected, the school threatened to open the service up for tender if they did not agree to the expenditure.

Roundtable attendees suggested that state school systems could have specialist procurement and contract management functions and/or that national guidelines could be developed to promote transparency and consistency in the management of contracts and relationships.

5.3 Regional and remote households with children under the age of 2 face greater challenges accessing centre based day care

In our June and September interim reports, we discussed the factors that parents and guardians consider when making decisions about childcare. While price and quality are often important considerations, we observed that these are only relevant to the extent that there are multiple services available. Since availability is a threshold consideration, lack of available places in a local area may mean some households have a limited choice of services or no option to use formal childcare at all.[180]

In this section, we report on information received that highlights the extent to which centre based day care is available for different age groups. This includes our parents and guardians survey, roundtable discussions, submissions, and data provided compulsorily by large providers of centre based day care.

178 ACCC, Childcare Inquiry childcare provider roundtable summary, 15 September 2023, pp 4–5.

179 ACCC, Childcare Inquiry childcare provider roundtable summary, 15 September 2023, p 4.

180 ACCC, Childcare Inquiry September interim report, September 2023, p 93.

5.3.1 Waitlist places and offered places as indicators of availability

To better understand availability of childcare to different age cohorts, this section relies on waitlist and enrolment data provided to the ACCC by large providers of centre based day care. Comparing waitlist places with offered places provides an insight into the extent to which different cohorts may face relatively greater availability challenges, with a higher proportion of waitlist places to offered places suggesting more limited availability.

Specifically, this section considers waitlist places and offered places as indicators of relative demand and supply, where:

- waitlist places refers to the number of places held by a child on waitlists of large providers of centre based day care as at 11 August 2023
- offered places refers to the number of places large providers of centre based day care made available for enrolment as at 11 August 2023.

However, while comparing waitlist places and offered places provides one measure of availability across cohorts and markets, it is not a perfect measure of relative demand and supply, because:

- On the demand side:
  - children may be on multiple waitlists, so waitlist places do not necessarily equate to numbers of unique children needing care and are likely to overstate actual demand. As one respondent to our parents and guardians survey stated, '[w]e ended up putting our name down on the waitlist for as many [services] as possible to increase our chances of securing a spot'
  - children may be on a waitlist or multiple waitlists before they actually require a place, representing future demand but not current demand
  - children may remain on the waitlist for a service when they no longer need a place because they have received one elsewhere, or their care needs have otherwise changed. For example, one large provider of centre based day care noted a need to contact households on the waitlist to filter out those no longer needing care.
- On the supply side, a significant proportion of large providers appear to have reported offered places as approved places (that is, the maximum number of places their service is approved to operate at), when we know that in many cases services actually offer a lesser number of places than they are approved for (for example, due to staffing constraints resulting in soft capping, as discussed in the September report[181]). As such, we expect that 'offered places' in this section may overestimate the actual number of places available for enrolment.

As such, the existence of waitlists does not necessarily indicate unmet demand, and the relative number of waitlist places to places offered may not be an accurate measure of actual unmet demand.

We expect that the proportion of waitlist places to offered places is most likely to overstate unmet demand for children under the age of 2, due to a higher propensity for this age group to be on multiple waitlists and/or on a waitlist for a future place. This is because parents and guardians commonly utilise waitlists in anticipation of returning to the workforce after a period of parental leave (often one year).

181 ACCC, Childcare Inquiry September interim report, p 104.

5.3.2 Most waitlist places are held by children under the age of 2

Among large providers of centre based day care, the majority of offered places are to children over the age of 3 and the majority of waitlist places are held by children under the age of 2

As shown in figure 5.16, children aged 0 to 2 account for largest number of places held by children on waitlists of large providers of centre based day care. This age group is also the only age group where the number of places held by children on waitlists exceeds the number of places offered. As noted above, the high proportion of waitlist places to offered places for children under 2 may be somewhat overinflated due to this age group being more likely to be on multiple waiting lists and more likely to be seeking a place in the future. However, it is still indicative of a high level of demand relative to supply for these places.

Consistent with this, we have heard from both providers and parents and guardians that there are insufficient childcare places for very young children to meet demand. For example, one medium provider of centre based day care told us that many of their services are not operating at full occupancy overall, but have waiting lists for babies and toddlers. Respondents to the ACCC's English language parents and guardians survey referred to lengthy waitlists and challenges securing places for children under the age of 2:

> 'In order to find an available childcare centre, I cast a wide net and contacted a very large amount of providers across the region in which I live (30+). Most centres had waiting lists of over a year or more for children under 2 years. I was very lucky to find a centre. Out of the 30+ centres I contacted I was successful at one. It was clear from my discussions with different centres that the most in demand spots are for children under 2 years. I think the current ratios for children under 2 are a good thing, but it naturally drives a supply / demand issue as there are less spots available when compared with older children.'

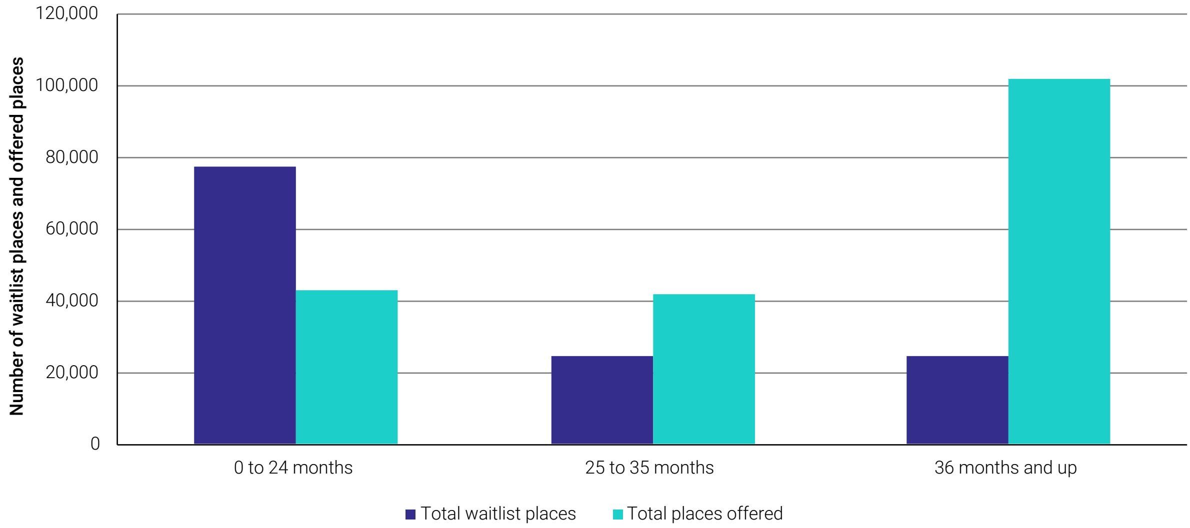
> 'There is a huge shortage of childcare places for children less than 2 years old. I wait listed before my child was born and am still waiting. The wait lists are hundreds deep.'

> 'Despite having my daughter on waitlists since before her birth, there is unlikely to be any vacancies for her to commence childcare until she is 2 years old at any provider (either formal or informal services). Affordability is not an issue for me, but availability is a real problem in my community.'

> 'The situation with waitlists is untenable. I was told by one place, when looking for a spot in the 0–2 group, that the wait was 14 months. If I had wanted to return to work when my child was 4 months old, I would have had to have placed her name on a waitlist pre-conception.'

> 'I started looking for care because of the lengthy wait lists before I gave birth to my child. I put my name on the wait list & once my child was born, I updated child's information on the wait list. I have visited many centres, put my name on many wait lists. I check in regularly if they have ANY days, not just my preferred. I have looked into different centres & family daycare.'

Figure 5.16: Number of waitlist places and offered places for large centre based day care providers, by age group, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Figure 5.16 also shows that children over the age of 3 account for the majority of offered places from large providers of centre based day care. This age group has the lowest proportion of waitlist places relative to offered places, with the number of places offered more than 4 times the number of waitlist places held by the same age group – a significantly higher proportion than for both other age groups. The relatively greater proportion of offered places to waitlist places held by this age group reflects both the lower costs associated with caring for older children, as well as a reduction in demand for this cohort who have the option to switch to standalone preschool or Kindergarten.

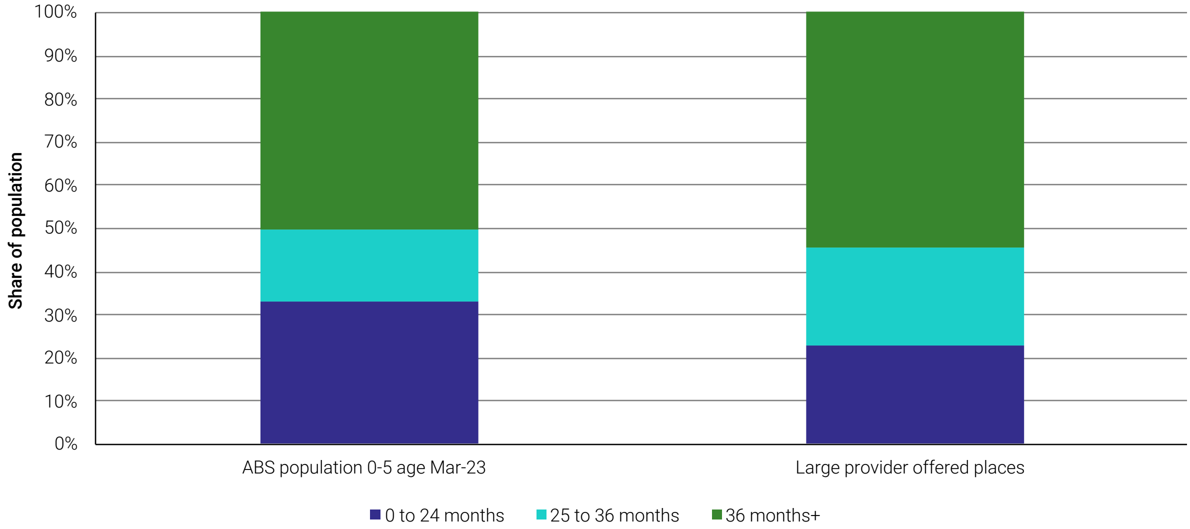
Providers of all sizes have indicated to us that they face challenges filling places for children over the age of 3, due to a preference from parents and guardians to use standalone preschool/kindergarten (which is often free or at least significantly cheaper than centre based day care). One medium provider told us that this trend had been exacerbated by greater workplace flexibility post-Covid, with working parents better able to manage the shorter hours of care provided by preschool.

Large provider supply may meet demand for those over 12 months at an aggregate level, but certain cohorts still have low availability

One way that we can consider relative availability of childcare for different age groups is by comparing the proportion of places offered to each age group with the relative proportion of those age groups in the child population.

As shown in figure 5.17, we can see that at the aggregate level the proportion of places offered by large providers to children under the age of 2 is significantly smaller than the proportion of the child population in this age group.

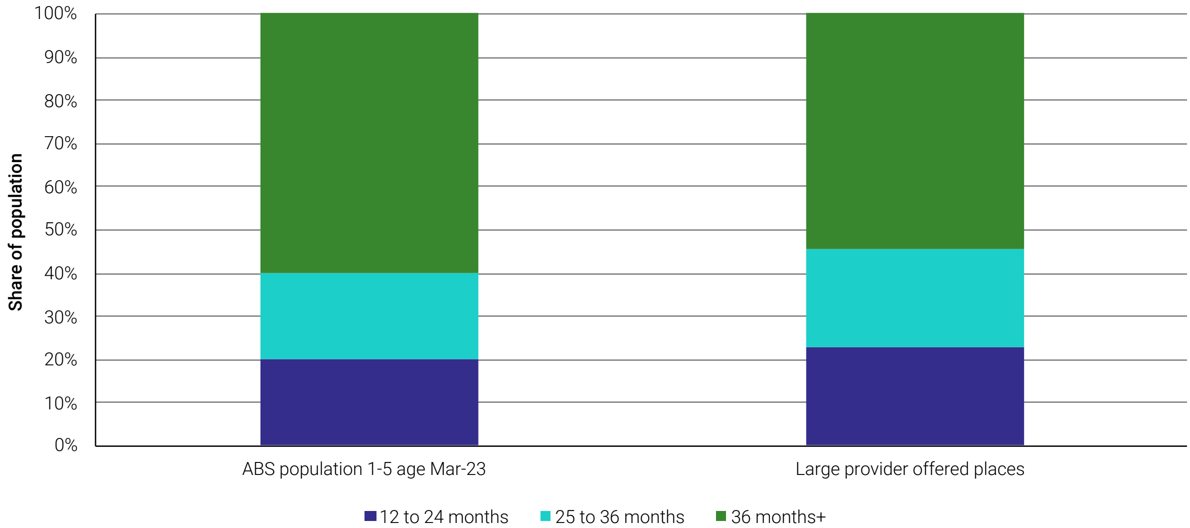
Figure 5.17: Share of age groups in population relative to share of large providers' offered places by age group, August 2023



Source: ACCC analysis of data obtained from childcare providers, Australian Bureau of Statistics data and Department of Education administrative data.

As noted above at section 5.3.1, parents and guardians often look for childcare after a period of parental leave. As shown in figure 5.18, when excluding children under the age of one (who are more likely to be looked after by a parent or guardian on parental leave for part of that first year), the proportion of places offered by large providers to each age group (between 1 and 2 years old, between 2 and 3 years old, and over the age of 3) is very similar to the proportion of each age group in the population. This suggests that, at the aggregate level, large provider's offered places meet demand for each age group when only considering children over the age of one.

Figure 5.18: Share of age groups in population relative to share of large providers' offered places by age group, August 2023



Source: ACCC analysis of data obtained from childcare providers, Australian Bureau of Statistics data and Department of Education administrative data.

However, we have previously observed that large providers are more likely to operate services in more advantaged metropolitan areas. As such, this analysis does not preclude there from being significant cohorts of households and children that face limited availability; particularly young children in regional and remote areas, as discussed in the following section.

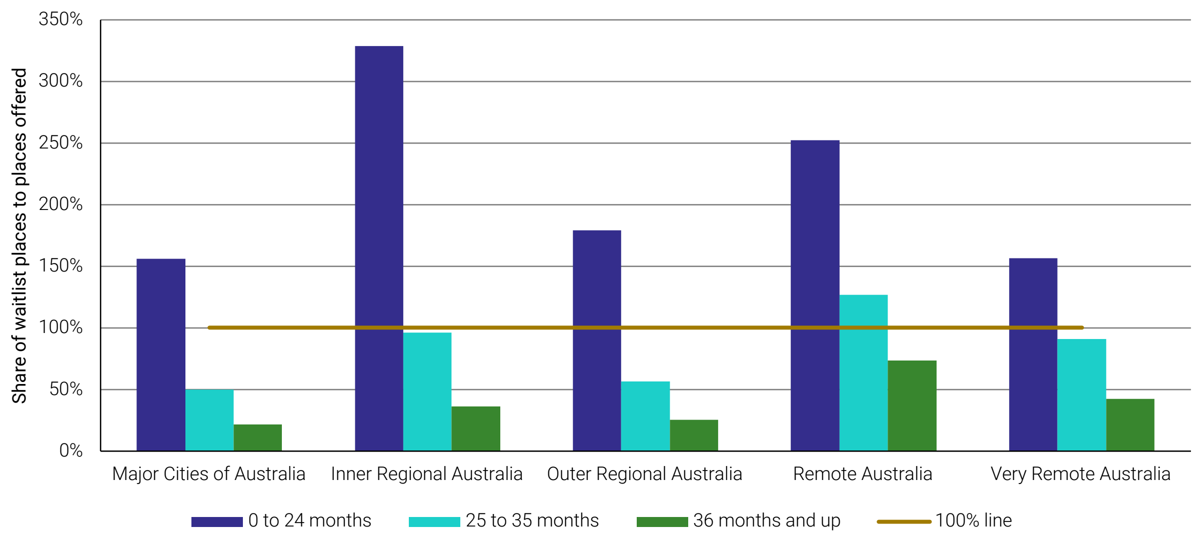
5.3.3 There is a greater number of children on waitlists compared to places offered in regional and remote areas across all age groups

Figure 5.19 shows the proportion of waitlist places to offered places across different regions. While the number of waitlist places far exceeds offered places for children under the age of 2 across all regions, this is particularly pronounced in Inner Regional Australia where there are more than 3 times the number of waitlist places held by children aged under 2 years than there are places offered. The only other age cohort where waitlist places exceed places offered are children between the ages of 2 and 3 years old in Inner Regional Australia. This suggests there may be greater availability challenges (or undersupply) for children under the age of 2 in Inner Regional areas.

For children over the age of 3, the proportion of waitlist places to offered places is notably higher in Remote Australia, suggesting more limited availability for older children in Remote Australia relative to other regions. For every age group, the ratio of waitlist places to offered places is lowest in Major Cities, which likely reflects greater supply and availability in these areas.

By addressing the availability of childcare services in these 2 areas of acute shortage, it may be possible to overcome at least to some extent some of the supply chain and workforce challenges in the Australian economy.

Figure 5.19: Waitlist places relative to number of places offered for large centre based day care providers, by remoteness and age group, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The challenges accessing available childcare in regional and remote areas were highlighted by a number of respondents to our parents and guardians survey:

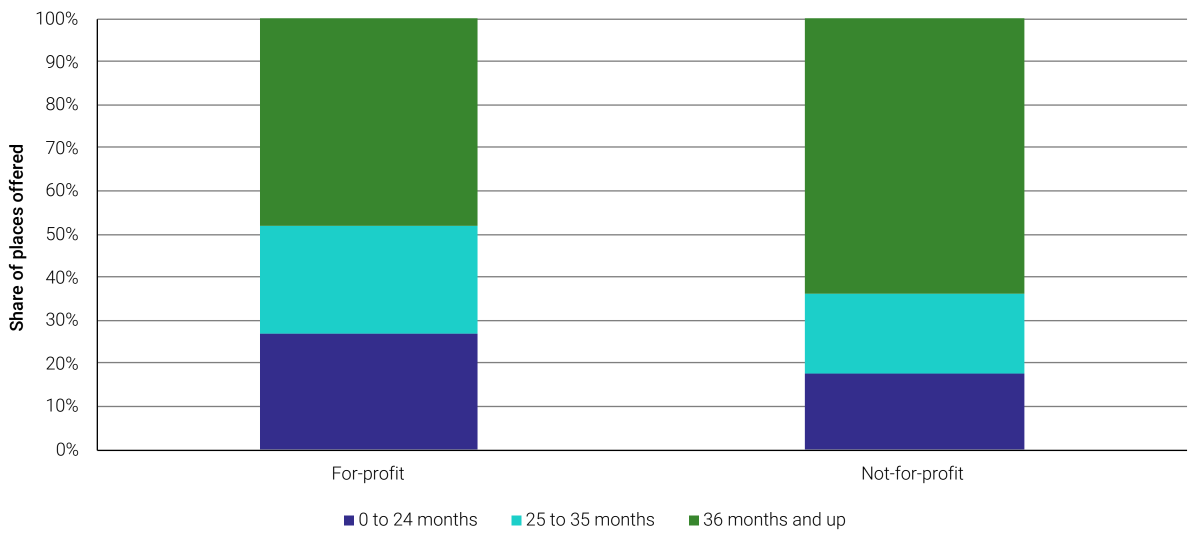
> 'There are absolutely no childcare services available in my nearest town (5km from my home). The closest childcare is in a neighbouring town (24km from my home) but there is a long waiting list. So I am not able to access any childcare whatsoever.' (Parent or guardian in an Outer Regional area of Australia).

> 'It has been a nightmare contacting so many different childcare centres every month to remain on their waitlist only to be told there is no progress and no vacancy in the foreseeable future. My partner and I are looking at both going part time to make it work and even if we had secured some care, we would still find it hard both being shift workers and having no other family support in regional Australia to have flexibility outside of standard working hours.' (Parent or guardian in a Remote region of Australia).

> 'In our regional town we have 1 formal childcare and 1 family daycare. There are 2 other formal daycares 30–45min away. Family daycare is booked out a year in advance. When I applied for formal childcare I got only 1 day when I needed at least 3 … Plus each year in December we have to reapply for our spot/places/days … When I reapplied, it was the most stressful month I've had in a long time. The not knowing if we had a place, or how many days, how or what I would do if I couldn't get a spot, I can't not work.' (Parent or guardian in an Outer Regional area of Australia).

As discussed in our June interim report, for-profit providers account for a larger proportion of centre based day care services across Australia, with approximately 70% of services run by for-profit providers and 30% run by not-for-profit providers.[182] Among large providers only, a slightly higher proportion of services are run by not-for-profit providers relative to all providers (38%, with 62% run by for-profit providers). Among large providers, for-profit providers offer a proportionally greater number of places to children under 2 years old and between 2 and 3 years old (both separately and combined) (figure 5.20).

Figure 5.20: Share of large centre based day care providers' offered places, by provider type and age group, August 2023



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

182 ACCC, Childcare Inquiry June interim report, p 45.

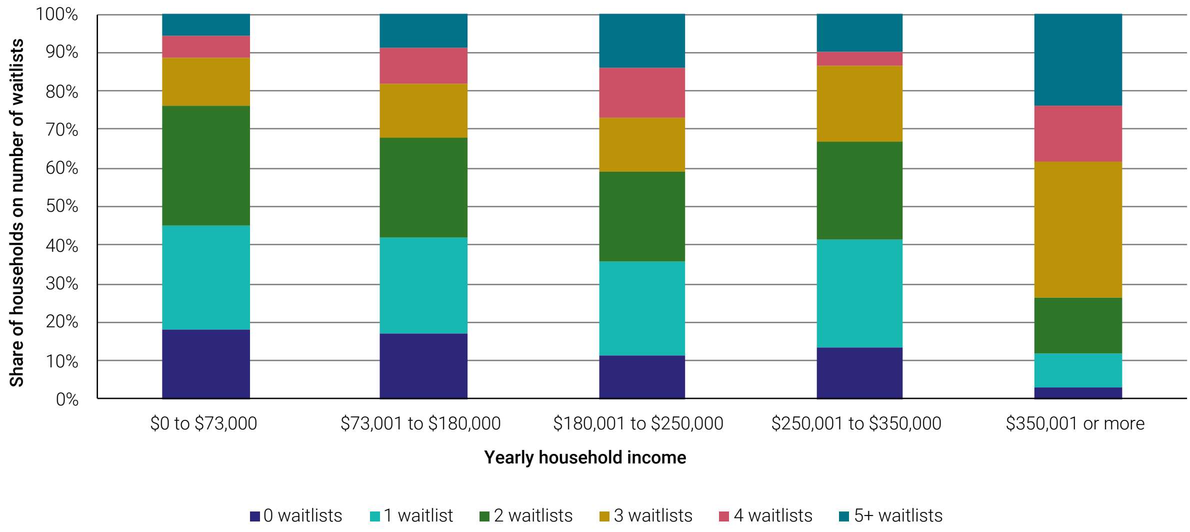
As discussed in our June interim report, for-profit providers are less likely to operate in more disadvantaged areas,[183] and more likely to operate in major cities which are also more advantaged.[184] Accordingly, there is likely to be greater availability for children under the age of 2 in these areas.

Not-for-profit providers are also more likely to provide centre based day care services that only cater to preschool age children (that is, children aged 3 and over). As not-for-profit services are proportionally more likely to supply services in regional and remote areas, younger children in these areas may face greater supply challenges. A market stewardship approach, as discussed in chapter 7, could help address these challenges.

5.3.4 Households on higher incomes are more likely to join a greater number of waitlists and pay to do so

In our parents and guardians survey, households with higher household incomes were more likely to join a higher number of waitlists (figure 5.21), and also more likely to join a waitlist earlier. Similarly, households from more advantaged areas were more likely to have paid a fee to join a waitlist (figure 5.22).

Figure 5.21: Share of households on a waitlist, by household income and number of waitlists

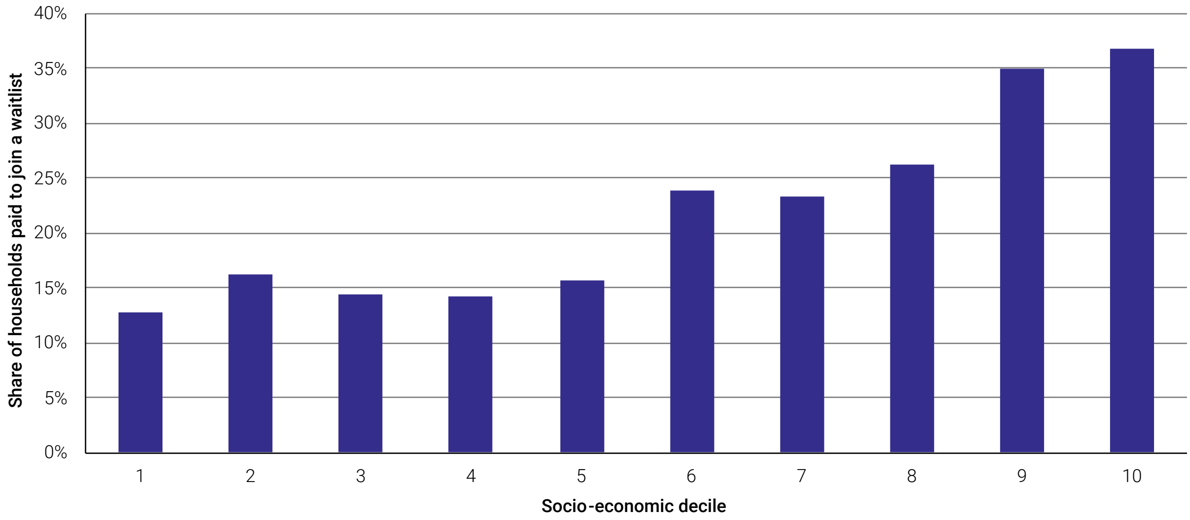


Source: ACCC analysis of parents and guardians combined survey data.

183 ACCC, Childcare Inquiry June interim report, p 94.

184 ACCC, Childcare Inquiry June interim report, pp 45–46.

Figure 5.22: Share of households who paid to join a waitlist, by socio-economic decile



Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of parents and guardians combined survey data.

We expect that the higher likelihood of those with higher incomes to join more waitlists, join waitlists earlier and pay to do so reflects increased certainty around returning to employment (and therefore needing a certain amount of childcare) for those in higher income jobs, as well as greater likelihood of those on higher incomes to be in more advantaged metropolitan areas where there is greater supply of childcare places and therefore more waitlists available to join. This was observed by one respondent to our parents and guardians survey:

> 'It's not fair that you can join a waitlist at any [time] (a year in advance of need) – this preferences parents with more stability such as job certainty and housing location certainty, leaving those already in a less stable situation with greater difficulty in accessing childcare.'

5.3.5 Availability constraints for younger age groups reflect higher associated costs

The higher proportion of waitlist places relative to offered places for children under the age of 2 observed above suggests that households with young children may have greater challenges finding available centre based day care (noting that the magnitude of any undersupply is likely to be overstated due to a higher propensity to be on multiple waitlists, and for a future place).

More limited availability for younger children is consistent with providers limiting places for this age group, due to the high costs associated with providing care to children below the age of 3. As noted in the September interim report, children under 3 require more staff, equipment and purpose-fit spaces, which results in significantly higher supply costs.[185] Participants at our Provider Roundtable noted that this had led to supply of places being skewed by age group, indicating they considered there to be oversupply for the 'more profitable' preschool age group while places for children between 0 and 3 'continue to be under pressure'.[186] These cost pressures are exacerbated in very remote areas due to higher costs to supply services generally, as noted in our September interim report.[187]

185 ACCC, Childcare Inquiry September interim report, pp 85–86.

186 ACCC, Childcare Inquiry childcare provider roundtable summary, 15 September 2023, p 3.

187 ACCC, Childcare Inquiry September interim report, pp 73–74.

The high cost of providing care to younger children may actually incur a loss for centre based day care services, and be subsidised by the more profitable older age groups. As noted by a provider during outreach, this business model is sustainable if babies and toddlers remain with a service over the long-term, but is challenging if they switch to alternative care (such as standalone preschool) when they are older. Providers of all sizes have told us that this is a significant issue affecting their ability to fill (the more profitable) places for older children.

5.3.6 Staffing constraints are a key challenge for younger children

In our September interim report, we noted the significant impact of staffing shortages on the ability of providers to operate services.[188] At our roundtable discussion with providers, workforce shortages were cited as the main constraint on supply, with participants observing that many providers place limits on their available places due to challenges finding sufficient staff to meet ratio requirements.[189] We also heard similar feedback from providers during outreach. For example, one provider told us that staffing constraints were significantly impacting their waitlists and service capacity, resulting in one of their services having to operate at 70% occupancy when it had sufficient demand to operate at 100% if staff were available.

As noted above, a key reason that younger children cost more to care for is because they require much higher educator-to-child ratios. As set out in our June interim report, children under the age of 2 require one educator for every 4 children, and children between 2 and 3 require one educator for every 5 children.[190] Children over the age of 3 require far fewer staff, ranging from one educator to every 10 to 15 children (depending on the jurisdiction and precise age over 3). Accordingly, ongoing staffing shortages exacerbate the cost challenges associated with caring for very young children. As set out in section 5.2 above, some providers rely on waivers to operate with less staff or less qualified staff, affecting the quality of care that services are able to provide.

5.4 Diverse cohorts may face additional challenges accessing available childcare

Households from diverse backgrounds and/or those experiencing vulnerability may experience additional barriers to accessing childcare, including lack of availability of appropriate childcare options, a failure of childcare providers to provide inclusive care for children, or in the case of children with disability and/or complex needs, being turned away by childcare providers. As noted in the Parents and Guardians roundtable, the idea of 'choice' is a misnomer as options are different for each household and they cannot be compared. Often there is no real choice. Potential outcomes and realities for a household are not the same.[191]

A large childcare provider conducted analysis in 2022 and found that 50% of children with a diagnosed condition or with disability also had another risk factor for vulnerability, including being a household with low income, at risk of abuse and neglect, or from a culturally and/or linguistically diverse background. Children with multiple risk factors are more likely to have complex needs and may require more intensive support. The provider also noted that some centres in the provider's network were supporting much higher proportions of children likely to experience risk factors for vulnerability than others, and some centres had many children with characteristics that are known to compound disadvantage and vulnerability.

188 ACCC, Childcare Inquiry September interim report, pp 104, 148–149.

189 ACCC, Childcare Inquiry childcare provider roundtable summary, 15 September 2023, p 2.

190 This is true in all states and territories except for Victoria, which also requires a 1:4 ratio for children between 2 and 3.

191 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 4.

For some households, the cost of childcare may be prohibitive to accessing formal childcare services, particularly for households living in areas of less advantage, or for households who either cannot or do not access the Child Care Subsidy. Participants in the Parents and Guardians roundtable noted that some households have a mistrust of government which acts as a barrier to accessing government systems and benefits, including Child Care Subsidy.[192] This can also result in these children missing out on onward referral to important developmental support services some of these children may need (as childcare educators can sometimes be the first to notice indicia of developmental delays).[193]

We note that a number of our recommendations could address some of the issues identified in this section. This includes a market stewardship approach, which could target some of the supply-side pressures associated with supplying to diverse cohorts (discussed further in chapter 7).

5.4.1 First Nations children and households

Some First Nations households face additional challenges accessing formal childcare, including in relation to finding services that are available and cater to cultural needs as well as accessing the system (including receiving the Child Care Subsidy) more broadly.

Administrative processes required to access formal childcare and the Child Care Subsidy can be a barrier for some First Nations households

The administrative processes required to receive financial support and apply for childcare – including liaising with Services Australia, having to travel to physical Centrelink premises for identity verification, and engaging with waitlist and enrolment processes at particular services – increase the barriers to accessing childcare faced by First Nations households. This is coupled with the general complexity of the way the Child Care Subsidy is calculated, which (as noted in the September interim report) can make it very difficult for parents and guardians to accurately estimate their subsidy entitlements.[194]

In our September interim report, we noted that a key criticism of the 2018 Child Care Package from First Nations services and households was the increased complexity and requirement to engage with Services Australia.[195] These concerns were echoed by stakeholders in our First Nations roundtable discussions; a number of participants expressed frustration at the barriers First Nations households face interacting with Government services and noted that 'the mainstream funding and eligibility frameworks for childcare apply a "one size fits all" model onto diverse First Nations communities with differing needs'.[196]

Stakeholders expressed significant concerns with the lack of flexibility in the system to recognise kinship care arrangements, with lengthy application processes of up to 6 months for formal kindship care (a requirement for a kinship carer to access the Child Care Subsidy) resulting in would-be carers giving up on the process.[197] As well as putting pressure on carers, this affects childcare providers; an inability to access the Child Care Subsidy because of frequent changes in kinship or caring arrangements can result in providers needing to forgive any already incurred debt.

As we observed in our September interim report, some services try to address these challenges by providing additional support and guidance to First Nations households to assist them with navigating these processes and applying for the Child Care Subsidy and other related supports. For example, during outreach, a service operating in a community with a high proportion of First

192 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 1.
193 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 1.
194 ACCC, Childcare Inquiry September interim report, p 165.
195 ACCC, Childcare Inquiry September interim report, p 84.
196 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 3.
197 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 4.

Nations households told us that they have a dedicated Inclusion Support Service outreach officer whose role is to help households apply for support and access services. Providing these additional supports require staffing resources and incur higher costs for providers, which can create a financial disincentive for providers to engage with First Nations households.

Some First Nations households struggle to afford formal childcare

Even where First Nations households can access formal childcare and financial support, affordability can remain a barrier. The high costs of accessing care for First Nations households, particularly in remote areas, was raised by stakeholders at our First Nations roundtable discussions. One participant that operates a service in a First Nations community with a daily (out-of-pocket) fee of $1.50 noted that it 'sees children standing outside the fence explaining that they cannot come in today "because mum can't afford it"'. The participant expressed frustration with employees of government agencies who have little understanding of households' ability to pay and had been observed calling the fee 'a pittance'.[198] Without adequate additional funding, this can create a disincentive for services to engage with First Nations households, particularly where providers may be facing staffing shortages and viability challenges.

Culturally safe childcare environments are critical for First Nations children

Providing a culturally safe childcare environment is critical to ensure long-term retention of and engagement with First Nations children and households in childcare services.

The September interim report noted that our review of large providers' documents revealed that childcare providers try to ensure that services are open and welcoming places for First Nations children, households and staff, and may adjust their offering to provide culturally informed care for First Nations children in their service (at additional expense to providers).[199]

However, the challenges associated with successfully providing culturally safe childcare environments were raised extensively by participants at our First Nations roundtable discussions.[200] Some of the observations shared included:

- Many childcare providers do not know how to implement First Nations culture into their services, and fear judgment if they get it wrong. This results in childcare environments that do not feel culturally safe for First Nations people. First Nations cultural expertise is local and place-based so a "one size fits all approach" to implementing cultural safety cannot work.
- Expectations considered the norm in mainstream services feel culturally unsafe for many First Nations households. For example, the fear of shame keeps households away if they think they will not meet certain expectations such as arriving on time, supplying lunch, and bringing certain items.[201]
- There is high cost in bringing local First Nations groups into a service to provide cultural awareness training. In addition, the changes in thinking and practice required can be significant, especially for staff from other cultural backgrounds.

The degree to which providers are able to address these challenges and support First Nations households varies across services. We understand from outreach with providers that some services that cater to First Nations communities may provide bus transport to and from care and may also provide lunch in order to minimise some of the barriers identified above and encourage attendance. Some providers also invest heavily in programs designed to ensure their services are inclusive for

198 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 5.

199 ACCC, Childcare Inquiry September interim report, p 84.

200 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 2.

201 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 2.

First Nations households. For example, one large provider of centre based day care has an 'Aboriginal and Torres Strait Islander Programs team', who all have a First Nations background and hold early childhood qualifications, to provide specialist advice and support to their services in relation to the inclusion of First Nations households and children. The support the team provides is broad in nature, and includes assisting with enrolment processes and household enquiries, facilitating connections with local communities and organisations, providing localised professional development relevant to First Nations cultural protocols and history and supporting employees from a First Nations background.

Where First Nations children and households are in formal childcare, the inflexibility of the system to recognise and make allowances for their cultural and community practices was raised by participants at our First Nations roundtable discussions. Participants noted that First Nations households in remote areas tend to be highly mobile, so children who do attend childcare may be absent for longer periods due to matters of cultural significance such as Sorry Business and time spent on Country. This may result in Child Care Subsidy eligibility being cancelled due to allowable absences being used up. In some cases, this results in significant costs to providers who choose to carry the debt from these situations rather than pass it on to households or carers who cannot afford it.[202]

The ACCC also heard many stories of First Nations households and specialist First Nations early childhood education and care providers being reluctant or unwilling to access the Additional Child Care Subsidy that many First Nations children would be entitled to. This reluctance has been attributed to both the administrative burden of repeatedly having to apply for this funding and, more significantly, a fear such funding would trigger a notification on the child's file that could attract review by child protection agencies (because a child must be identified as 'vulnerable' to be eligible).[203] The latter fear is entirely understandable given the history of the Stolen Generations and of interactions First Nations people have had with government agencies since colonisation.

First Nations staff and staff with appropriate cultural training and experience can be difficult to find and retain

One way that providers can ensure childcare services are culturally safe for First Nations households is engaging staff from a First Nations background or who are appropriately trained with specific knowledge and experience in working with First Nations households.

At our First Nations roundtable discussions, participants noted that having First Nations staff who can speak in-language to children is helpful in making them feel comfortable, safe and included.[204] Consistent with this, a number of participants also observed that where services are able to increase the number of First Nations staff, First Nations children experience better attendance and overall outcomes.[205] The positive impact of First Nations staff on attendance of First Nations children has been observed by providers of all sizes. For example, during outreach, a provider of centre based day care told us that parents look for cultural connection and that having staff from a First Nations background at one of their sites helps attract First Nations households. Similarly, one large provider of centre based day care noted that its centres with more than one full-time equivalent First Nations staff member present was associated with First Nations children being 3% more likely to remain attending, which it described as 'a small but positive effect'.

In other cases, staff may not be from a First Nations background, but have training and experience that allows them to provide high quality culturally appropriate care to First Nations children. For example, during outreach, a small provider of centre based day care indicated that the high number

202 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 4.

203 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 3.

204 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 2.

205 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 3.

of local First Nations children enrolled at their centre was due to the centre manager's experience in caring for First Nations children and their reputation in the local community.

In an industry already facing significant staffing shortages, finding First Nations staff and/or staff with appropriate cultural training is particularly challenging for providers. Even where providers do find staff, retention can be difficult. For example, one large provider noted that the turnover of First Nations staff is significantly higher than their average staff turnover. These challenges are heightened in regional and remote areas, where, as noted by participants at our First Nations roundtable discussions, there is no local staff training available.[206] While online training pathways may be available, participants indicated that this often does not meet the needs of First Nations educators and others in remote areas, and that many First Nations people do not have the literacy levels in English required to engage with the learning.[207]

5.4.2 Children in remote areas

Availability is a critical threshold issue for households in more remote areas

For households in regional and remote areas, parents' and guardians' decisions about childcare are more likely to be influenced by little more than availability. First, there is less likely to be a choice of services. For example, during outreach, a centre based day care in Very Remote Western Australia told us that they are the only provider in their town (with the closest alternative 500 kilometres away), so local households who need formal childcare rely solely on the services of that centre. This provider noted that remaining viable was extremely challenging, but so important to the community. Similarly, the Productivity Commission's draft report observed that many communities in regional and remote areas of Australia have limited or no local childcare services.[208]

Second, assuming there is at least one childcare service available in an area, there may be insufficient supply of places to meet demand. As we note in section 5.3.3, we find that among large providers, there is a higher proportion of waitlist places to offered places in regional and remote areas for all groups. To better understand the extent to which this is indicative of constrained supply, we have estimated the average weekly utilisation of centre based day care services by remoteness.[209] We note that there are limitations to understanding services' actual availability; while we have used maximum approved places from ACECQA to represent a services' maximum capacity, as discussed in previous reports, services often engage in capping and offer less places than they are approved for. Accordingly, our estimates are likely to underreport utilisation.

However, using this metric, figure 5.23 suggests that supply is particularly constrained in Inner Regional Australia, with almost one fifth of areas in Inner Regional Australia having an average weekly utilisation for centre based day care of above 95%. We expect that difficulties attracting staff to regional areas is likely to be a key reason for this, which we discuss in more detail below.

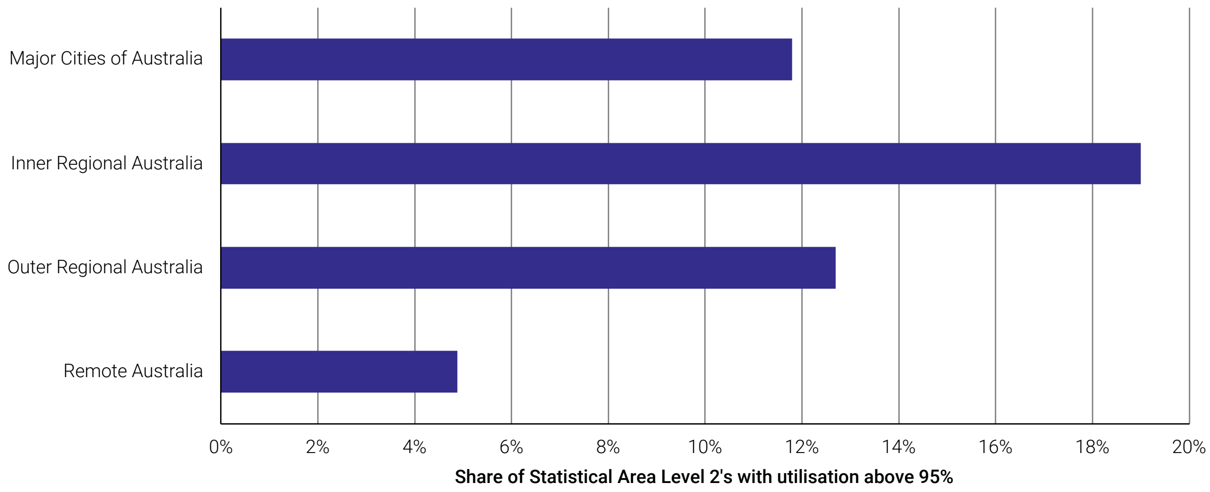
206 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 3.

207 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 7.

208 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023.

209 To calculate average weekly utilisation of centre based day care we have used sessional data from a representative week in November 2022. This data allows us to calculate the average daily enrolment (Monday to Friday) for all centre based day care services (**average daily enrolment**). For each Statistical Area Level 2, we have summed average daily enrolment for each service in that area (**SA2 average daily enrolment**), as well the total number of maximum approved places from ACECQA (**SA2 maximum places**). Utilisation for each Statistical Area Level 2 is then determined by dividing the SA2 average daily enrolment by the SA2 maximum places. Figure 5.23 represents the share of Statistical Areas Level 2 in each remoteness category with average utilisation above 95%.

Figure 5.23: Share of Statistical Areas Level 2 with average utilisation of centre based day care above 95%, by remoteness, November 2022



Note: No Statistical Areas Level 2 in Very Remote Australia had utilisation above 95%.
Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Availability challenges in regional and remote areas were raised at our Parents and Guardians roundtable discussion, where participants spoke of 'childcare deserts' where there is one childcare place for every 3 children requiring it.[210] Participants observed that these availability constraints in regional and remote areas are resulting in:

- essential staff (such as nurses, teachers, police and emergency services workers) moving away[211]
- households becoming 'invisible' to the childcare system, in that they no longer bother engaging due to the length of waiting lists and cost.[212]

As noted above, supporting supply of childcare services in these areas may help overcome (to some extent) some of the workforce and supply side constraints currently affecting the Australian economy (and local area economies).

Staffing is a significant barrier to providing care in regional and remote areas

In our September interim report, we found labour to be the main driver of cost for supplying childcare, and that labour costs are significantly higher in Very Remote areas relative to Major Cities and regional areas.[213] As noted in the September interim report, costs of staff are exacerbated by staff shortages, and this is particularly so for remote areas.[214] For example, one large provider noted that workforce shortages meant that significant financial incentives (sourced from private sector sponsorships) were required to retain its existing 3 to 4 staff in a service located in Very Remote Western Australia. This provider noted that as a direct result of workforce shortages (and not lack of infrastructure or licensed places), this service was unable to meet the level of demand in the area which impacted the ability of local households to work and also created a barrier to attracting new households to the area.

210 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 3.
211 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 3.
212 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 2.
213 ACCC, Childcare Inquiry September interim report, p 12.
214 ACCC, Childcare Inquiry September interim report, p 75.

In addition to above award wages and financial incentives required to attract and retain staff in remote areas, some providers also offer other incentives such as providing accommodation and flights to attract staff from outside the area which significantly increase costs. One small provider in Very Remote Australia explained it has to rent 5 properties in the local area at a significant expense in order to attract any staff. Lack of housing in some Very Remote areas means that providers may not even have the option to supply accommodation, without which they may not be able to source staff. A small provider in Very Remote Western Australia told us that a housing shortage in their area meant that even if they were able to find staff, they had nowhere to accommodate them.

In many cases, services in remote and regional areas simply cannot find the staff required to provide services. For example, in a submission in response to the September interim report, one provider operating in Outer Regional Queensland noted that they are unable to offer more childcare not because their service is at its licensed capacity but because they are unable to get staff.[215]

Providers in regional and remote areas are also often competing with higher paying industries for staff. For example, during outreach, one provider told us that in mining regions, they are competing with mining related jobs (such as cleaning). Participants in the educator roundtable shared that some services in regional and remote areas spend a lot of money to attract educators only to find that the educators do not stay long in the job, noting that government support would be useful for rural and remote locations to build an educator workforce among the existing community.[216]

5.4.3 Children in areas of less advantage

Our analysis shows that areas of less advantage experience a lower supply of childcare services. This is because areas of less advantage also have a lower demand for childcare services – a key indicator of viability for providers when making supply decisions. Providers are incentivised to supply services to areas with higher demand, and therefore lower Socio-Economic Indexes for Areas (SEIFA) decile areas are less likely to be viable candidates for supply. We find however that the rate of supply to demand for childcare services is relatively consistent across SEIFA deciles as a result of there being less demand in areas of less advantage.

The level of demand in a local area influences supply decisions

Providers place significance on the socio-economic conditions of the local area when making decisions to enter or increase service provision in markets. This is due to the positive correlation between socio-economic advantage and the demand for childcare services in an area. Providers see demand for childcare in an area as a key indicator of viability, and therefore the relative socio-economic advantage of an area will influence supply decisions.

We noted in our June interim report that the proportion of children in an area enrolled in some form of childcare increases with the level of socio-economic advantage, demonstrating that SEIFA decile is a meaningful indicator of likely demand in an area (with a higher SEIFA decile associated with higher demand).[217] Further findings in our September interim report reveal that higher socio-economically advantaged areas experience a higher female workforce participation rate, which providers also consider to be a key driver of demand for childcare (with a higher female workforce participation rate associated with higher demand).[218] This is supported by analysis from one large provider of centre based day care which found that demand for childcare services is likely to be higher in areas of greater socio-economic advantage and with higher labour force participation rates.

215 Submission 80, Confidential, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

216 ACCC, Childcare Inquiry childcare educators roundtable summary, 11 August, p 4.

217 ACCC, Childcare Inquiry June interim report, p 47.

218 ACCC, Childcare Inquiry September interim report, p 103.

Providers also consider parents' and guardians' willingness or capacity to pay in an area as another indicator of demand. A higher income means that the opportunity cost of not using childcare is greater, resulting in increased demand and a higher willingness or capacity to pay in areas with higher socio-economic advantage. Analysis in the June interim report reveals average fees are higher in more advantaged areas, demonstrating that parents and guardians in these areas have a higher willingness or capacity to pay, and therefore higher demand, for childcare services.[219] Although we note the September interim report found that the most advantaged areas also incurred higher operating costs, driven by increased labour and land costs.[220]

In outreach discussions, many small and medium providers who operate in areas of less advantage spoke about considering the economic status of the area they were operating in when setting fees, despite the potential impact on their business. One family day care educator noted that educators in areas with high employment can charge a lot more, and therefore could afford to look after less children, if preferred. A centre based day care provider shared that they charge different rates at different sites based on what households living in the area can afford, but staff are paid the same across services despite the difference in fee rates.

Providers are incentivised to supply in more advantaged areas

As demand is a key indicator of viability, providers are incentivised to supply services in areas of greater socio-economic advantage. This results in more supply of childcare in higher SEIFA decile areas, and less supply in low SEIFA decile areas.

Multiple large providers use socio-economic advantage, measured by SEIFA decile, as a key consideration when assessing whether and how much to supply in a particular area. One provider considers the SEIFA decile of an area when considering acquisition opportunities (among other demand and supply factors), with SEIFA deciles below 5 given a 'poor' scoring for that factor. As described in our September interim report, another large provider noted a preference to establish new services in areas with a SEIFA score in at least the 4th decile.[221] This provider also forecast that 'for-profit operators will continue to concentrate their presence in metro areas with higher socio-economic characteristics to maximise potential returns'.

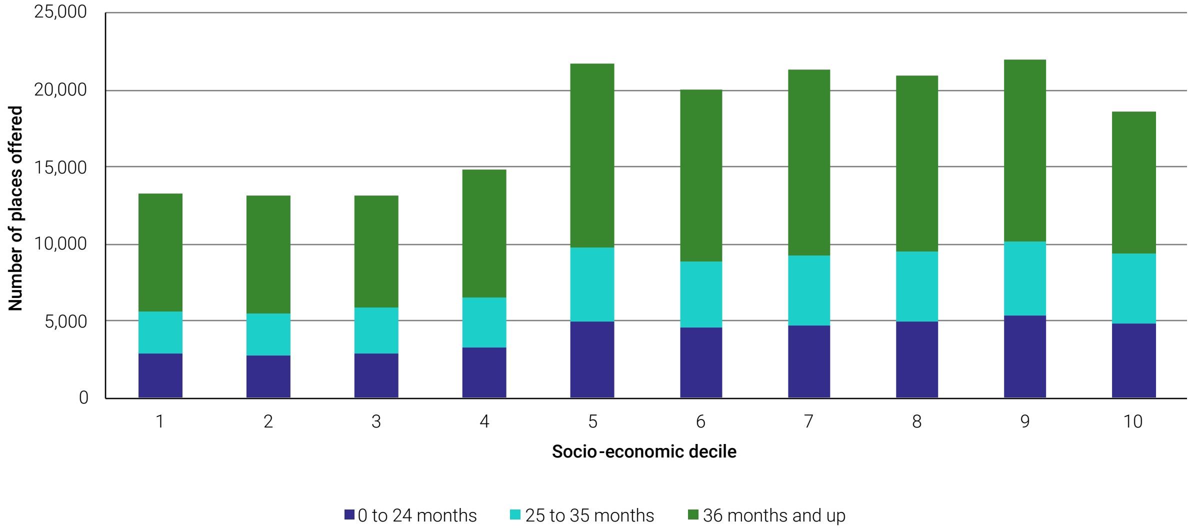
As shown in figure 5.24, among large providers of centre based day care, there are significantly fewer places offered in less advantaged areas (the 4th SEIFA decile and below). This is consistent with providers having an incentive to operate services in areas with higher demand driven by greater socio-economic advantage.

219 ACCC, Childcare Inquiry June interim report, p 91.

220 ACCC, Childcare Inquiry September interim report, p 79.

221 ACCC, Childcare Inquiry September interim report, p 102.

Figure 5.24: Number of offered places for large centre based day care providers, by socio-economic decile and age group, August 2023



Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Our conclusions are supported by research from the Mitchell Institute at Victoria University. The Mitchell Institute found that areas of less socio-economic advantage have less access to childcare services, based on a measure of childcare places offered per child. The research showed that as of March 2022, areas in the lowest SEIFA decile averaged 0.35 places per child, the lowest average places per child across all SEIFA deciles. Conversely, areas in the highest SEIFA decile averaged 0.46 places per child, the highest average across all SEIFA deciles. The research also showed that past the 5th decile, access to childcare increases as advantage increases.[222] The Mitchell Institute also researched the relationship between fees and childcare accessibility, and found that there is greater supply of childcare in areas where higher fees are charged.[223] This research supports our finding that providers are incentivised to supply in socio-economically advantaged areas with higher willingness to pay.

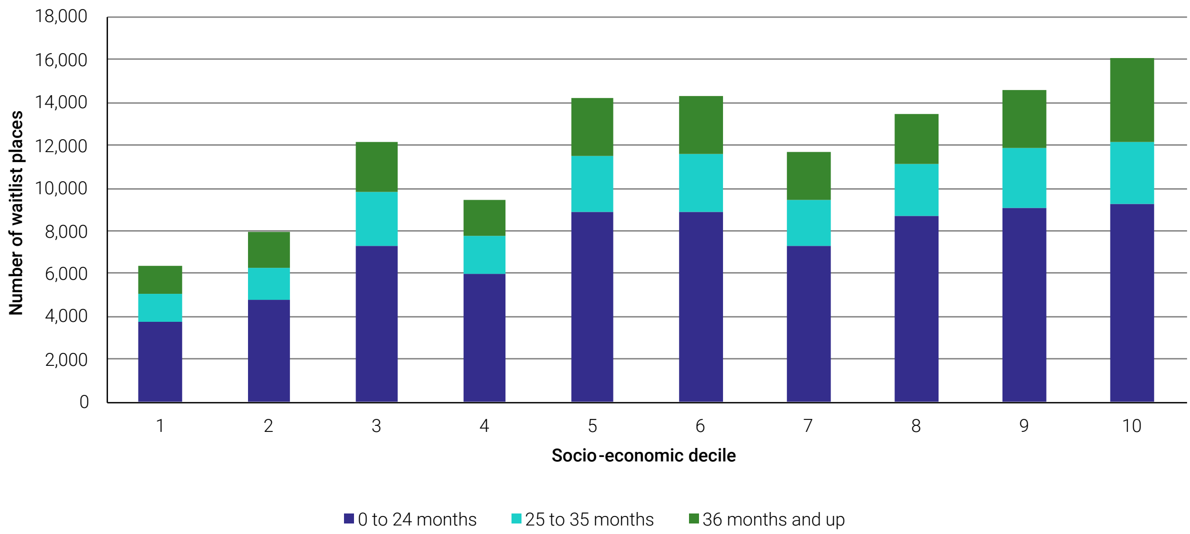
There is less supply in areas of less advantage, but generally also less demand

While there may be less supply of childcare services in areas of less advantage, we find that there is also generally less demand. As shown in figure 5.25, large providers generally have less waitlist places in areas located in lower SEIFA deciles. This could be due to lower female workforce participation rates in these areas meaning that households are more likely to be providing care for children at home, as well as lower average disposable incomes.

222 P Hurley, H Matthews and S Pennicuik, Deserts and oases: How accessible is childcare in Australia?, Mitchell Institute, Victoria University, 22 March 2022, pp 7, 31.

223 P Hurley, H Matthews and S Pennicuik, Deserts and oases: How accessible is childcare in Australia?, Mitchell Institute, Victoria University, 22 March 2022, p 35.

Figure 5.25: Number of waitlist places for large centre based day care providers, by socio-economic decile and age group, August 2023

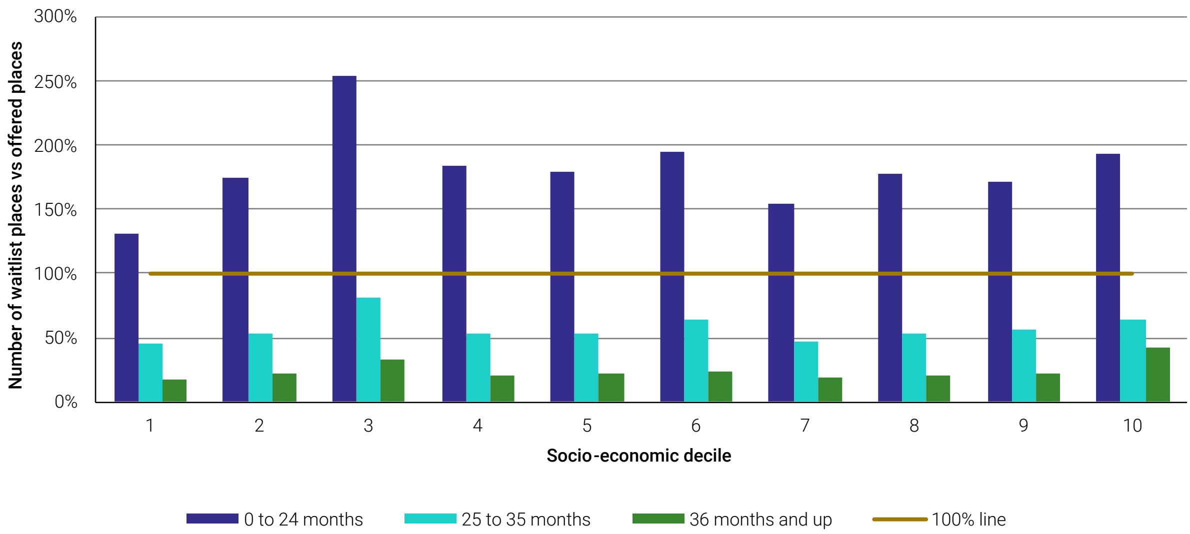


Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

By comparing the number of children on large providers' waitlists to the number of places offered by large providers across different levels of socio-economic advantage, figure 5.26 demonstrates that while supply from large providers may be lower in areas of less advantage, lower demand in these same areas means that accessibility to childcare services appears mostly consistent across all levels of advantage. The exception to this is SEIFA decile 3, which is less advantaged but appears to have a relatively high level of demand, both absolutely (figure 5.25) as well as relative to supply (figure 5.26). This may be indicative of undersupply and limited accessibility to childcare services in some areas of less advantage.

Figure 5.26: Waitlist places relative to offered places for large centre based day care providers, by socio-economic decile and age group, August 2023

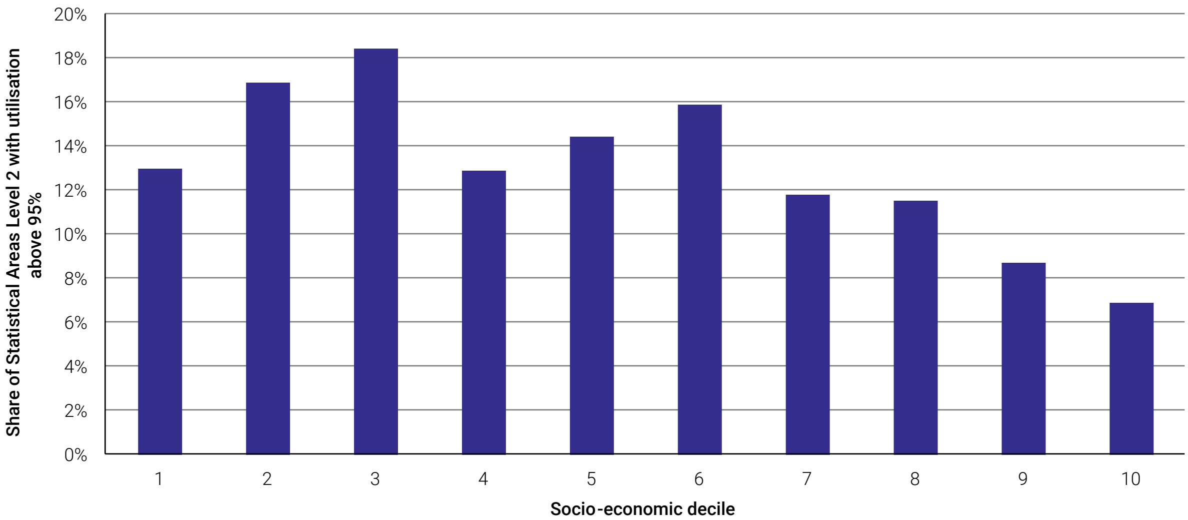


Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Figure 5.27 below shows the share of areas in each socio-economic decile with average utilisation for centre based day care services above 95%, which as noted in the section above, is indicative of constrained supply.[224] Consistent with our analysis of large providers' relative waitlist places to offered places, we see that areas in the third socio-economic decile have the highest proportion of centre based day care services operating above 95% average utilisation.

Figure 5.27: Share of Statistical Areas Level 2 with average utilisation of centre based day care above 95%, by socio-economic decile, November 2022



Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

As discussed in our September interim report, providers' supply decisions are generally driven by expectations of viability. More constrained supply in less advantaged areas is consistent with providers preferring to supply in areas where there is a higher willingness to pay. As such, it may be the case that households' willingness to pay for childcare in areas located in SEIFA deciles 2 and 3 is not high enough to attract or justify additional supply required to meet unmet demand. Consistent with this, the Productivity Commission's draft report noted that while some areas with low supply of childcare may also have low demand (due to demographic trends or cultural preferences), in most cases 'the high costs of providing [childcare], coupled with families' unwillingness or inability to pay high prices, would deter providers from setting up a service in a particular community. This may be the case, for example, […] in areas where many families experience disadvantage and would not be able to meet activity test requirements or afford our-of-pocket fees.'[225]

Further, supply pressures in areas of less advantage are exacerbated by staffing shortages. As discussed earlier in this chapter at 5.2.5, analysis of waiver usage shows that while staffing shortages are sector-wide, they are particularly acute in lower socio-economic areas. Services in the least advantaged areas (SEIFA deciles 1 to 3) are the most likely to hold a waiver for early childhood teacher requirements.

We note that figure 5.27 is a snapshot of utilisation at a point in time. It is possible that constrained supply in less advantaged areas (particularly SEIFA deciles 2 and 3) may be transitory and additional supply will meet demand in the medium to longer term. An ongoing monitoring role for government

224 We have calculated weekly utilisation of centre based day care the same way as described above in relation to figure 5.23. Figure 5.27 represents the share of Statistical Areas Level 2 in each socio-economic decile with average utilisation above 95%.

225 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023, p 20.

and a market stewardship approach would better identify whether supply constraints are transitory or the result of enduring issues that require additional supply-side support to be addressed.

5.4.4 Children with disability and/or complex needs

As outlined in the September interim report, providers have indicated that additional support is required for children with disability and/or complex needs.[226] A large childcare provider noted that currently there is no incentive to support children with complex needs, and many providers turn away children with complex needs. Respondents to the ACCC's parents and guardians survey also shared their experiences of their child being turned away from accessing childcare due to disability and/or complex needs, and other research has found similar experiences reported by parents and guardians.[227]

A number of consistent themes arose in our analysis of feedback received from small, medium and large providers offering centre based day care, outside school hours care, and family day care, regarding care for children with disability and/or complex needs:

- Greater costs are incurred when caring for children with disability and/or complex needs. This includes the cost of engaging additional educators, as well as accessing additional support resources including Allied Health professionals. Resourcing costs are also incurred when applying for additional funding, and when supporting households to navigate the process of receiving a diagnosis for their child and applying for funding.
- Although there are additional funding sources available, particularly Inclusion Support Program funding, a significant number of providers have advised that these funding sources are time consuming and difficult to navigate, and the funding received to support children with disability and/or complex needs does not cover the actual costs incurred by the provider.
- Many providers who care for high numbers of children with disability and/or complex needs are willing to cover the additional costs involved because they have a policy of inclusiveness and do not wish to turn children away from care. Medium and large providers who care for high numbers of children with disability and/or complex needs tend to balance their portfolio of centres with a mix of loss-making centres which are subsidised by profitable services.
- Providers who care for high numbers of children with disability and/or complex needs also discussed capping enrolment numbers to ensure quality of care, reducing the income potential for the provider.

We also note a recent review of the Inclusion Support Program has identified a number of challenges with the program, as well as potential opportunities for improvement. These challenges and opportunities are identified throughout this section where relevant.

Some children with disability and/or complex needs experience discrimination or service refusal

In the parents and guardians roundtable, households with children with disability and/or complex needs shared their experiences with navigating the childcare system.[228] Insights shared included:

- The cost of childcare for households with children with disabilities is more than just the fee charged by the childcare service. There is a time commitment involved with engaging with the requirements involved to access additional funding.

226 ACCC, Childcare Inquiry September interim report, p 86.

227 Dickinson, H., Smith, C., Yates, S., Faulkner, A, 'Taking the first step in an inclusive life – experiences of Australian early childhood education and care', 25 July 2023, p 3.

228 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 3.

- For many children with disabilities, shorter childcare sessions are beneficial, however the childcare fee and subsidy structure is weighted to children attending a full day of care. This creates an access barrier for children with disabilities.
- Inclusion support funding has a reputation as being hard to access and some households avoid applying due to the time commitment and uncertainty involved.
- Some parents and guardians of children with disability and/or complex needs feel unwelcome when making inquiries at a childcare service and disclosing their child's disability.
- Some households are told their children cannot attend childcare as educators do not have the skills or resources to support the child, or that the centre has reached its quota of children with specific needs.
- Some households have been told their child can no longer attend as staff are not qualified or the child is too disruptive.

Participants also shared their relief when successful in finding a suitable provider who will provide care for their child, and expressed that it would be beneficial for there to be guidance available to households about which childcare centres are inclusive, and a system of recognition of services that support children with disabilities or complex needs. The importance of services being equipped to support children with disability or complex needs is set out in box 5.3 below.

Box 5.3: Parents and guardians with children with disability or complex needs face unique barriers in accessing suitable childcare

Across a number of our stakeholder roundtables, participants discussed that access to affordable childcare is a basic human right and there is a need establish a public childcare system that is accessible by all children and households including those with disability and/or complex needs.

It was felt that the best outcomes for children with disability or complex needs are to be with children in their community and with children their own age group. This allows for them to have the same experiences as their siblings and neighbourhood children, and to see a community built around them which facilitates the following years of education and development.

This outcome can be difficult to achieve. At roundtable discussions, parents and guardians shared that they been made to feel unwelcome by childcare services when they have disclosed their child's disability. Many mainstream childcare providers do not have appropriate facilities and staff can feel overwhelmed and under-supported. The in home care sector is often not an affordable alternative for households of children with a disability or complex need.

A survey published by Children and Young People with Disability Australia (CYDA)[229] suggests 'there is an urgent need to better equip and support early childhood education and care settings to support children with disability so that they are included early and are able to benefit from the education and support provided. Without this, we are likely to see the same sorts of inequities perpetuated as in the past.'

229 Children and Young People with Disability Australia, Taking the first step in an inclusive life – Experiences of Australian early childhood education and care, December 2022, p 3, accessed 8 December 2023.

The June interim report included quotes from respondents to our English language parents and guardians survey, which also noted that about 14% of respondents to the survey had a child with disability and/or complex needs.[230] Some further quotes from the parents and guardians survey are shared below for additional insight into the challenges facing parents and guardians of children with disability and/or complex needs when seeking to access childcare:

> 'Finding any kind of care or support for a child with a disability is incredibly difficult and I don't know how parents who have inflexible work arrangements manage it.'
>
> 'The lack of available staff to allow for increased ratio to support our child with a disability prevented us from finding a place close to our home or work.'
>
> 'There is a real gap in services in ensuring children with disability are supported to have equitable access to early childhood opportunities such as formalised childcare, out of school care, etc. This in turn delays the parent's return to work and the prospective impacts to Australia's economy from an increased workforce and early intervention for the child with disability.'
>
> 'There are extremely limited services providing out of school hours care for children with a disability once they transition to high school. My child is 12 with a cognitive capacity of a much younger child. He can not be home alone after school.'
>
> 'There are not enough child care services that are inclusive of children's special needs. I have 2 with disabilities and my son's child care asked me to find another child care for him. Another child care after his second day told me to go elsewhere because they could not look after him. Centres say they are inclusive but lack training.'

Greater costs are incurred when caring for children with disability and/or complex needs

Children with disability and/or complex needs may require a range of accommodations to ensure that they are appropriately supported and integrated into the care environment. As noted in our September interim report, the key additional cost for providers is engagement of additional staff to support children with disability and/or complex needs, and ensuring there is adequate care for all children at the service.[231]

Other costs incurred may include use of Allied Health services (for example, occupational therapists, speech pathologists, child and family practitioners), engaging with additional support resources as required (such as social workers and child protection workers), and obtaining any specialist equipment required to support the child. Additional training may also be required to support educators to care for children with disability and/or complex needs, which may incur both a financial cost and a resourcing cost.

The accommodations required may significantly vary depending on the needs of the child and the care environment. For example, a Strategic Inclusion Plan developed by a large outside school hours care provider identified a risk of a number of children in their service with additional needs and communication difficulties trying to abscond from the service while in care. The provider noted that the addition of another educator had allowed the service to better support children who often abscond, however the provider was requesting 2 inclusion support staff per shift to guarantee the safety and inclusion of all children, noting that the service had at least 8 children with a tendency to abscond on a frequent basis and one inclusion support staff member was not sufficient if all children wanted to participate in a playground activity.

230 ACCC, Childcare Inquiry June interim report, p 104.

231 ACCC, Childcare Inquiry September interim report, p 86.

Some family day care educators and services advised during outreach discussions that they aim to ensure care is available for children in emergency situations, for example in circumstances of domestic violence or situations where children require foster care, but also noted that complex care needs of some children can lead to longer and unplanned care that impacts on income.

Participants in the parents and guardians roundtable discussed that there is no incentive for a childcare service to make investments in order to improve accessibility for children with disabilities. Participants also noted that there is no financial recognition of the complex work that educators do when caring for children with disability and/or complex needs, and staff and educators can feel overwhelmed and under-supported.[232]

Many providers who care for high numbers of children with complex needs also noted that it can take a lot of time to help parents and guardians of children with disability and/or complex needs to be able to access appropriate support and funding. Some medium and large centre based day care providers who care for high numbers of children with disability and/or complex needs have engaged additional staff to specifically support children, parents and educators with accessing additional funding and support.

Participants in the provider roundtable noted that to adequately support children with disabilities and/or complex needs, the workforce needs additional professional development and time to work with households and allied health professionals. As the labour market becomes tighter it is harder to find staff who want to work in these contexts without higher wages and flexible conditions.

Providers report difficulties accessing additional funding

Providers noted difficulties with accessing additional funding available, both in terms of the time taken to apply for funding, and also the difficulties involved with understanding the different funding options available for each child's individual circumstances, with one small provider referring to a 'patchwork funding model'. These difficulties appeared particularly significant for small and medium centre based day care and outside school hours care providers, who may not have access to the same level of resources and specialised staff as large providers.

Some providers choose not to engage with the funding system due to the time and complexities involved. For example, during outreach discussions some small centre based day care providers advised that the process of applying for inclusion support was not user-friendly and was too time consuming, so the provider chose to cover the costs of higher staffing ratios instead.

The recent Inclusion Support Program review noted that nearly all stakeholders identified the Inclusion Support Portal as one of the largest perceived barriers to accessing the program. The review also noted an additional challenge for outside school hours care providers, identifying that these providers are expected to submit a different Strategic Inclusion Plan for each type of care provided, resulting in many services having to submit and update 3 different Strategic Inclusion Plans (for before school care, after school care and vacation care).[233]

The time taken to receive funding was also a commonly raised issue by childcare providers, who advised that it can take a very long time for a child to receive a diagnosis, and by the time inclusion support is applied for and approved, the child may have already left the service to start school.

Providers also noted that access to funding is often dependent on the willingness of households to go through the process of seeking a diagnosis for their child and applying for inclusion support. Some households may find it difficult to navigate the system, especially households who speak limited English, or may not wish to engage. Providers expressed their concern that the systems are so complex that some children are not getting the care and development they need, and may be receiving delayed intervention. Additionally, not all children with disability and/or complex needs are

232 ACCC, Childcare Inquiry parents and guardians roundtable summary, 15 September 2023, p 3.

233 Deloitte Access Economics, Review of the Inclusion Support Program – Final Report, September 2023, p 105.

eligible for additional funding. For example, children with a trauma background may have complex requirements but may not have a specific diagnosis.

A number of centre based day care and outside school hours care providers also found it difficult to recruit staff to provide care for inclusion support, which limited their ability to provide additional support, even when funding was approved.

Providers also shared their difficulties in accessing other forms of financial support. For example, multiple small centre based day care providers advised they experienced difficulties in receiving payment for children who are in the Child Protection system, stating that they had experienced confusion with the process for getting outstanding bills paid and a lack of understanding about who to contact to chase down outstanding payments. As noted above in 5.4.1, providers may also forgive debts in situations where frequent changes in a child's care arrangement prevent the Child Care Subsidy from being available.

Additional funding does not adequately cover costs incurred

A large childcare provider reported that additional needs funding does not cover 100% of their costs incurred for supporting children with additional needs. This provider's inclusion policy means that they do not turn children away, which can lead to financial pressures at certain centres that have consistently high numbers of children with additional needs.

Another large childcare provider noted in a review of their autism model approach that they have a high number of children diagnosed with mild to high functioning autism enrolled in their services, and their current model for supporting children with autism was not financially sustainable. The provider had begun investigating alternative mainstream inclusion models.

Participants in the educator roundtable commented that additional support is needed for skilled staff to assist children with complex needs. For example, the existing funding may cover 5 hours of support for a child that is in care for 10 hours a day. The Inclusion Support Program review also recommended considering an adjustment to the hourly rate for the additional educator subsidy, noting a lack of defined increase in funding since initial funding agreement in 2016.[234]

Providers who care for high numbers of children with disability and/or complex needs sometimes cap enrolment numbers to ensure quality of care

Childcare providers who care for high numbers of children with disability and/or complex needs often gain a reputation for being inclusive and welcoming of children with disability and/or complex needs, which can lead to increased demand.

Many childcare providers expressed their focus and commitment to ensuring appropriate care for these children, while also acknowledging the cost of doing so. For example, a small centre based day care provider noted that paediatricians refer children disability and/or complex needs to their centre, as they take children that others can't or won't, which has led the centre to incur increased costs, with the centre also considering reducing the numbers of children in one of their rooms to improve outcomes.

Many small and medium centre based day care providers caring for high numbers of children with disability and/or complex needs discussed either capping or having considered capping enrolment numbers to be able to effectively manage complex behaviours in children. Some services found that in particular, aggressive behaviour in children could lead to increased difficulty in managing enrolment numbers.

234 Deloitte Access Economics, Review of the Inclusion Support Program – Final Report, September 2023, p 110.

Family day care educators also spoke about the difficulty in managing numbers with a child with disability and/or complex needs and one family day care educator discussed reducing their number of places offered to be able to provide adequate care for a child with disability and/or complex needs. The Inclusion Support Program review also identified a lack of incentive for family day care services to access the program, as the top-up amount effectively reduces the amount of funding that a family day care service can charge in fees to households.[235]

Additionally, a large childcare provider discussed methods for ensuring high quality and inclusive early learning for centres with a very high proportion of children experiencing vulnerability, including considering additional resourcing or enrolment caps.

5.4.5 Children from a culturally and linguistically diverse background

Culturally and linguistically diverse households may face a number of systemic barriers to accessing childcare services, including:

- difficulties accessing the Child Care Subsidy
- communication and language barriers
- difficulties finding a culturally inclusive childcare service.

Our engagement with culturally and linguistically diverse households through the culturally and linguistically diverse roundtable and the translated parents and guardians surveys[236] provided a number of insights. These included a preference for children to attend culturally inclusive childcare services, observations about cultural norms and expectations regarding childcare, and a higher use of family day care by culturally and linguistically diverse households. However, we note that the sample size for the translated parents and guardians survey is relatively small and may not be representative of culturally and linguistically diverse communities in general.

Many of our voluntary outreach discussions with small and medium providers also addressed issues and barriers that culturally and linguistically diverse households may face when accessing childcare, as well as the views of providers who focus on offering culturally inclusive services.

As noted in our September interim report, providers may offer a range of additional supports to children from culturally and linguistically diverse households, including training for educators and other staff and the purchase of additional resources such as language books and play materials.[237] This might have the effect of increasing the costs incurred by providers when caring for children from a culturally and linguistically diverse background.

Culturally and linguistically diverse households may be unable to access the Child Care Subsidy

Some culturally and linguistically diverse households are unable to access the Child Care Subsidy, either because they are not eligible to receive the subsidy, or because it is difficult for them to apply for the subsidy and they are unable to access the assistance they need. The current Activity Test may also create a barrier for households to be able to access affordable childcare.[238]

Our culturally and linguistically diverse roundtable discussed particular challenges faced by asylum seekers and visa holders, noting that people seeking asylum in Australia are generally not eligible for

235 Deloitte Access Economics, Review of the Inclusion Support Program – Final Report, September 2023, p 109.

236 The parents and guardians survey was translated into 5 languages: Simplified Chinese, Traditional Chinese, Korean, Arabic and Vietnamese.

237 ACCC, Childcare Inquiry September interim report, p 85.

238 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 15 September 2023, p 3.

the Child Care Subsidy, and some visa restrictions prohibit visa holders from having permanent work which impacts on their ability to afford childcare (box 5.4).[239] These issues were also raised in the parents and guardians survey as illustrated by the following comments:

> 'People seeking asylum are not eligible for childcare subsidies and cannot afford childcare fees on casual, minimum wage.'
>
> 'My friend is seeking asylum and cannot get the subsidy.'

Some providers assist culturally and linguistically diverse households who cannot access the Child Care Subsidy, for example by offering fully funded places for children of asylum seekers, by offering discounted childcare fees for migrants who are not eligible for the Child Care Subsidy, or by setting lower fees for sites that are located in areas with high numbers of migrant households.

It was also noted in the culturally and linguistically diverse roundtable that cost and accessibility pressures are resulting in culturally and linguistically diverse households accessing informal childcare arrangements as an alternative to formal childcare services. While these arrangements can be positive from a cultural community perspective, these services are unregulated and can pose a risk to children.[240]

Box 5.4: Some members of the culturally and linguistically diverse community have particular financial challenges in accessing childcare

Roundtable discussions with members of culturally and linguistically diverse communities highlighted that many households cannot afford childcare due to the financial burden. This can be exacerbated by a lack of access to subsidised childcare because of visa restrictions. As a result, access to formal childcare is either limited or households are excluded altogether.

At the roundtable, we heard the powerful story of a woman who had come to Australia seeking asylum. Her husband then died, leaving her with 2 young children. The young widow had working rights but no access to the Child Care Subsidy or Medicare. This created enormous cost barriers to accessing childcare, leading to her having to withdraw her children from care. Ultimately charities came forward to assist her with childcare costs, which meant she could return to work to support the household.

In some communities, not being able to afford childcare can bring feelings of shame causing households to offer other explanations for why children are not in childcare, for example for cultural reasons. This can mask the extent of the challenges faced by these communities.

Cultural expectations may also affect a household's decision to use childcare

Use of childcare may be affected by cultural views on childcare. Households may not feel comfortable sending their children to formal childcare services, and they may also have limited knowledge of early learning programs.

Some people from a culturally and linguistically diverse background may have a distrust or fear of government as a result of experiences in their former countries,[241] which can act as a barrier to engaging with government systems to access the Child Care Subsidy. Similarly, cultural stigma associated with accessing the Child Care Subsidy may mean that some households choose not to

239 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 15 September 2023, p 4.

240 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 15 September 2023, p 3.

241 Benevolent Society, Policy Position – Improving outcomes for culturally and linguistically diverse (CALD) children and families in contact with systems that protect children, 2 July 2019, accessed 22 November 2023.

access childcare, or choose to pay full fees, to avoid the requirement to apply to Services Australia to access Child Care Subsidy payments.

In our translated parents and guardians survey, households stated that the main reason they do not use childcare is because they do not need or want formal childcare, which may reflect their cultural beliefs, values and expectations of childcare. This is supported by research indicating that parents' and guardians' attitudes towards childcare are likely to vary based on their beliefs about what experiences are most important to children.[242] One survey respondent noted:

> 'There is a cultural expectation that immediate family will help out with child care and that daycare is a luxury. As a migrant family with no immediate family in the country this does not apply to us.'

Language barriers, irregular work hours, and technological requirements may cause accessibility challenges for culturally and linguistically diverse households

Culturally and linguistically diverse households may not be able to easily access information about childcare services, or the information may not be available in their community language. This is reflected in comments in our parents and guardians survey, for example:

> 'As recent immigrants we were not given information about different types of care and availability. It feels like we only have the one choice for out of school hours care for our daughter and it is too expensive, especially for vacation care.'

Navigating government portals and submitting paper work to support applications for the Activity Test is difficult and time consuming[243] and often requires support from interpreters or bicultural staff. Childcare services and other support services dedicate time and resources to help culturally and linguistically diverse households navigate the requirements to access childcare. It can take up to 5 sessions to work with a household to help them apply for assistance, meaning parents and guardians often need to take time off work to undertake this process.[244]

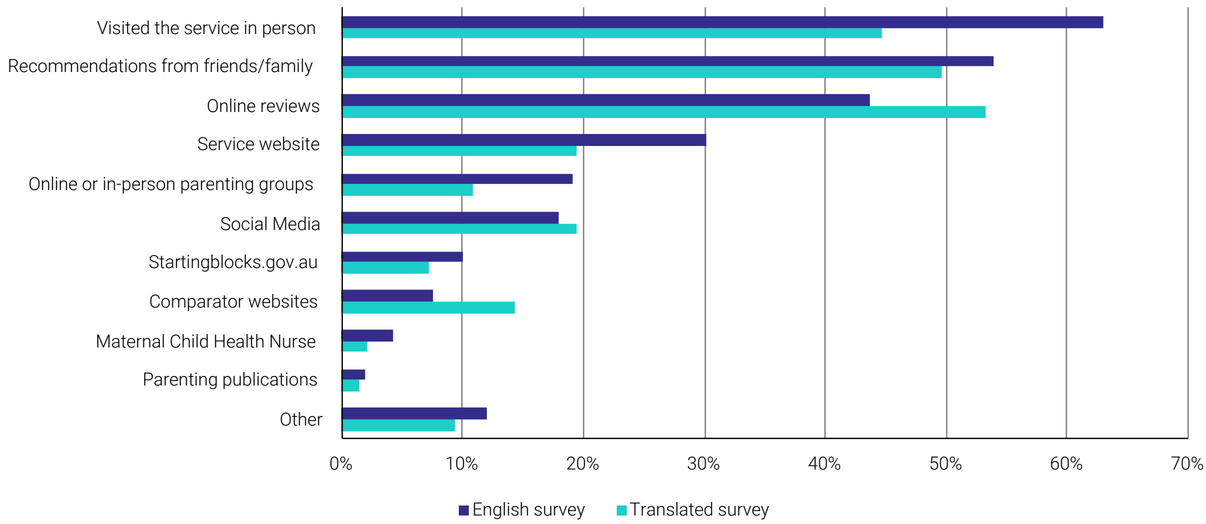
Compared to respondents to the English language parents and guardians survey, respondents to the translated parents and guardians survey were less likely to have received information about formal childcare services from in-person sources, such as site visits, and were more likely to have received information from online sources (figure 5.28).

242 Australian Government, Australian Institute of Family Studies, 'Child care in cultural context', December 2000, accessed 7 November 2023.

243 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 4.

244 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 4.

Figure 5.28: Sources of information about formal childcare



Source: ACCC analysis of English language and translated parents and guardians survey data.

In our culturally and linguistically diverse roundtable, stakeholders also raised that access to technology and being engaged in shift work or working casual hours may make childcare inaccessible or difficult to maintain. This is supported by responses from our translated parents and guardians survey where almost 40% of culturally and linguistically diverse parents and guardians require childcare outside of regular hours (6.30am–6.30pm), while only 22% of respondents to the English language parents and guardians survey reported that they require childcare outside of regular hours.

Additionally, a family day care service that focuses on providing services to culturally and linguistically diverse households noted in outreach discussions that some non-English speaking households have difficulties using electronic payments, so the inability to pay for childcare services in cash may pose an additional barrier to access for culturally and linguistically diverse households.

Many culturally and linguistically diverse households seek culturally inclusive childcare options

Culturally and linguistically diverse households may be more likely to access and engage with childcare services if they are supported by providers who focus on cultural inclusiveness.[245] For example, 39% of respondents to the translated parents and guardians survey identified a provider being able to accommodate cultural needs as one of the top 5 most important factors when choosing a childcare provider.

Building a sense of trust with culturally and linguistically diverse households is also important to help with successful integration into formal childcare services, as well as ensuring that their culture is being respected by childcare services and educators.[246] Effective engagement with culturally and linguistically diverse households requires building relationships based on trust and respect. Communication, whether in person, in writing or over the phone needs to be culturally and

245 T Harrison et al. 2017, *Maribyrnong City Council Education and Care Research Project, Federation University*, Australia; and L Hopkins et al. 2017, *How does 'community' facilitate early childhood service use in a multicultural Australian suburb?*, Journal of Early Childhood Research 15(1), pp 3–16.

246 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 4.

linguistically appropriate. Employers understanding the community is paramount to the success of any engagement program with culturally and linguistically diverse communities.[247]

Parents and guardians also mentioned the importance of services which understand and appreciate cultural differences, which reduces structural barriers:

> ‘This includes the ability to provide culturally safe spaces & respect for the rights of the child.’
>
> ‘Diversity of both educators and children to ensure broad cultural exposure for my child.’
>
> ‘Child care needs more cultural competency.’

Some small and medium centre based day care providers spoke in outreach discussions about ensuring their service was culturally inclusive to all children attending, for example by ensuring food provided is Halal, including bicultural and inclusion programs in the curriculum, recruiting staff from the cultural community they support, or by ensuring staff are trained to develop basic skills in other languages to be able to communicate with children who speak limited or no English.

Participants in our culturally and linguistically diverse roundtable also discussed the need to upskill staff providing childcare services to be culturally responsive and support culturally and linguistically diverse households and children, noting that communities are very diverse, and each community has different cultural elements, including language and customs.[248]

As discussed in chapter 6, family day care is important for many culturally and linguistically diverse households, providing an alternative choice to centre based day care that may be more flexible or better able to cater to particular cultural and linguistic needs.

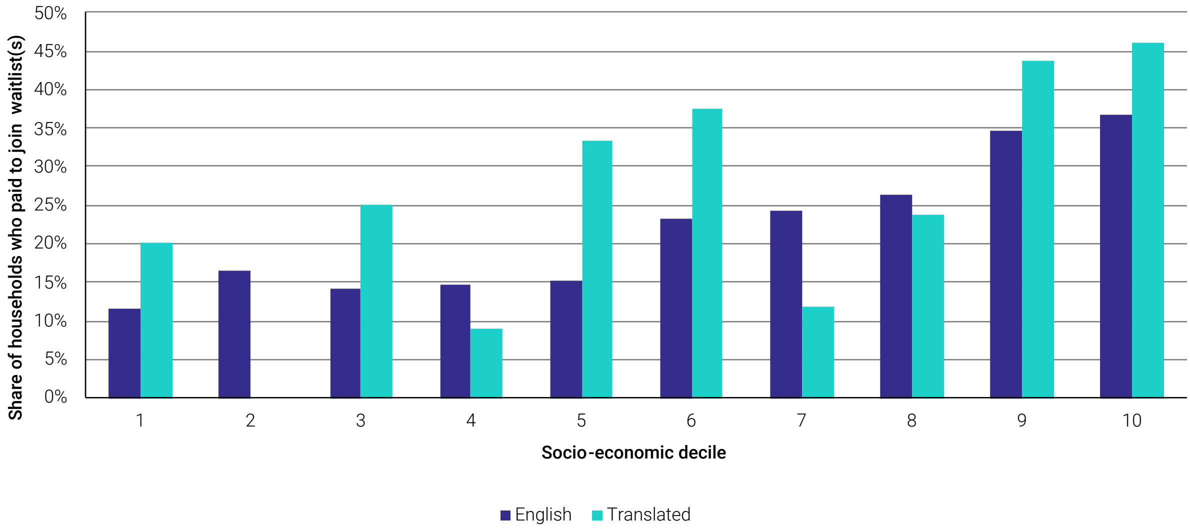
Culturally and linguistically diverse households are more likely to have paid to join a waitlist but less likely to have obtained a childcare place within their preferred timeframe

Our translated parents and guardians survey results indicate that a greater proportion of culturally and linguistically diverse households paid to join a waitlist (figure 5.29) and are more likely to join one or more waitlists than respondents to the English language parents and guardians survey (figure 5.30 and figure 5.31).

247 Ethnic Community Services Co-operative, Ethnic community Services Co-operative submission to ECA, 31 July 2015, p 4, accessed 29 November 2023.

248 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 4.

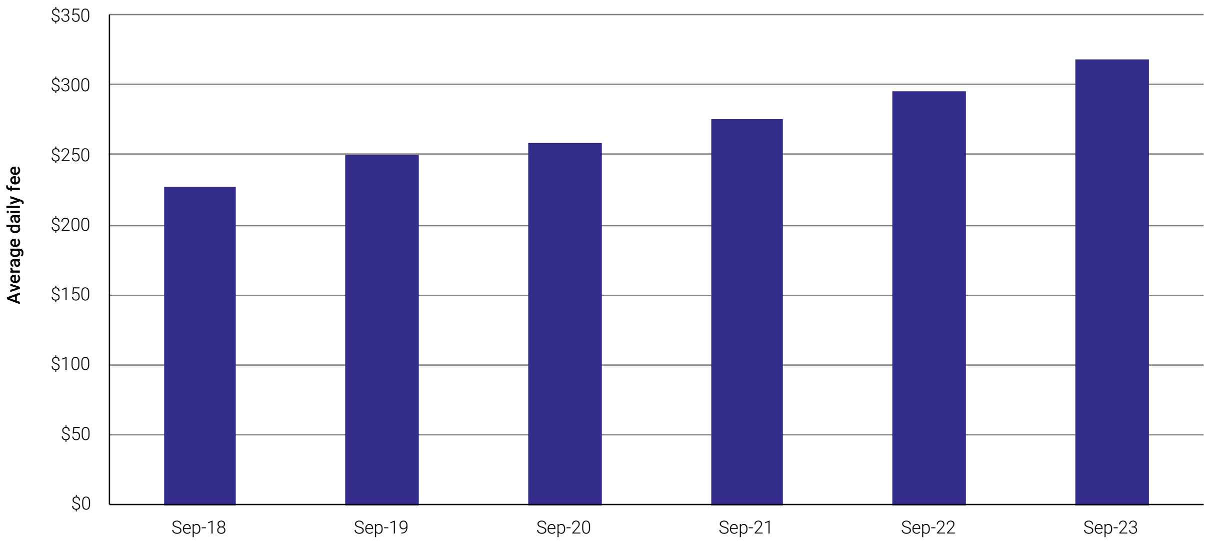
Figure 5.29: Share of households who paid to join a waitlist, by socio-economic decile



Note: Socio-economic decile refers to Statistical Area Level 2, Socio-Economic Index for Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

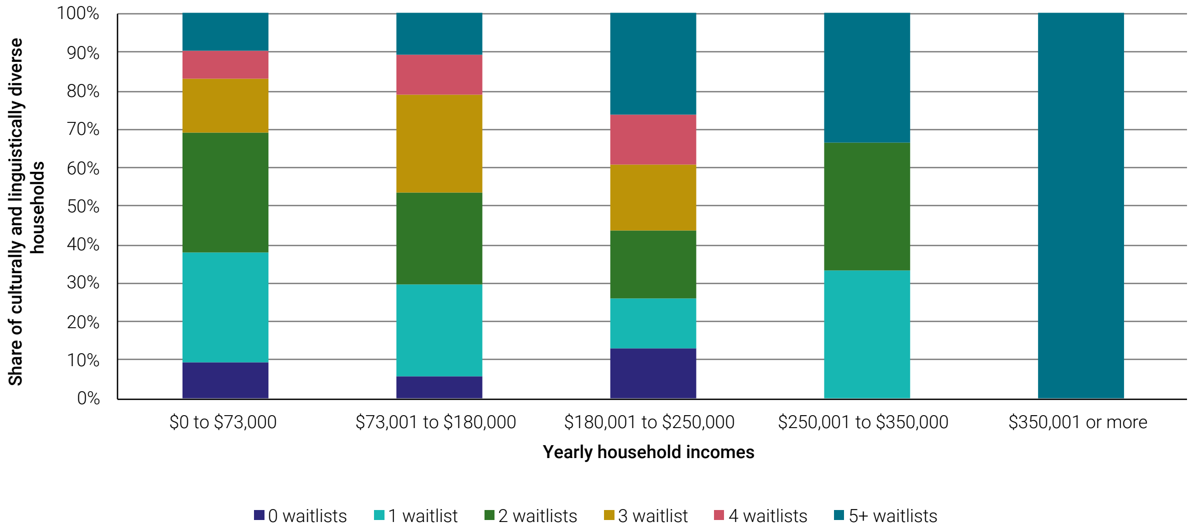
Source: ACCC analysis of English language and translated parents and guardians survey data.

Figure 5.30: Share of households that joined a waitlist, by household income and number of waitlists



Source: ACCC analysis of English language parents and guardians survey data.

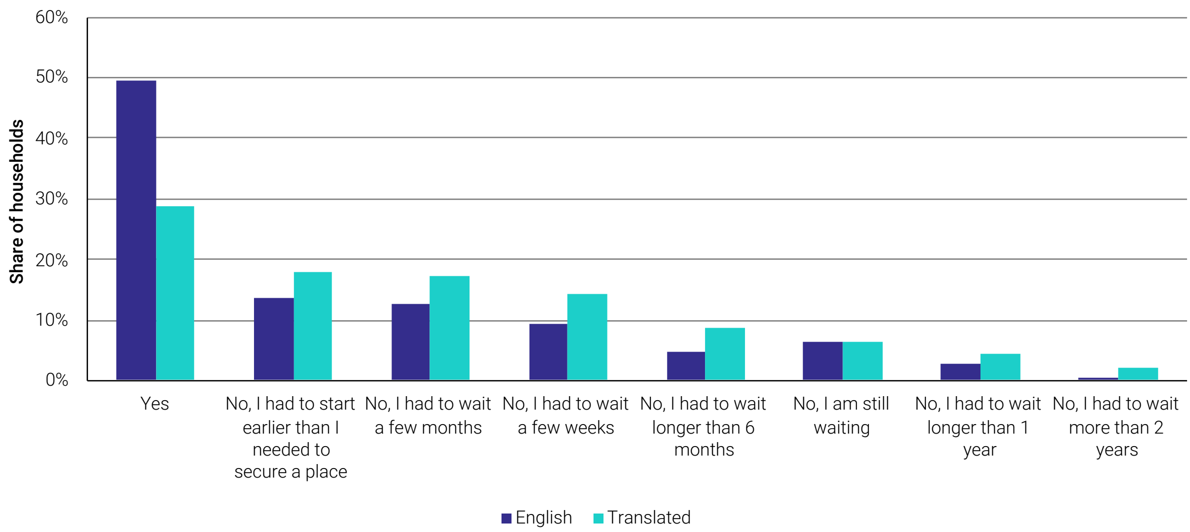
Figure 5.31: Share of households that joined a waitlist, by household income and number of waitlists



Source: ACCC analysis of translated parents and guardians survey data.

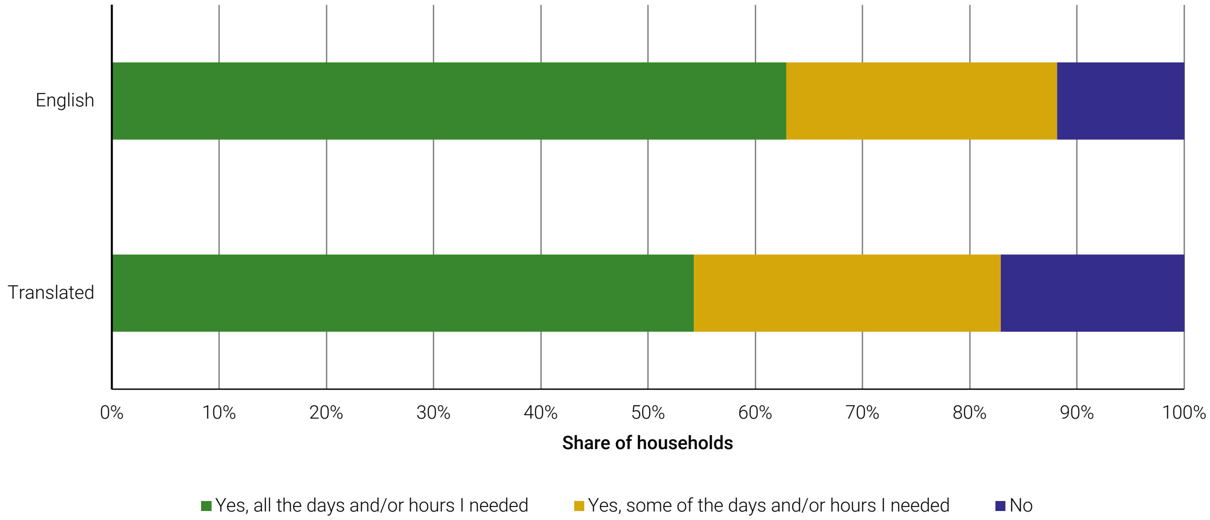
Culturally and linguistically diverse households are also less likely to get a place in childcare when needed (figure 5.32) and reported having less success than general households in securing all days wanted, for both the number of days sought and the specific days applied for (figure 5.33).

Figure 5.32: Share of households that reported securing a place in childcare when needed



Source: ACCC analysis of English language and translated parents and guardians survey data.

Figure 5.33: Share of households that reported securing required days in childcare



Source: ACCC analysis of English language and translated parents and guardians survey data.

Culturally and linguistically diverse households typically have lower income than English-speaking households

Data from the Australian Council of Social Service shows that 24.4% of those born in non-English speaking countries are in the lowest 20% of income earners, compared to 19% of those born in Australia and 17.4% of migrants from main English-speaking countries.[249] The same trend is observed at the top 20% of income earners, with those born in non-English speaking countries comprising 15.8% of this bracket, significantly lower than those born in Australia or another English-speaking country, at 22.3% and 25.3% respectively.

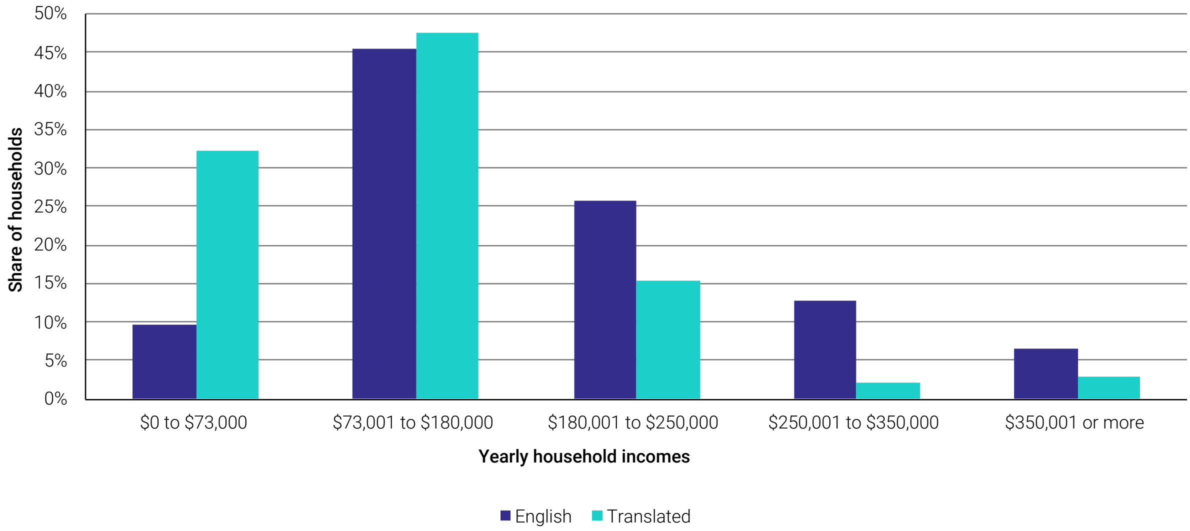
Research from Monash University found that occupation type does not account for the difference in average income between those born in non-English speaking countries and those born in Australia or English-speaking countries. Instead, the results of this research suggest that the difference in average income can be accounted for by the difference in English speaking proficiency between the 2 groups, as this factor has a 'significant positive effect on wages'.[250]

Data gathered from our parents and guardians survey support the above findings and suggest that the difference in access to and use of childcare between culturally and linguistically diverse and proficient English-speaking households is significantly affected by household income. Our findings indicate that culturally and linguistically diverse households typically have lower yearly household incomes than proficient English-speaking households, as shown in figure 5.34.

249 Australian Council of Social Service, Income distribution of people by country of birth, accessed 22 November 2023.

250 A Islam & J Parasnis 2014, *Native-Migrant Wage Differential Across Occupations: Evidence from Australia*, International Migration 54(3), Monash University.

Figure 5.34: Yearly household income



Source: ACCC analysis of English language and translated parents and guardians survey data.

Figure 5.34 shows that a much larger proportion of culturally and linguistically diverse respondents are in the lowest income bracket ($0 to $73,000 per year) at 32%, compared to just 9.5% for English-speaking household respondents. Further, English-speaking households are represented at higher proportions across the 3 highest income brackets. This indicates that culturally and linguistically diverse households may have a lower average income than English-speaking households. We note that some of the differences between our English language parents and guardians survey results and translated survey results could be driven by differences in income

6. Family day care and in home care

6.1 Key points

- The volume of family day care services and in home care services have significantly reduced across Australia since 2018.
  - Family day care reduced from 518 services in 2018 to 402 services in 2023.
  - In home care reduced from 56 services in 2018 to 37 services in 2023.
- Family day care is a valued alternative childcare choice for a number of diverse cohorts of children and households but the availability of these services has significantly diminished since 2018.
- Use of family day care services has been reducing since 2018. Family day care services appear to be profitable, but some parts of the sector face viability issues.
- Family day care educators who provided information to this inquiry reported earning a very low annual wage, despite 50% of educators holding a qualification that is higher than required.
- In home care services do not appear to be very profitable. In home care services that employ educators directly made a loss, while services with a contractor model made a small profit. The inquiry has heard from stakeholders that there are much better financial incentives for in home care providers and educators to operate in other sectors, such as the National Disability Insurance Scheme.
- In home care educators engaged as contractors earn a very low annual wage. The prominence of short and ad-hoc shifts, combined with better pay under the National Disability Insurance Scheme is leading to the attrition of educators from the childcare sector.

This chapter includes analysis of the costs and profits involved in delivering family day care and in home care services, as well as commentary on the households who are more likely to use family day care and in home care.

We have undertaken outreach with the family day care and in home care sectors through voluntary information gathering and surveys of family day care educators and in home care educators. We also held a childcare educator roundtable and an in home care roundtable in August and September 2023 respectively.

The chapter is presented as follows:

- Section 6.1 outlines key points.
- Section 6.2 provides an overview and analysis of family day care, including the costs and profits of family day care educators and services.
- Section 6.3 provides an overview and analysis of in home care, including the costs and profits of in home care educators and services.

Box 6.1: Family day care and in home care data collection, analysis, and limitations

The ACCC engaged with services and educators through a mixture of face-to-face meetings, online meetings and surveys. All engagement was voluntary, and overall, the sample size is far smaller than that of centre based day care and outside school hours care. Due to the varied collection methods, incomplete data entries, and self-selection in the services and educators who chose to engage with the ACCC, we expect the sample may not fully represent the average costs and profits of the sector. This is further discussed in the below sections on profit (sections 6.2.4, 6.2.7 and 6.3.4).

As outlined below, family day care educators are primarily engaged as contractors, requiring analysis of their costs and profits separate to those of family day care services (or providers). Due to the varied outreach methods, along with incomplete data entries, different samples are used across different analyses.

Unlike costs presented for childcare services, educator costs do not include labour expenses as an educator's income is any profit they make as sole traders. Similarly, the labour costs presented for family day care services will not include the payments to family day care educators, however, it does include the salaries of coordinators and administrative and finance staff who are directly employed by the service.

In home care services follow one of 2 models – they engage educators as either contractors or employees which has significant implications for service and educator costs. Where possible, analysis is presented separately for these 2 groups, however, where data or sample size issues have been identified in one or both cohorts, combined analysis is used.

6.2 Family day care

Family day care offers a small-group care option for children between 0 to 12 years old, typically in an educator's home. Educators are typically contracted by the service rather than employed, working from their own homes with small groups of no more than 4 children under school age, with the option to care for an additional 3 school-aged children outside of school hours.

The nature of this care type provides educators with an opportunity to provide a more personalised learning program and develop strong connections with children and families.[251] Family day care services fulfil a role of helping to match educators with families seeking family day care as well as ensuring some government oversight of the delivery of care.

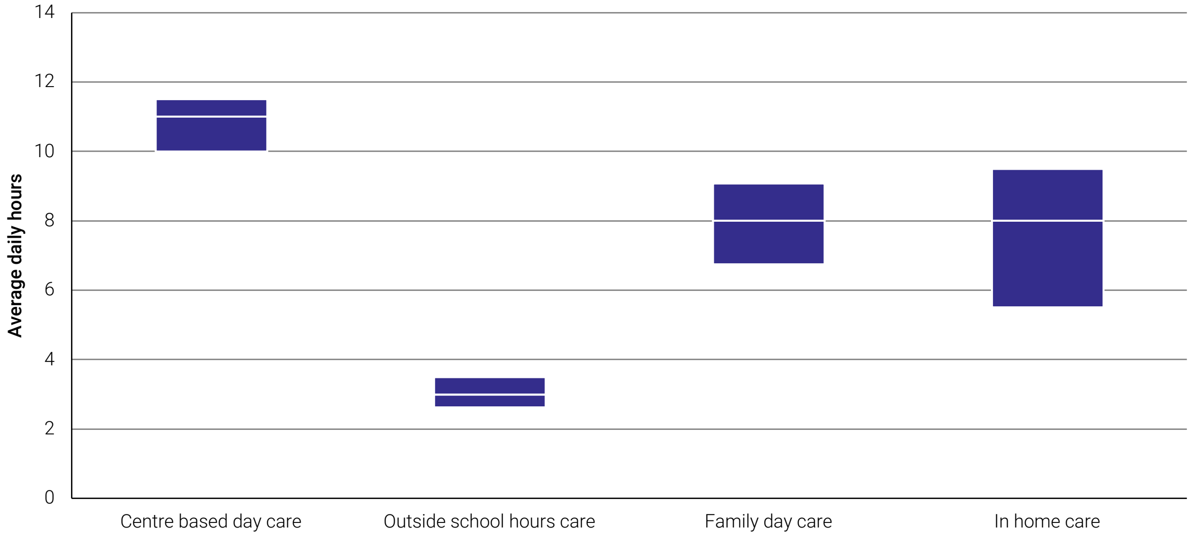
Family Day Care Australia has noted one of the benefits of family day care is the ability to provide shorter sessions (up to 6 hours) compared to centre based day care services, especially in the face of changing work patterns, where casual, contract and part-time work is common, and women form 68.1% of the part time workforce.[252] Family day care can also provide longer sessions and flexible hours, such as on weekends or overnight. In this sense, family day care provides a small scale, highly flexible childcare option for parents and guardians needing care for their child or children.

Figure 6.1 illustrates the average daily session lengths by care type, showing the average daily session length for family day care is substantially shorter than the average daily session length for centre based day care.

251 Family Day Care Australia, FDCA Pre-Budget Submission 2023–2024, January 2023, p 15.

252 Family Day Care Australia, FDCA Pre-Budget Submission 2023–2024, January 2023, p 3.

Figure 6.1: Upper quartile, median and lower quartile of average daily session lengths, by care type, September quarter 2023



Note: Average daily session lengths are shown above for centre based day care, family day care and in home care. Outside school hours care is shown as sessional, not daily. Each box represents the interquartile range (the middle 50%) of the weekly average daily (or session) hours for each type of care. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data.

6.2.1 The lower Child Care Subsidy rate cap for family day care may not adequately cover costs of supply

As outlined in chapter 2, the Child Care Subsidy hourly rate cap is lower for family day care than for centre based day care and outside school hours care. The stakeholder feedback we received indicates that the Child Care Subsidy hourly rate cap may be too low to adequately ensure viability in the family day care sector and incentivise supply of family day care services.

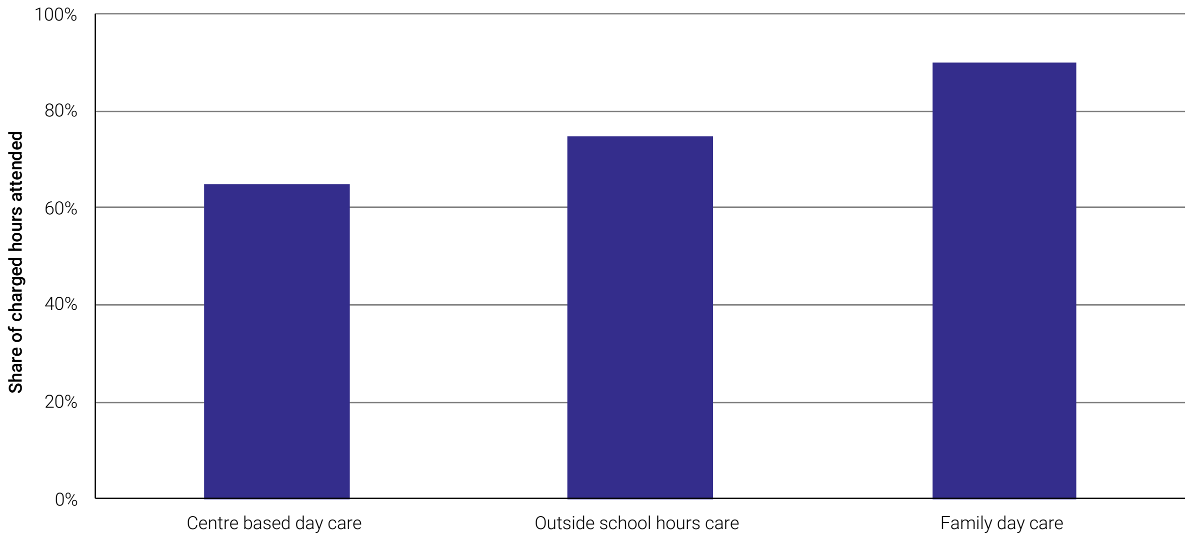
We also note in chapter 1 that StartingBlocks.gov.au only publishes information about family day care services and not educators, which limits the information available for consumers in considering the options available in their local market. Publishing family day care educator locations and fees on StartingBlocks.gov.au may enhance visibility of the family day care sector, and assist households in identifying all childcare options available in their local area.

As noted in chapter 2, despite the 2023 indexation of the hourly rate cap, around 1 in 3 family day care services charge above the hourly rate cap. This likely reflects that the costs of providing these services exceeds the hourly rate cap.

Analysis in chapter 2 finds that for the September quarter 2023, family day care used the highest percentage of subsidised hours as a share of total hours charged by service type. This may be due to the greater flexibility in session hours offered by family day care educators, allowing households to structure their usage in the most beneficial manner.

Figure 6.2 shows the share of charged hours that were attended by children, by care type, in the September quarter 2023. Family day care had a significantly higher number of charged hours attended by children compared to centre based day care and outside school hours care.

Figure 6.2: Share of charged hours that were attended, by care type, September quarter 2023



Source: ACCC analysis of Department of Education administrative data.

Chapter 3 finds that average daily fees for family day care are lowest for low-income households, and higher in Regional and Remote areas compared to Major Cities. As we find in our analysis of responses to the English language parents and guardians survey, households with an income of less than $73,000 were proportionally more likely to use family day care than those with higher household incomes.

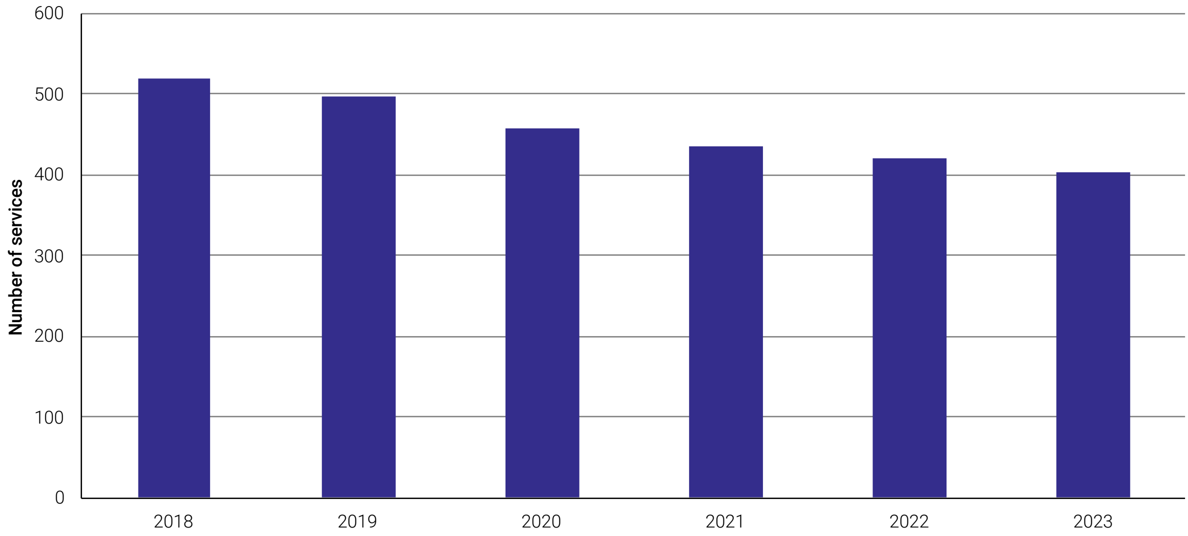
6.2.2 The family day care sector is shrinking

As shown in figure 6.3, the number of family day care services have continued to decline each year, reducing from 518 services in 2018 to 402 services in 2023.

Family Day Care Australia has observed that family day care educator numbers are also contracting, noting a decline in educator member numbers from 10,878 in June 2021 to 9,618 in June 2022.[253]

253 Family Day Care Australia, Family Day Care Sector Profile, June 2022, p 6.

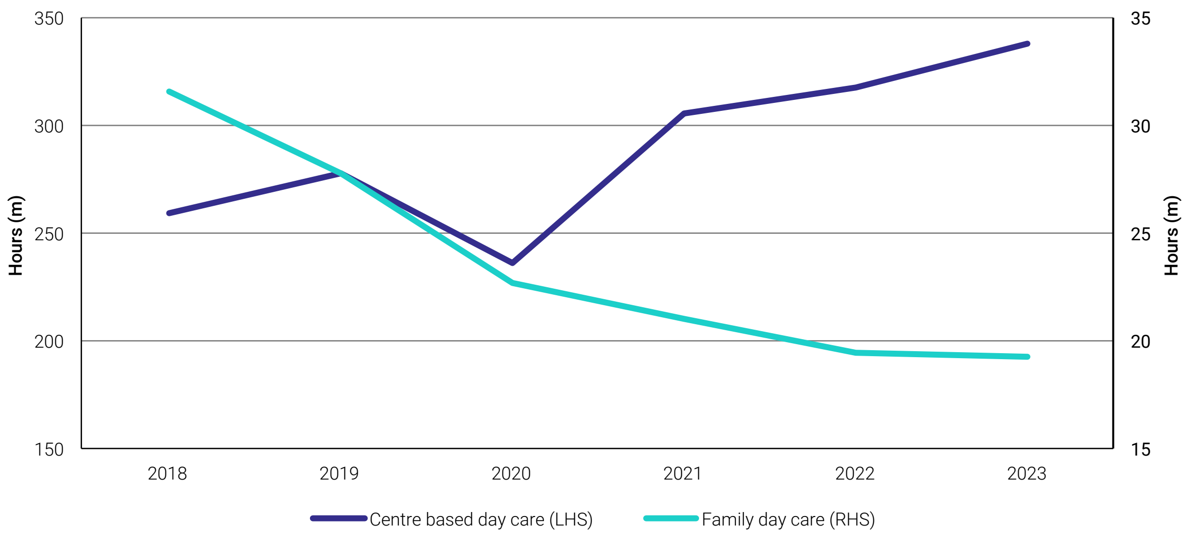
Figure 6.3: Number of family day care services by calendar year, 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

When examining the number of hours charged by both the centre based day care and family day care sectors, family day care also shows clear signs of contracting, starting a downwards trend in utilisation before the COVID-19 pandemic, while centre based day care utilisation has been growing since the introduction of the Child Care Package (figure 6.4).

Figure 6.4: Total charged hours (millions) of centre based day care compared to family day care, September quarter 2018 to 22



Source: ACCC analysis of Department of Education administrative data.

A number of reasons may be contributing to the contraction of the family day care sector. It has been suggested that one of the reasons is the expansion of free preschool in states such as Victoria[254] and New South Wales.[255] This has the likely effect of diverting children away from family day care services, which cannot deliver preschool.

254 Victorian Government, Free Kinder guidelines for services 2023, accessed 17 November 2023.

255 NSW Government, Start Strong Funding, accessed 20 December 2023.

Alternatively, it is possible that the family day care sector is shrinking due to reduced viability or other societal and cultural shifts. As discussed below in section 6.2.4, family day care educators have very low annual wages. The low financial incentives to work as a family day care educator, along with increasing regulatory requirements and the negative impact of COVID-19 on the sector, may also be contributing to the decline in family day care educators.

The Productivity Commission observed that the decline in family day care service numbers is likely to also be a result of ongoing integrity measures which were previously introduced to address potential fraud and non-compliance in the family day care sector.[256]

As discussed below in section 6.2.3, the reduction in family day care services may be disproportionately affecting certain households who rely more on, or have a higher preference for, family day care.

6.2.3 The reduction in family day care services may have a disproportionately negative effect on certain households

Our analysis indicates that certain cohorts rely proportionately more on, or have a higher preference for, family day care than other households. This includes households from culturally and linguistically diverse backgrounds, households in less advantaged areas, households with parents or guardians that work non-standard hours, and those living in very remote areas.

The ongoing reduction in family day care services is likely to have a disproportionate and negative effect on these cohorts and reduce a household's ability to enrol in a childcare service which is best suited to their needs.

Family day care is important for culturally and linguistically diverse children, providing an alternative choice to centre based day care

Family day care provides the ability for educators to connect with a smaller group of children, allowing educators to create a more personalised experience catered towards childrens' cultural backgrounds. As such, a family day care environment may be better suited for culturally and linguistically diverse households.

One of the benefits of family day care is that a family day care educator may have the same cultural background as the children in care, and may be able to reproduce cultural values and speak the same language as the household. A 2006 study by the Australian Institute of Family Studies found many family day educators were culturally diverse and that almost all carers in this setting were from the same cultural background as the child in their care. In contrast, only about half of carers in centre based care settings were from the same cultural background.[257]

In addition, the ACCC's June interim report found that family day care services have the highest proportion of children with a primary language other than English spoken at home (at 17%), relative to other forms of care where the proportion of children with a primary language other than English spoken at home ranges from 1% to 3%.[258] Attendees at the ACCC's culturally and linguistically diverse roundtable reported that culturally and linguistically diverse households will often access family day care services where their children can form a strong relationship with one educator.[259]

256 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023, p 323.

257 K Hand, Parenting partnerships in culturally diverse child care settings, Research Report, Australian Institute of Family Studies, June 2006.

258 ACCC, Childcare Inquiry – June interim report, June 2023, p 28.

259 ACCC, Culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 5.

The value of family day care to culturally and linguistically diverse households is an observation also shared by Family Day Care Australia. Family Day Care Australia noted from the 2021 Early Childhood Education and Care National Workforce Census that almost half the total number of children from (or with parents and guardians from) a refugee or special humanitarian program background (4,590) attended family day care services. This compares to only 3,343 in centre based day care services, a sector over 10 times the size of family day care.[260] Family day care may better assist children and parents of non-English speaking backgrounds to transition into a new environment, and also has the ability to provide a culturally inclusive form of care.

Family day care can offer flexible care options for shift workers and families who work irregular hours

Family day care educators often offer flexible care options including shorter sessions, longer sessions, and the ability to swap or change sessions at short notice. Some family day care educators also offer non-standard hours care including before 7am, after 6pm, weekends, overnight care, and public holiday care, as well as child transport (pick up and/or drop off from school or other venues), usually for an additional fee.

Many family day care educators advised during outreach discussions that they will offer flexible hours to their clients to meet their needs. For example, offering an earlier start time if needed by a household on a particular day, or by not enforcing a late fee as long as a parent or guardian keeps the educator informed of their expected pick-up time.

Family Day Care Australia noted in their submission to the inquiry that the flexibility and non-standard hours offered by family day care educators support important industries including nurses, paramedics, police officers, FIFO workers, cleaning contractors, factory workers, farmers and hospitality industry workers.[261] Family Day Care Australia suggest an additional loading to the Child Care Subsidy of 20% for non-standard hours to adequately reflect the cost of providing such care.[262] In the family day care educator survey, one educator observed that evening, overnight and weekend care could be provided much more often by family day care educators if the Child Care Subsidy cap was higher, noting ‘it is very hard to justify giving up your “free time” for one or 2 children at $12 per hour each’.

There is greater use of family day care in Regional and Remote and less advantaged areas

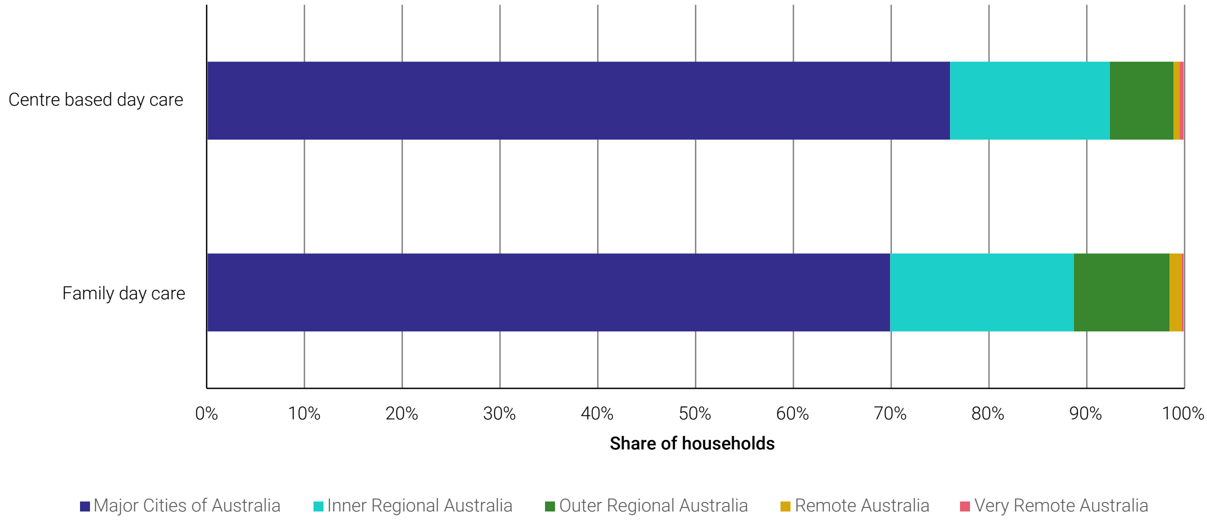
Family day care is used by a higher proportion of households in Remote and Regional Australia and in less advantaged areas. Figure 6.5 shows that a higher percentage of households who use family day care services are located in Regional and Rremote Australia, compared to households who use centre based day care services.

260 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

261 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

262 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

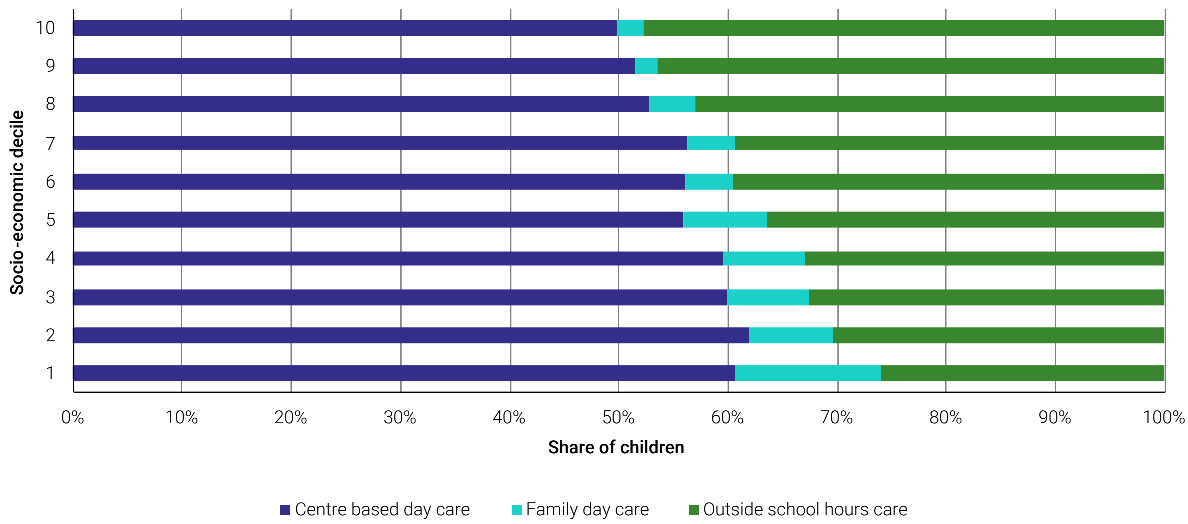
Figure 6.5: Share of households by service type and remoteness, 2022



Source: ACCC analysis of Department of Education administrative data.

The family day care sector provides care for a significant proportion of households in areas of less advantage, with approximately 72% of children who attend family day care services in 2023 located in areas that are ranked in the 5 deciles of least advantage (figure 6.6).

Figure 6.6: Share of children, by service type and area socio-economic decile, 2023



Note: Statistical Area Level 2, Socio-Economic Indexes For Areas (Index of Relative Socio-economic Advantage and Disadvantage) decile.

Source: ACCC analysis of Department of Education administrative data.

The Productivity Commission draft report has suggested there is potential for family day care to operate as an effective solution to addressing under-served markets including regional areas, as set up costs are lower.[263]

Although set up costs for family day care are much lower compared to centre based day care, many family day care educators shared during outreach that they incurred significant costs when setting up their family day care business. These costs varied by educator, but could include costs for modifications to their home to meet requirements, undertaking required checks such as a working with children check and police check, obtaining insurance, and purchases such as toys, educational equipment, safety equipment, first aid supplies, cots and other bedding, change tables, IT equipment, and software. These upfront costs incurred by educators may deter entry into the family day care sector, especially since costs of this nature are not incurred as an educator in other childcare sectors such as centre based day care.

Family Day Care Australia has advocated for new family day care educators to receive a direct funding support program (an 'Educator Start-up Grant') to assist in overcoming some of the financial barriers to entry into the sector,[264] and this recommendation was also voiced by a number of family day care educators during outreach.

Family day care services may also face barriers to entry, including additional regulatory requirements in the first year of operation, challenges obtaining approval for Child Care Subsidy,[265] and increasing difficulty in finding family day care educators and coordinators in a shrinking sector. The costs of complying with regulatory requirements may also not benefit from the economies of scale that other types of childcare may achieve, owing to the low maximum number of children an educator can care for at one time.

When considering family day care as a solution to addressing under-served markets in regional and rural areas, the ability of a family day care service to be able to oversee a rural or regionally located educator in a cost-effective manner also needs to be taken into account. High travel costs associated with coordinator visits to an educator (for example flights or petrol costs and accommodation) may challenge the viability of a family day care service.

6.2.4 Family day care educators have very low annual wages

In 2022, family day care educators who provided costs information to the ACCC had total expenses of $30,865 while they received $67,468 in revenue (figure 6.7). This represents a 54% net profit ratio over their costs, or annual educator wages of $36,603. In comparison, the Henderson poverty line for December quarter 2022 was calculated at $31,341.96 for a single person inclusive of housing costs.[266] Family Day Care Australia's 2022 survey of 451 educators[267] indicated the average working week was 44.1 hours, making an effective hourly rate of $21.44, significantly below the award ($26.42 in 2022)[268] without considering additional staffing costs such as superannuation.[269]

263 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023, p 349.

264 Submission 66, Family Day Care Australia, initial submission to Productivity Commission early childhood education and care (ECEC) sector inquiry, May 2023.

265 According to the Productivity Commission draft report, during the 2022–23 financial year, the Department of Education received 35 applications to approve new family day care services for receipt of Child Care Subsidy, of which 4 were approved and 31 were refused – Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023, p 349.

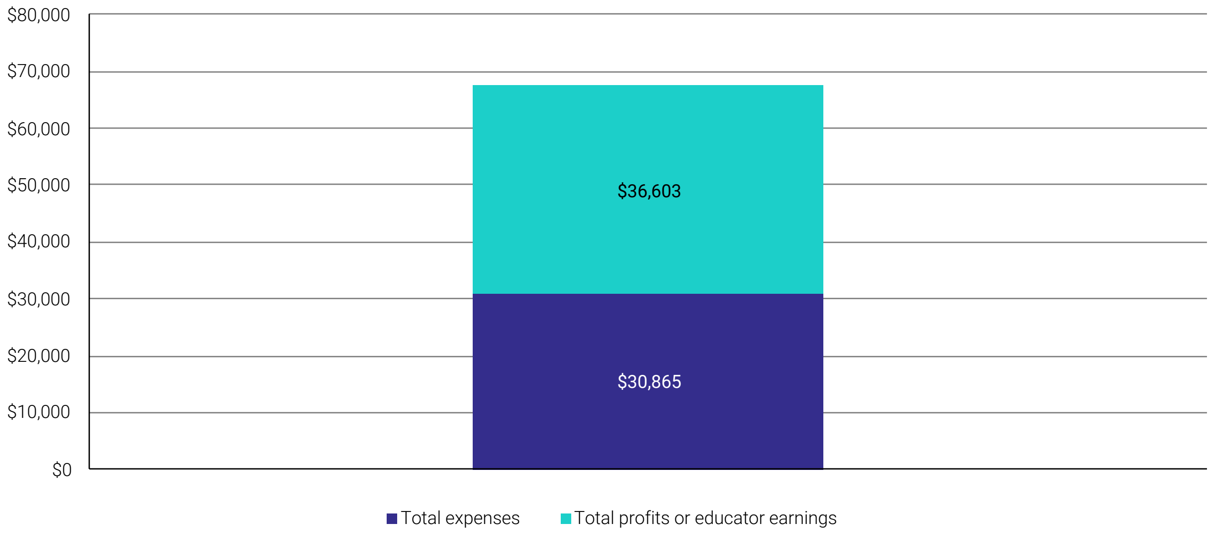
266 The Henderson poverty line is based on an index of per capita household disposable income, updated each quarter from the Henderson poverty inquiry. Melbourne Institute: Applied Economic & Social Research, Poverty Lines Australia – December Quarter 2022, May 2023, p 1.

267 Family Day Care Australia, FDCA Pre-Budget Submission 2023–2024, January 2023, p 9.

268 Fair Work Ombudsman, Children Services Award 2010, accessed 17 November 2023.

269 Noting the hourly award rate is based on the Level 3.3 of the Children Services Award, which Family Day Care Australia consider is the base level experience a family day care educator would have.

Figure 6.7: Average total expenses and profit of family day care educator, 2022

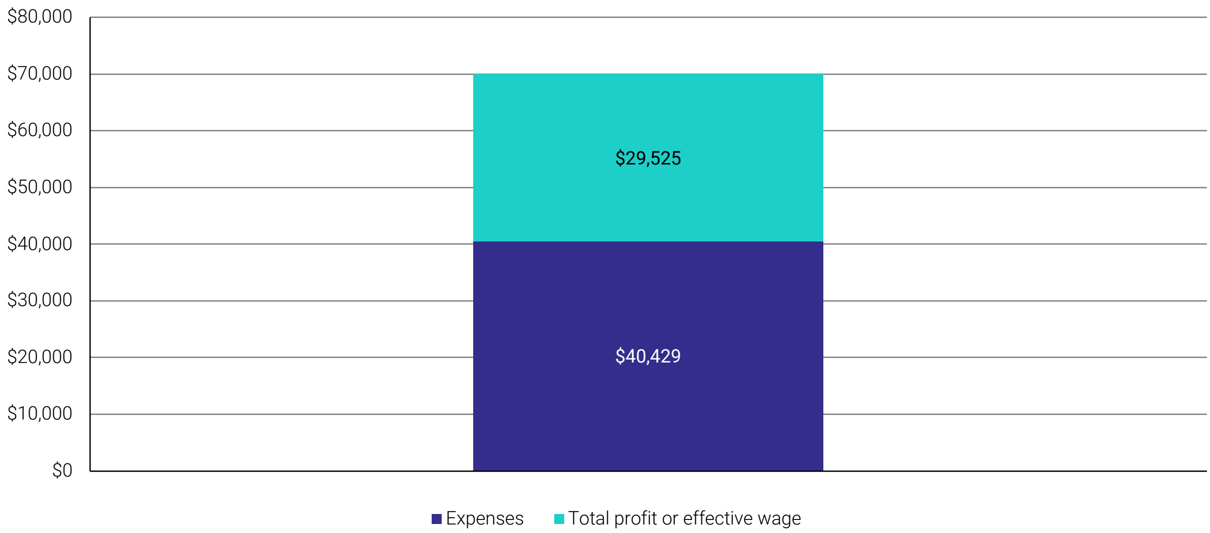


Note: This data primarily reflects family day care educators based in Major Cities Australia, and may not be representative of profits for educators operating in other remoteness areas. The ACCC's data may contain family day care educators who work on a part time basis.

Source: Family day care educator outreach data.

It is possible that the low annual educator wages may be due to a small sample size or self-selection by respondents, however, a similar trend was seen for sole traders in the childcare sector using Business Income Tax records (see chapter 4 for further information). The Business Income Tax records of sole trader businesses is expected to primarily cover family day care educators, as well as in home care educators. These records showed average annual expenses of $40,429, and a lower educator wage of $29,525 per annum (figure 6.8), indicating sole trader educators may in effect be significantly underpaid. This is consistent with reports from Family Day Care Australia who have also noted low educator wages in their surveys.[270]

Figure 6.8: Average total expenses and profit of sole trade childcare business, 2022



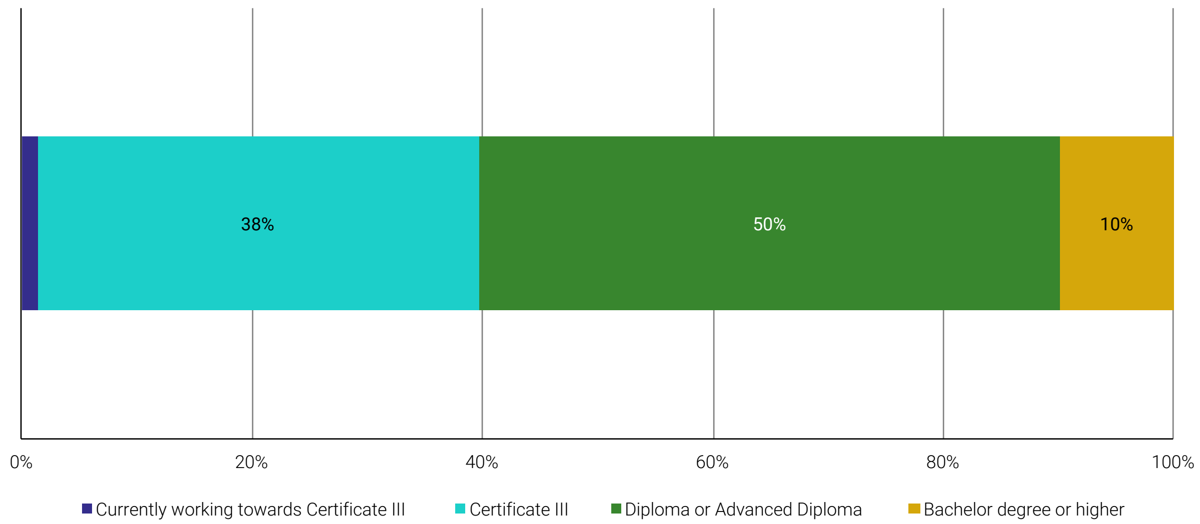
Source: Based on Australian Bureau of Statistics data.

270 Family Day Care Australia, FDCA Pre-Budget Submission 2023–2024, January 2023, p 9.

Outreach discussions with family day care educators also revealed that a number of family day care educators engage in unpaid work each week. Family day care educators shared that after children in their care have left at the end of the day, or on weekends when they are not undertaking family day care work, they are engaged in related tasks including cleaning, administrative and regulatory compliance paperwork, shopping for consumables, and household maintenance to ensure their premises continue to meet regulatory requirements.

Despite their low annual educator wages, in 2022, 50% of family day care educators surveyed by the ACCC held a Diploma or Advanced Diploma qualification, even though National Regulations only require Certificate III qualification (figure 6.9). If paid under the Diploma qualified rate, childcare workers are entitled to an hourly rate of $29.48. This corresponds to annual educator wages of $67,603.54 (assuming 52 weeks worked in a year and 44.1 hours worked per week). All information available to us supports a conclusion that family day care educators are receiving a significantly reduced income compared to the award.

Figure 6.9: Share of family day care educators by qualification, 2022



Source: Family day care educator survey data.

Workforce shortage of family day care educators worsened by regulatory burden on educators and COVID-19

From 1 July 2023, the National Regulations[271] set out that new family day care educators must hold an approved certificate III level (or higher) qualification prior to commencing their role in a family day care service and they cannot be 'actively working towards' a qualification. Existing educators currently engaged at a family day care service have until 1 July 2024 to complete an approved qualification. If by this time, an educator does not hold an approved certificate III level (or higher) qualification, the approved provider can apply for a waiver.[272]

The changes to regulations may create a barrier to becoming a family day care educator, where the individual will need to undertake a total of least 160 hours of supervised work in a regulated children's education and care service.[273] In the likely case where supervised work is undertaken at a centre

271 The Education and Care Services National Regulations support the National Law by providing detail on a range of operational requirements for an education and care service.

272 ACECQA, Actively working towards a qualification, accessed 17 November 2023.

273 VETNet, CHC Community Services Training Package V9.0, May 2023, p 33; ACECQA, Family day care services, accessed 17 November 2023.

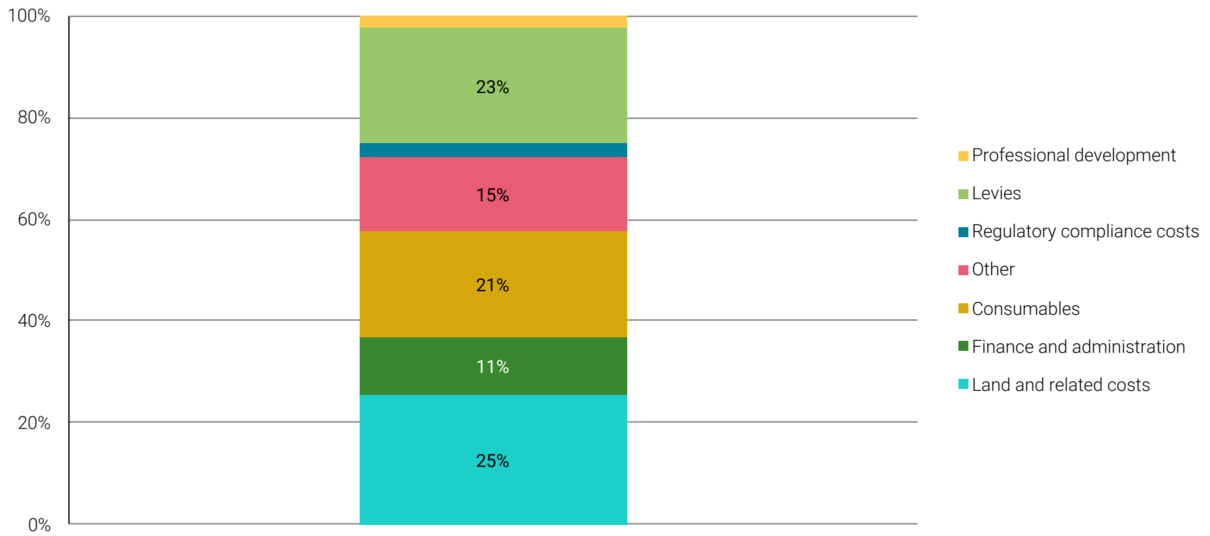
based day care, where the average annual educator wages are also higher (as discussed above), there is likely to be no financial incentive to switch sector into family day care at the end of the supervised work period. However, we acknowledge there are other incentives or benefits of becoming a family day care educator, such as being able to care for your own children while earning income and running your own business.

During outreach for the inquiry, family day care educators often expressed that regulatory compliance was overly burdensome for a sole trader, and requirements were often better suited to a centre based day care setting. Many educators noted there was significant attrition of educators from the sector during COVID-19, citing reasons such as feeling unappreciated by government, being expected to risk their own health to keep their business running and difficulty in accessing relief payments. The impact of COVID-19 and regulatory burden was also noted by Family Day Care Australia in their submission to the ACCC.[274]

6.2.5 Family day care educators' most significant costs are land, consumables and levies

Family day care educators tend to evenly incur costs across their 3 greatest expenses, which include land (25%), levies (23%) and consumables (21%), as seen in figure 6.10. The distribution of these costs is expected, given family day care educators typically run their childcare service out of their homes, making land and consumable costs more significant. A large proportion of family day care educators' expenses are also levies taken by their family day care service to provide the support and oversight required under regulation.

Figure 6.10: Share of costs for family day care educators, by cost category, 2022



Source: Combined family day care educator survey data and outreach data.

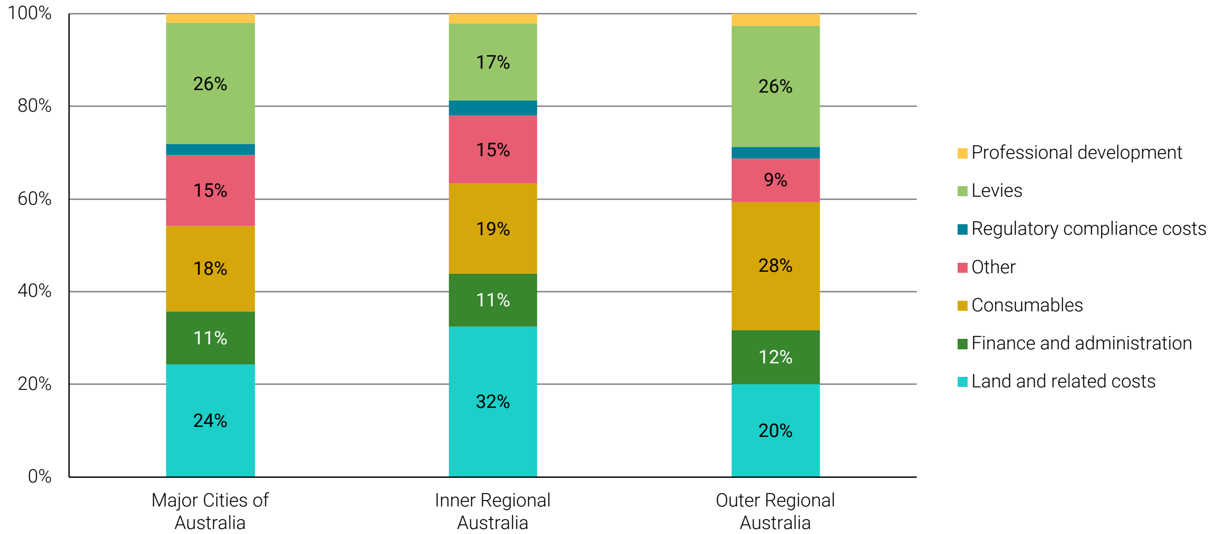
Changes in costs were examined based on whether the educator was working in Major Cities, Inner Regional or Outer Regional Australia. On average, consumables tended to make up a higher proportion of costs in more regional areas, which is consistent with consumables such as food being more expensive in these areas.[275] Land and related costs made up a lower proportion of costs in

274 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

275 Parliament of Australia, Chapter 6 – Food and groceries – Select Committee on Cost of Living Interim Report, May 2023, pp 71–72.

Outer Regional Australia relative to Major Cities and Inner Regional Australia (figure 6.11), reflecting the increased costs of renting land in urban settings.

Figure 6.11: Average costs for family day care educators, by remoteness and cost category, 2022



Source: Combined family day care educator survey data and outreach data. Note Remote and Very Remote results are not included due to small sample size.

6.2.6 Family day care educators switch between services for a variety of reasons

As outlined above in section 6.2, family day care educators usually work as contractors who are registered with a specific family day care service. Family day care services help match educators with families and provide oversight of the delivery of care, including regular visits to educators by a family day care coordinator who is employed by the family day care service.

Family day care services also offer additional support to educators, which varies by service but can include training and professional development opportunities, playgroup sessions with other educators located in a similar area, online support resources, and administrative and accounting support.

Family day care educators sign up with a family day care service and have the choice to switch to a different service if one is available. Family day care services vary in terms of the geographic areas they service. Outreach discussions with family day care services indicated that many services will only accept educators within a certain radius of where a family day care coordinator is located to account for the travel costs incurred by the coordinator when visiting the educator. This can mean that family day care educators in certain locations may only have a small number of options available to them when selecting a service to contract with.

Our family day care educator survey indicated that switching between services by educators does occur relatively often, and provides educators with an opportunity to exercise control over their business when they do not believe a particular service is adequately meeting their needs. Although a number of family day care educators advised that they switched services because their previous service had closed down, other common reasons provided by educators for switching to a different family day care service were:

- to move to a service which charged less in levies and other fees
- to find a service which offered better support, training and advice for educators

- feeling like the educator was not provided with an appropriate level of control over their own family day care business and seeking a service with a different management approach
- the perception that their current service required excessive paperwork and other administrative tasks, which was taking time away from caring for children.

An ongoing reduction in family day care services is likely to also lead to a reduction in options for family day care educators, leaving less opportunities for educators to switch to a different family day care service if they do not consider their current service is meeting their needs.

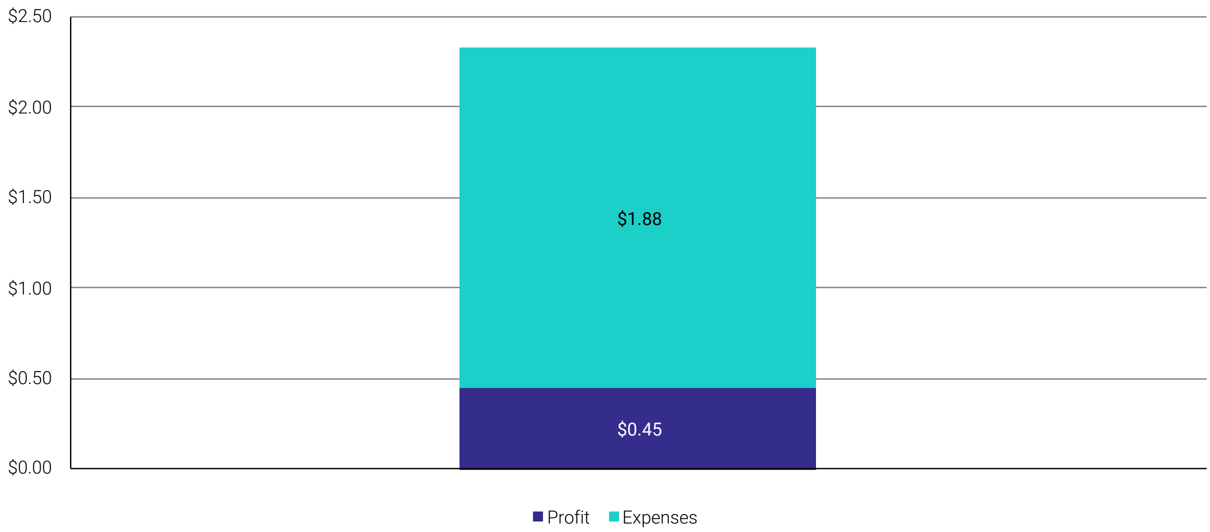
6.2.7 Family day care services are reasonably profitable given their low cost base

In our September interim report we reported that, on average, family day care services incurred costs of $2.04 per charged hour in 2022. The largest cost category was labour at $1.48 per charged hour, covering office staff and family day care coordinators. Other large expenses were finance and administration costs at $0.22 per charged hour and other expenses at $0.19 per charged hour.[276]

Family day care services surveyed by the ACCC typically made a profit of $0.45 per charged hour, representing a profit margin of 19.6%. This indicates a solid average profit margin, although there were a number of negative profits within the data collected which could indicate some parts of the sector may face viability issues. Costs shown in figure 6.12 differ slightly from the results in our September interim report due to a different sample of services used.[277]

As discussed above in section 6.2.4, family day care educators earn a relatively low salary. However, this does not appear to translate to gross profiteering on the service side and it appears more likely that the fees charged are not sufficiently covering costs incurred.

Figure 6.12: Average profit and costs per charged hour of family day care service, 2022



Note: Hourly expenses figure differs from figure 1.7 in the September interim report due to different sample of services used.
Source: Family day care educator outreach data.

276 ACCC, Childcare Inquiry September interim report, p 48.
277 ACCC, Childcare Inquiry September interim report, p 48.

6.3 In home care

In home care is a targeted program which aims to assist parents or carers who are unable to access other mainstream childcare options, such as those who work non-standard hours, are geographically isolated or have families with challenging and complex needs.[278] Households first contact an in home care support agency which assesses their eligibility to develop a family management plan before referring them to in home care services.

By its design, in home care is exclusionary, and for many households wanting to utilise childcare, it does not offer additional choice. The scheme is intended to be an option of last resort[279] where other appropriate care cannot be found, and there are 3200 places for children nationwide to limit usage. This means that the households falling within the cohorts that in home care is designed to service do not have the same range of childcare options as those who can access mainstream childcare services.[280]

6.3.1 The Child Care Subsidy rate cap for in home care is insufficient to adequately support the sector

As highlighted in chapter 2, the Child Care Subsidy does not adequately support in home care, with a high share of in home care services charging above the hourly rate cap. Our analysis indicates that the hourly rate cap is insufficient for in home care services due to the specialised nature of care and high costs of delivery.

Analysis of fees for in home care services as outlined in chapter 3 finds that the average daily fee per family for in home care in the September quarter 2023 has increased 40% compared to the September quarter 2018. This increase is significantly more than inflation and wage growth over the same period.

The different operating models utilised by in home care services can result in different prices charged, as we find in chapter 3. Our analysis shows the average daily fee for the employee model was 23% more than the contractor model.

6.3.2 The in home care program may not appropriately serve all the cohorts it intends to

Households and children with challenging or complex needs (including disability or serious illness) have vastly different needs compared to children with shift working parents or guardians, or households that are remotely located. Serving these different needs will have different costs associated with them.

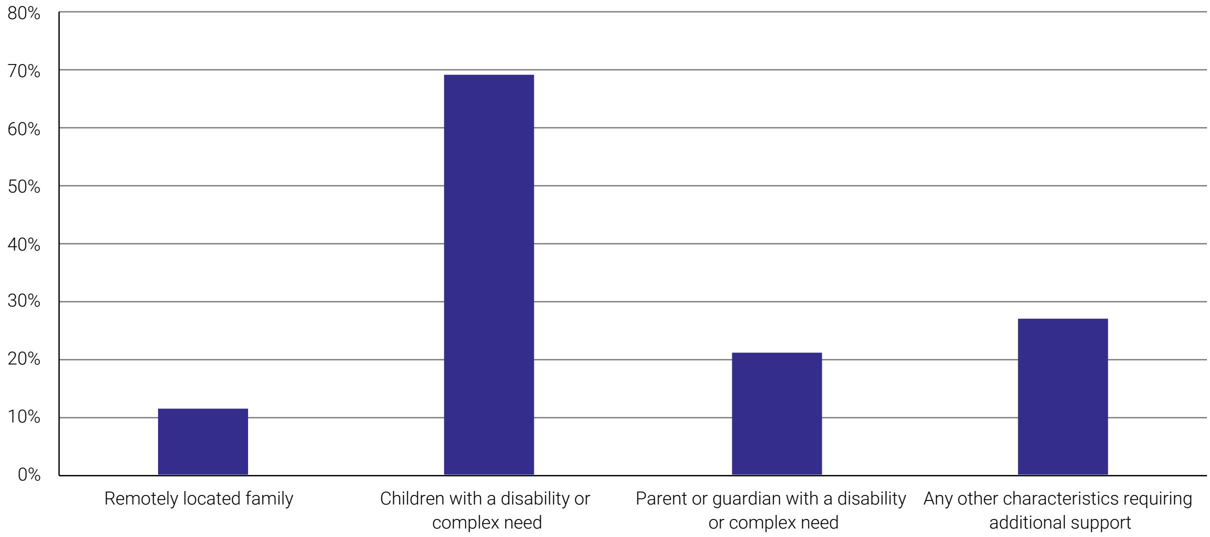
In the results of an in home care educator survey conducted by the ACCC we find that 69% of in home care educators surveyed provided care to at least one family with a child (or children) with disability and/or complex needs, indicating this is likely the cohort with the highest use of the in home care program (figure 6.13). Only 12% of educators provided care to remotely located children, 21% provided care to households where a parent or guardian had a disability and/or complex need, and 27% of in home care educators provided care to households with any other characteristics requiring in home care, including children with parents or guardians that are shift workers.

278 Department of Education, In Home Care National Guidelines, July 2022, p 10.

279 J Baxter, M Budinski, M Carroll, K Hand, C Rogers, J Smart, In Home Care Evaluation Report, Research Report, Australian Institute of Family Studies, October 2020, p vii.

280 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 2.

Figure 6.13. Percentage of children and household cohort under care of in home care educator, 2022



Source: In home care educator survey.

Our observations are consistent with the 2023 in home care review undertaken by PwC for the Department of Education. The review found that while the in home care program enables access for families unable to access other forms of early childhood education and care, the current program design is not tailored to meet the needs of the 3 very different cohorts of families it is targeted towards.[281]

To an extent, and where possible, the in home care program is intended to be a program of last resort where other care is not available. To support this goal, in home care support agencies are required to review family management plans on a quarterly basis. However, the ability to transition away from in home care will depend on a change in child or household circumstances, or the increased availability of a mainstream care option.[282] For some of the households in the program, such as children with permanent disability and/or complex needs, it is unlikely that this will ever be the case.

Disability and/or complex needs

Providers at the ACCC's in home care roundtable noted that children enrolled at their services with disability and/or complex needs were unable to access commensurate service through the National Disability Insurance Scheme,[283] and that the in home care program is not set up to effectively support households or address individual needs.[284] Parents and guardians at the roundtable advised that children with disability are often turned away from mainstream childcare services as their needs outweigh the capacity of services to provide appropriate care. However, parents and guardians told us that in home care may not be available or an affordable alternative for these households.[285]

The Australian Institute of Family Studies evaluation (2020) acknowledged concerns about gaps in service provision under the in home care program for children, particularly those children (or families) with additional or complex needs.[286] Although there has been some changes to the Early Childhood

281 Department of Education (commissioning PwC), Review of the In Home Care (IHC) program Final Report, August 2023, p 7.
282 Department of Education, In Home Care handbook, July 2022, p 39.
283 ACCC, Childcare inquiry – In home care roundtable, 22 September 2023, p 4.
284 ACCC, Childcare inquiry – In home care roundtable, 22 September 2023, p 2.
285 ACCC, Childcare inquiry – In home care roundtable, 22 September 2023, p 3.
286 J Baxter et al, In Home Care Evaluation Report, October 2020, p vii.

Approach since the release of the Australian Institute of Family Studies evaluation, providers reported this was an ongoing issue.

Many providers at the roundtable noted that the program currently requires educators to hold a Certificate III relevant to early childhood education and care, however, for children with a disability or complex needs, it may be appropriate for staff to hold a qualification in disability support.[287] Attendees of the in home care roundtable indicated that workers with a qualification in disability support attract a higher rate of pay in the disability support sector, due to the hourly rate cap for in home care. This has resulted in in home care providers losing quality educators to the National Disability Insurance Scheme sector. Attendees at the roundtable noted that many providers have focussed their attention on providing National Disability Insurance Scheme services, because the same skilled workforce can be attracted for a higher revenue product.

At the same roundtable, providers reported that operating under the National Disability Insurance Scheme offered them a higher profit margin, and many providers cross-subsidise their in home care operations with the National Disability Insurance Scheme.[288] It was also noted that some providers had ceased offering in home care under the childcare package to move to National Disability Insurance Scheme due to the improved service and business viability.

Remotely located households

In home care is often not a viable option for geographically isolated households, as the expenses incurred are much more than the fees the services charge. Often, remote families will also have to provide housing, amenities and food for their educators.[289]

Participants in the in home care roundtable noted that few in home care services operate in remote locations because it is unaffordable to travel and work remotely. The current travel reimbursements offered do not adequately cover staff time, meals and accommodation.[290] Participants also shared that there is enormous competition amongst families to attract educators who directly advertise their services, particularly in geographically isolated areas where the educator workforce may be transitory.[291]

In our English language parents and guardians survey, a respondent shared the challenges they faced when trying to access childcare:

> 'There are no available spots in centre based day care or family day care within 100km of my home. Families have been on waitlists for over a year. I have in home care however it is expensive and not sustainable on an average income. Further, it took months before the agency was able to find an educator to provide in home care. During this time I was forced to resign from my permanent role and decline a job offer. Significant systemic improvements need to be made to support women returning to work.' (Parent or guardian in an Outer Regional area of Australia)

287 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 2.

288 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 4.

289 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 3.

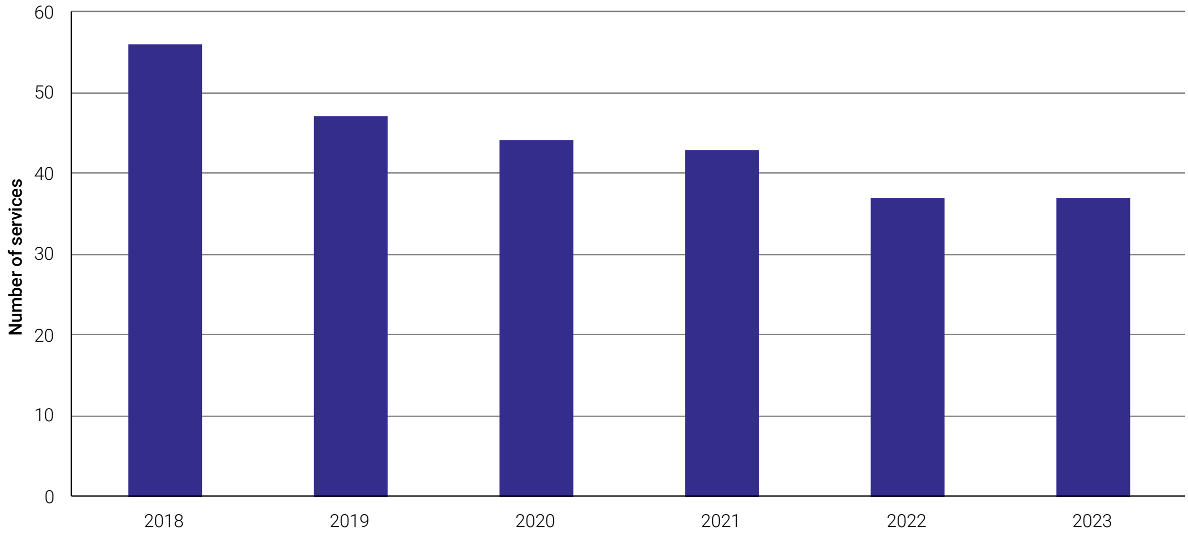
290 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 2.

291 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 2.

6.3.3 The number of in home care services is reducing

The number of in home care services has been gradually declining as shown in figure 6.14, although the contraction of the sector may have stabilised in 2023.

Figure 6.14: Number of in home care services by calendar year, 2018 to 2023



Source: ACCC analysis of Department of Education administrative data.

Potential reasons for the reduction of in home care services are likely to be the poor profitability in the sector, as discussed below in section 6.3.4, as well as the shift to the National Disability Insurance Scheme by services to seek a higher profit margin, as discussed above in section 6.3.2.

6.3.4 In home care services do not appear to be very profitable

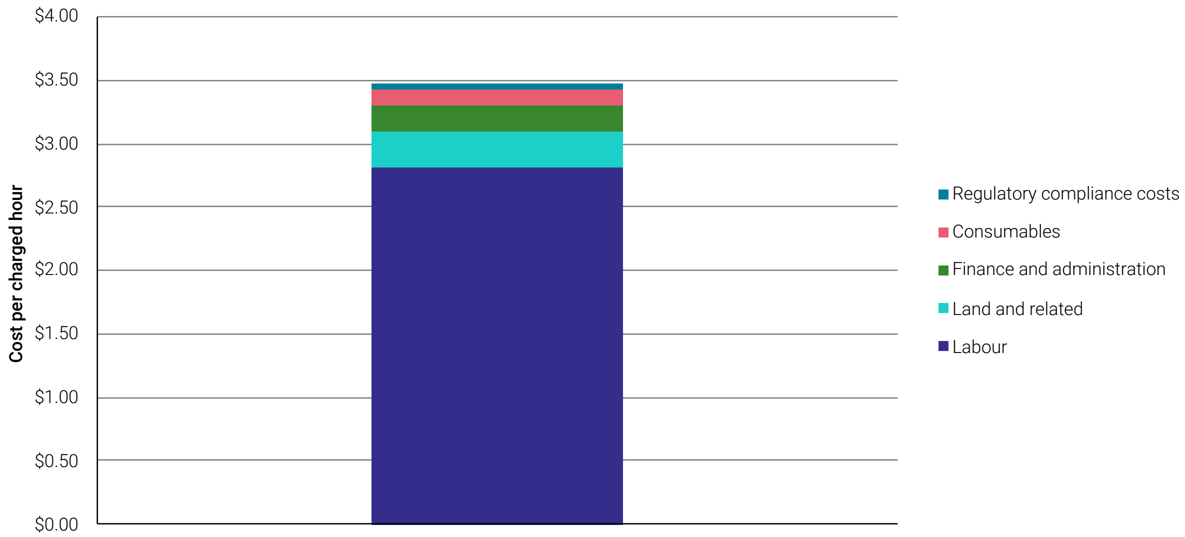
In home care services vary in the share of the workforce they choose to contract. Some providers use only contractors as educators, some directly employ all their educators, while others may use a mix.

From our September interim report, in home care services with an employee model had average costs of $44.10 per charged hour in 2022. The largest proportion of these costs was labour at $40.32 per charged hour, followed by finance and administration costs at $2.46 per charged hour.[292]

In home care services with a contractor model derive their income from levies charged on the fees received by educators. These services had average costs of $3.47 per charged hour in 2022 which is still driven by labour at $2.82 per charged hour for office staff and coordinators, followed by land and related costs at $0.27 per charged hour (figure 6.15).

292 ACCC, Childcare Inquiry June interim report, 5 July 2023, p 49.

Figure 6.15: Average cost for in home care services (with contractor model), by cost category, 2022



Source: In home care provider outreach data.

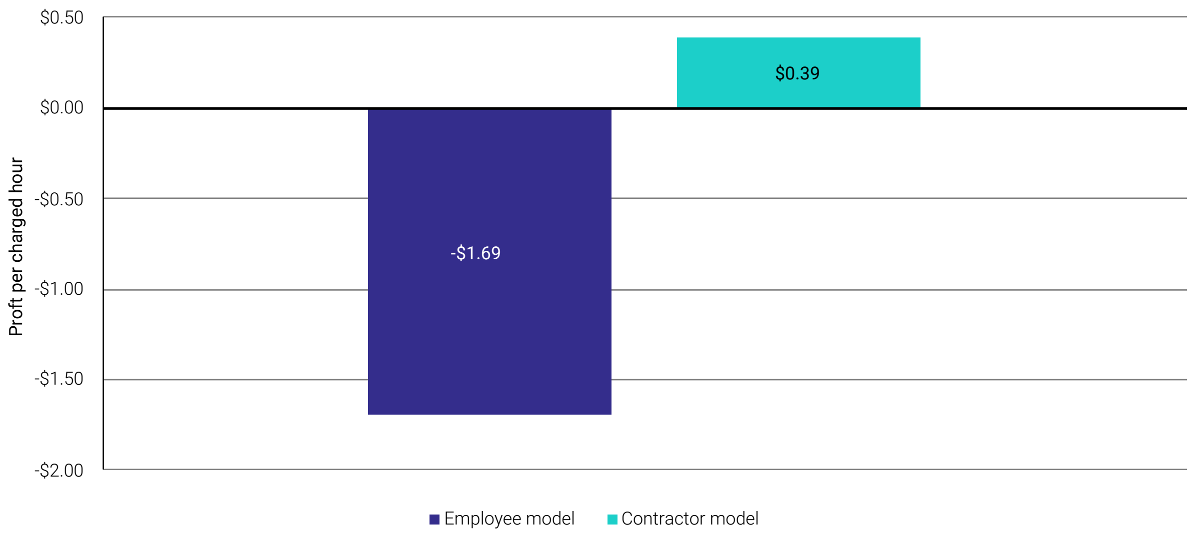
The difference in fees between in home care services with a contractor model compared to services with an employee model likely indicates lower annual educator wages for those who are engaged as contractors. Under an employee model, providers cover costs such as superannuation, insurance and professional development, which are reflected in the fees charged to families.[293] The hourly fee of $34.90 charged by in home care services with a contractor model was significantly lower than the hourly fee of $45.75 charged by services with an employee model for 2022, and lower than the labour cost of in home care services utilising an employee model. This likely indicates that in home care services using a contractor are keeping fees lower by reducing the total income package of educators providing care.

Attendees at the ACCC's in home care roundtable noted that the contractor model framework is inhibiting competition in the market where employee model service providers, who are covering additional staff costs (such as penalty rates), cannot compete against contractor models.[294] Some service providers resort to referring households to contract-style in home care providers where educators may be cheaper for families to engage on weekends.[295]

Of the services in our sample, employee model in home care services were unviable, losing $1.69 for every hour charged, while contractor model services made a small profit of $0.39 for every hour charged. As raised in roundtables, providers of in home care may be cross-subsidising with other business ventures to potentially make up for the lack of revenue in their in home care services. This cross-subsidisation can come from other childcare services, or income from other sectors such as the National Disability Insurance Scheme.

293 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, pp 2–3.
294 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, pp 2–3.
295 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 3.

Figure 6.16: Average profit of in home care service, by type of workforce model, 2022



Source: In home care provider outreach data.

From this analysis it appears as though employee model in home care services are not viable, however, we expect there may have been a level of self-selection in respondents. Given the presence of for-profit providers in the market, we expect not all services operating at a loss. It is evident that, overall, in home care services are unlikely to be very profitable, particularly if they are paying staff as employees. There appear to be much better incentives to run other types of services that can generate greater revenue, such as a National Disability Insurance Scheme service. Attendees at the ACCC's in home care roundtable expressed that the sector is not lucrative, and that in home care providers offer services for love of the work and care for households they support.

In our June interim report, we reported the decline in home care services from 56 services in 2018 to 37 services in 2022, reflecting a 51.4% decrease.[296] Providers noted that it is not possible to viably grow in home care services[297] and many were just hanging on, continuing to offer in home care services while they await finalisation of the review into the in home care program by the Department of Education.[298] As discussed in section 6.3.2, in home care providers may have better incentives to operate a service under the National Disability Insurance Scheme due to better margins and ability to attract and pay workers.

The 2023 in home care review by PwC for the Department of Education found that the in home care program hourly rate cap is too low to cover the costs associated with in home care and is applied consistently to all 3 user cohorts despite the different needs and underlying costs to deliver services. One of the suggested changes involved a variable hourly rate or loading of the Child Care Subsidy based on the in home care cohort being served.

The ACCC considers these additional loadings, particularly in the case of care delivered in non-standard hours, could encourage more employee model in home care services. This would allow services to better remunerate their educators that provide higher cost care.[299] Other alternatives could be direct supply-side funding to providers or direct supply by government. There would also be benefit in considering more holistic policy and program redesign that can achieve a better fit of services supplied to children and households to meet their different needs.

296 ACCC, Childcare Inquiry June interim report, p 43.

297 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 4.

298 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 4.

299 Department of Education (commissioning PwC), Review of the In Home Care (IHC) program Final Report, August 2023, p 47.

Box 6.2: The approval process to receive the Additional Child Care Subsidy adds additional strain to an already struggling sector.

During our in home care roundtable discussion, providers noted that the process for households to be approved for the Additional Child Care Subsidy can be lengthy due to applications being completed online and it being difficult for parents and guardians to get help, particularly when it is unclear why an application has been rejected.

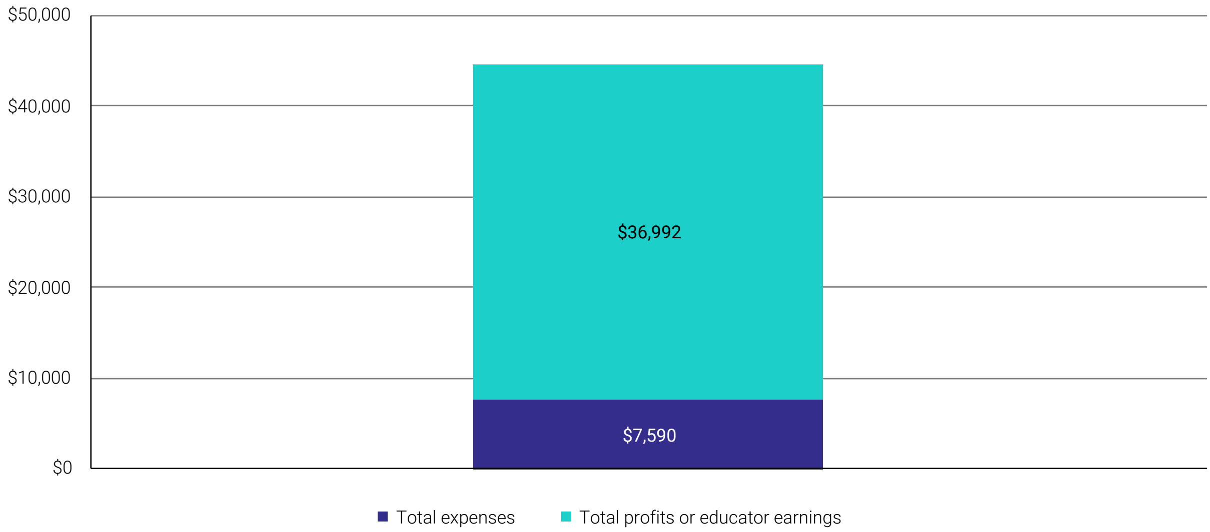
One provider gave an example of a household using their in home care services that had not yet received approval for the Additional Child Care Subsidy. The provider was due about $4,000 in payment. The provider expects the family will be approved for the Additional Child Care Subsidy. However, if they are not approved, the provider may end up wearing the cost if it cannot be recovered from the household.

Participants in the roundtable explained that these type of situations place pressure on both providers and the households the sector it is designed to serve, who are already excluded from mainstream early childhood education and care.

6.3.5 In home care educators engaged as contractors have very small annual educator wages

Of those included in ACCC's outreach, in home care educators engaged as contractors had annual costs of $7,590 and received $44,582 in revenue in 2022, indicating a net profit ratio of 83%. For these educators, their average profit or annual educator wages was around $36,992, significantly below the award for a full-time worker, and much closer to family day care educators engaged as contractors.

Figure 6.17: Average profit of in home care educator (engaged as contractors only), 2022



Source: In home care educator outreach data.

The low annual educator wages for those engaged as contractors may be driven by the fact that in home care educators are often only offered short and ad-hoc shifts, which discourages quality educator attraction, a sentiment expressed in the in home care roundtable. In addition, some in home care educators expressed during outreach that they were either looking for separate additional work, or held an additional work position outside of in home care.

The annual educator wages for in home care may fail to compete with other similar roles, exacerbating further shortages for in home care as educators find work that provides better remuneration. Attendees at the ACCC's in home care roundtable expressed views that the Children's Services Award rates are not appropriate for the sector and that it was hard to compete with National Disability Insurance Scheme services on annual educator wages under the current framework.[300]

The 2022 in home care review undertaken by PwC for the Department of Education revealed that the waitlist to access in home care has increased by 43% since 2018, which is thought to be primarily due to a shortage of appropriately qualified educators. The low incentives in undertaking work as an in home care educator due to low educator wages and difficulty in obtaining full-time work, may further exacerbate the shortage of educators.

The structure of fees for these contractors is that they receive the fees charged to households, with the service subtracting a levy. As such, in order to increase the annual educator wages of those engaged as contractors, it appears likely the hourly rate will need to increase. Other forms of delivery or program design, such as supply-side funding, may also be a more appropriate way to address these challenges.

Box 6.3: The in home care hourly rate cap is insufficient to cover the wages of educators or the costs incurred by families.

During our roundtable discussion of the in home care sector, many attendees noted that the employment framework, allowing for educators to be employed under either an employment or a contractor model, is inhibiting competition in the market. Employee model services, which cover costs such as payroll tax, superannuation, insurance, professional development, and penalty rates, cannot compete against contractor models.

A provider whose business employs its educators directly said they sometimes refer prospective families to other providers who engage their staff on a contract basis, which often have lower out-of-pocket expenses for households. This is particularly the case where families are seeking childcare on days where providers must pay their employed educators penalty rates, such as on weekends or public holidays, whereas independent contractors set their own fees and may be prepared to accept a lower fee per hour for sessions outside of standard hours.

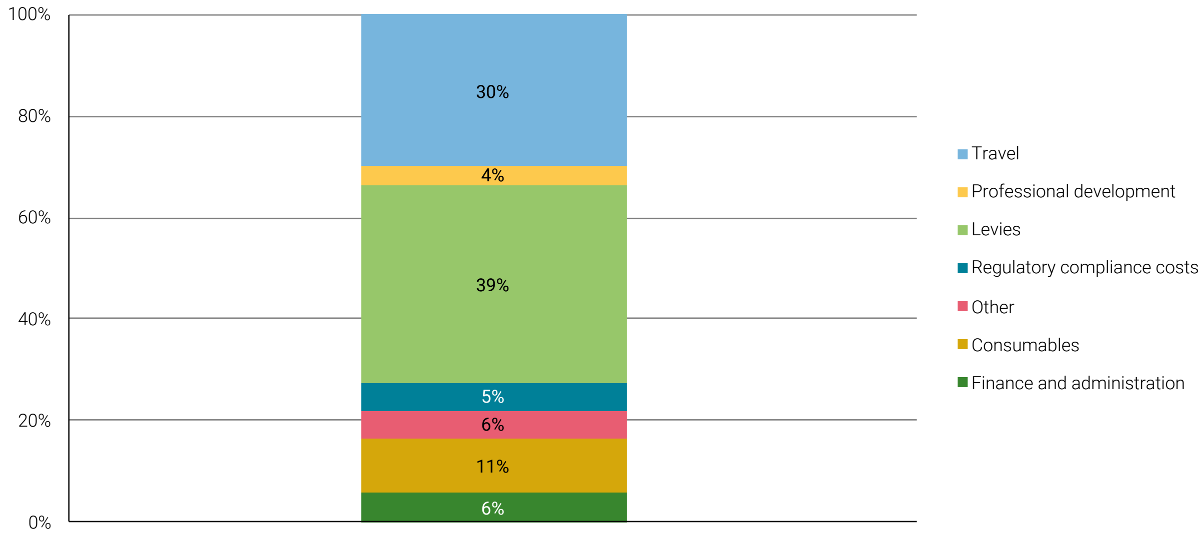
300 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 5.

6.3.6 In home care educators' highest costs are levies, travel costs and consumables

In 2022, the largest expense for in home care educators engaged as contractors was levies (inclusive of educator, family, software and administrative levies), representing almost 40% of costs, followed by 30% for travel costs and 11% for consumables (figure 6.18).

Travel costs are significantly higher for in home care educators in comparison to family day care educators, as they travel to the families' homes. These costs will exist for all in home care educators but are likely to be very significant where households being served are located in Remote and Very Remote Australia. However, some other costs, typically borne by services or educators in other childcare types, are covered by the households receiving the care, such as food and some consumables, increasing the effective fee for the household.

Figure 6.18: Average costs of in home care educator by share (engaged as contractors only), by cost category, 2022



Source: Combined in home care educator survey data and outreach data.

7. Subsidies and price regulation models

7.1 Key points

- Updated data published by the Organisation for Economic Co-operation and Development (OECD) shows that, from 2018 to 2022, childcare in Australia was relatively less affordable than in many other OECD countries. In Australia, for a couple on average wages with 2 children (aged 2 and 3) in centre based day care full-time, average net childcare costs from 2018 to 2022 came to 16% of net household income compared to the OECD adjusted average of 11%.
  - There are limitations in the data including that it does not incorporate the Child Care Subsidy rate changes that commenced on 7 March 2022 and 10 July 2023.
- This increase in average net childcare costs as a percent of net household income is being driven by a relative increase in gross fees in Australia. From 2018 to 2022, OECD data shows nominal gross fees in Australia increased by 22.8% compared to the OECD adjusted average of 6.2%.
  - One reason is likely to be a relative increase in supply-side subsidies in other OECD countries.
  - Many OECD countries (including the United Kingdom, Ireland, the Netherlands and Canada) are moving toward greater regulation of childcare fees such as free hours or mandated low fees supported by supply-side subsidies.
- In Australia, there has been an expansion of supply-side funding for preschool services. In most states and territories, government provision of preschool at no or very low fees provides a competitive constraint on private providers. However, as a condition of this funding, some states and territories also require providers not to increase fees more than is reasonably necessary, and impose reporting and monitoring requirements.
- Profit margins for large childcare providers were variable but do not appear excessive in aggregate over the period 2018 to 2022, although there are limitations in the data available to the ACCC. Downward pressure on out-of-pocket expenses for households and guardians under the Child Care Subsidy scheme could be better supported through:
  - changes to the design of the Child Care Subsidy including indexing the hourly rate cap to better reflect cost inputs (recommendation 2)
  - addressing barriers to comparing services such as improving the information available to households on StartingBlocks.gov.au (recommendation 3)
  - addressing barriers to expansion and new entry such as policies to improve recruitment and retention of childcare workers (recommendation 4)
  - a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention (recommendation 2).

- However, a one-size-fits-all regulatory model is unlikely to deliver government objectives for the childcare sector. While consumer choice and provider competition are central to the design of the Child Care Subsidy, issues include thin markets and the importance of non-price factors, which mean parents and guardians are less likely to choose or switch providers on the basis of lower fees.
- A stronger government market stewardship role should be considered to monitor and shape markets, and to support appropriate intervention depending on the local area market characteristics and needs, in order to meet economic and social objectives (recommendations 6 and 7).
- As part of this market stewardship role, further consideration should be given to the pros and cons of supply-side subsidies coupled with other more direct forms of market intervention, as appropriate (recommendation 8). Significant changes to policy settings which substantially weaken the price signals to parents and guardians may also warrant consideration of more direct forms of market intervention.

7.2 Introduction

Chapter 5 of our September interim report examined:

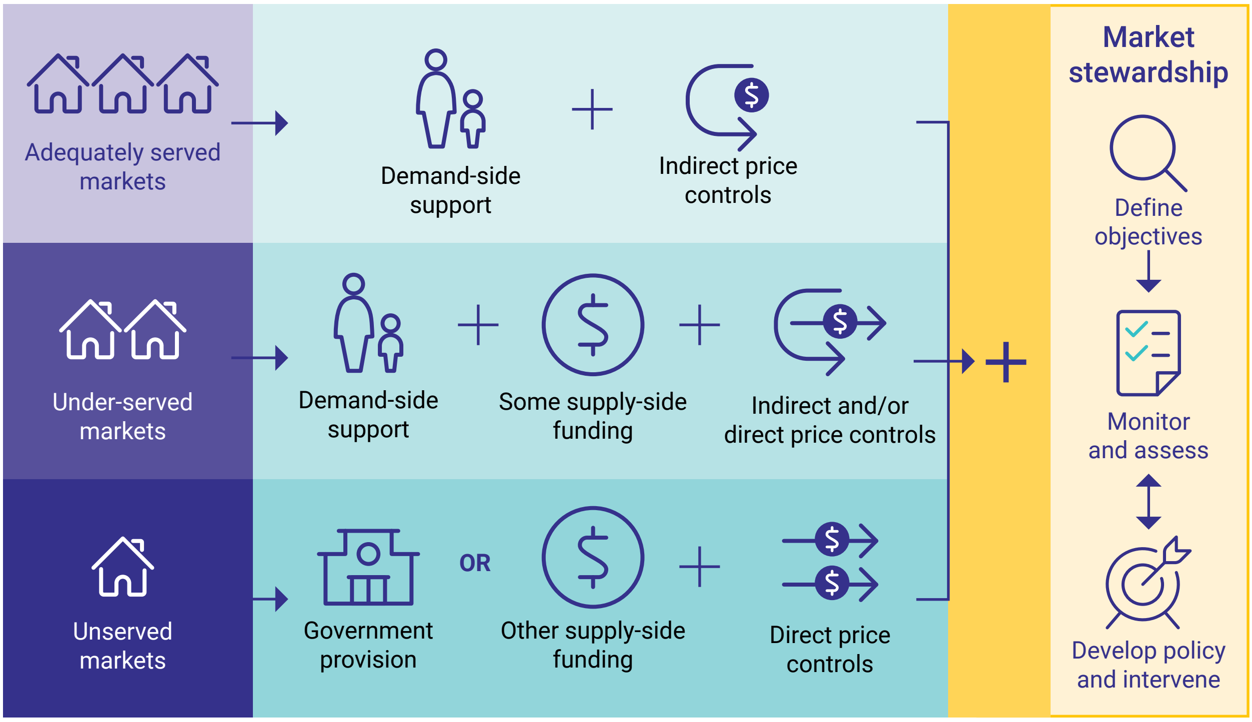
- OECD data to compare, across countries, net childcare costs and public expenditure on early childhood education and care
- price regulation mechanisms in several relevant OECD countries.

This chapter provides updated net childcare cost data published by the OECD in November 2023, and addresses stakeholder feedback on:

- findings 17 and 18 in the September interim report relating to the OECD data and international approaches to price regulation
- draft recommendation 6 relating to a stronger government market stewardship role to support under-served areas and cohorts more broadly
- as part of this market stewardship role, draft recommendation 2(d) in relation to price monitoring and a credible threat of intervention
- draft recommendation 7 that significant changes to policy settings may warrant shifting to direct price controls supported by supply-side subsidies.

7.3 To achieve government objectives, a mix of interventions is needed

Figure 7.1: Types of Australian childcare markets and recommended regulatory arrangements



The key message from the ACCC's Childcare Inquiry is that 'no one size fits all' – a single approach to regulation is unlikely to deliver government objectives across all localised childcare markets.

The September interim report identified that market dynamics encourage supply in more advantaged areas and Major Cities. Typical characteristics of **adequately served markets** are:

- there are many childcare providers
- there is a mix of for-profit and not-for-profit providers
- households in these areas have relatively high income
- there is high workforce participation by households in these areas, particularly women.

Usually, these are metropolitan and relatively advantaged areas (although, within these geographic areas, there may also be under-served or unserved cohorts).

Given the incentive for providers to supply more advantaged areas, we also observe that there are under-served and unserved markets. Examples of **under-served** geographic areas or cohorts include:

- households with unique childcare needs (such as shift workers)
- First Nations communities and culturally and linguistically diverse households who need culturally appropriate services to enable them to feel safe, comfortable and included
- children with disability
- children aged 0–2 years
- regional and remote communities with workforce shortages
- areas of relative socio-economic disadvantage.

Unserved markets typically have:

- one or no providers willing to supply them, even with existing government supply-side funding programs, and
- very high costs to supply these markets.
- Usually, these are remote, very remote and relatively disadvantaged areas.

The market stewardship role[301] for government proposed in recommendation 7 would encompass monitoring key market information across the full sector, especially outliers, to maintain a clear view on local area markets and determine the most appropriate regulatory and support framework to apply. This would need to consider the appropriate balance of responsibility across the Australian Government, and state, territory and local governments.

A market steward would collect and monitor local area market information on such things as:

- the number of providers
- provider types
- number of children aged 0–5
- local area workforce participation rates
- local industry and employer types and hours (for example, if there is a significant degree of shift work in the local economy)
- local childcare prices, costs, profits and workforce statistics.

This would need to be balanced against the reporting burden on the childcare sector.

By monitoring and identifying significant changes or outliers, the market steward is likely to be able to identify whether an area is adequately served, under-served or unserved, and identify the most appropriate form of government support (including the most appropriate type of subsidies to apply) and complementary regulatory mechanisms to use to meet local community needs (discussed further below at 7.6.3). Other forms of regulation and stewardship activities would likely extend beyond subsidies and price regulation mechanisms to include quality regulation and training, monitoring and assisting to manage supply constraints such as workforce shortages and premises, and appropriate measures or programs to address complex needs in the local community.

Over time, some local area markets are likely to change as demographics change, and there is also likely to be grey area between each broad category. It will therefore be necessary for the market steward to maintain an active watch on local area markets for indicia of change and to exercise judgement and consider unique local characteristics in determining the type of market in question and the most appropriate regulatory and support frameworks to apply.

301 Box 7.6 provides a further definition of the market stewardship role.

For **adequately served markets**, the downward pressure placed on out-of-pocket expenses for parents and guardians under the current Child Care Subsidy could be strengthened by the recommendations on:

- changes to the design of the Child Care Subsidy including resetting the methodology used to index the hourly rate cap so that it is more cost reflective (recommendation 2)
- addressing barriers to competition such as improving the information available to households on StartingBocks.gov.au (recommendation 3) and policies to improve recruitment and retention of childcare workers (recommendation 4)
- a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees (recommendation 2(d)).

In markets that are adequately served and where there are a number of providers competing on quality or other factors then maintaining the capacity of parents and guardians to exercise choice and engage directly in the market is likely to support efficiency. The stronger price and outcomes monitoring role for government, supported by a credible threat of intervention, will operate in conjunction with the characteristics of childcare markets to place downward pressure on fees and provide an additional discipline to drive provider efficiency and help limit taxpayer burden.

For under-served markets, such as areas with limited availability of places or households with children with disabilities or complex needs, it is likely that a mix of models will be required, from increased demand-side subsidies to supply-side funding, whether through government or non-government providers, to support provision of services in these areas or to particular children and households within areas.

For unserved markets, part of a potential market stewardship role for government is identifying these markets and, depending on government objectives, supporting the delivery of services. This could be done through government provision or supply-side funding to a non-government provider to enable delivery of a service at an agreed or specified price for parents and guardians. This forms part of recommendations 7 and 8 around market stewardship and is also reflected in recommendation 6which specifically recommends the Australian Government consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.

However, the ACCC emphasises that shifts in policy settings that result in a significant disconnect between the price of using a childcare service and the financial consequences for the person deciding to use it,[302] are likely to require a different regulatory approach in the longer-term. Ultimately, the design of the regulation model will depend on a country's overarching policy objectives for early childhood education and care sector services, whether this is to secure universal high-quality education and care for children, encourage workforce participation of parents and guardians, or support gender equality. These broader policy issues form part of the Productivity Commission's terms of reference. The ACCC's analysis considers price regulation options for further investigation as part of governments' broader policy considerations, in line with the Treasurer's direction.

302 Such as a universal 90% subsidy or a decision to provide wrap-around early childhood education and care services through the state and territory preschool or school systems or the Child Care Subsidy arrangements.

7.4 Affordability of childcare in Australia compared to other OECD countries

As set out in the September interim report,[303] the OECD provides data for 34 OECD countries[304] on the annual gross childcare fee and net childcare cost, after government support, from 2004 to 2022, for a family with 2 children (aged 2 and 3) enrolled 40 hours a week in centre based day care[305] (the 'OECD Comparator Family'). This model enables the OECD to compare net childcare costs across countries although, as noted in the September interim report:

- Australian households, and those overseas, can have a range of childcare and household arrangements. In Australia, average weekly hours in centre based day care is significantly less than 40 hours per week.[306]
- The OECD data for Australia for 2022 was estimated using the March 2022 quarter (with 1 January 2022 as the reference point) and does not reflect the higher subsidy for families with more than one child aged 5 or younger in care which took effect on 7 March 2022. Similarly, as the data was for 2022, it does not incorporate the changes to the Child Care Subsidy rates which commenced on 10 July 2023.[307]
- Limitations in the OECD data may impact the comparative analysis. For example, the OECD data does not control for quality, and countries with higher quality standards may have higher gross fees. The OECD data also does not control for availability. Countries might have a low annual cost for centre based day care while only being available for a small percentage of households to access. In some cases, the OECD information on fees represent only a specific location within a country, compared to the information for Australia which relies on national data.[308]

These limitations were also raised in submissions:

- Dr J Rob Bray from the Australian National University provided modelling on the impact of the March 2022 and July 2023 changes, which significantly reduce net costs for Australian families. In summary, for a couple on average wages, childcare costs as a percentage of net household income are reduced to 9.1%.[309] The submission also raises concerns with OECD revisions to the methodology it uses to calculate the gross fee in Australia for a 40 hour week, which underestimate the gross fee.[310]
- Guardian Childcare and Education considered the analysis to be overly simplistic in that it does not: consider differing tax regimes and philosophical approaches of countries; take into account recent changes to the Australian funding system; or address different service provision models in other countries.[311] Other submissions also raised the impact of comparative regulatory

303 ACCC, Childcare Inquiry September interim report, pp 186–191.

304 OECD tax-benefit model – Net childcare costs indicator (34 OECD countries (excluding Turkey as no data is provided) and 6 non-OECD countries).

305 The OECD data is based on 2 children (aged 2 and 3) in centre based day care for 40 hours per week, 52 weeks a year.

306 In 2022, average weekly hours for centre based day care were 32 (charged) and 21 (attended): ACCC, Childcare Inquiry June interim report, p 23, figure 1.2.

307 The extension, in some Australian states and territories, of preschool funding to 3-year-olds attending centre based day care may also have future implications for OECD data for Australia.

308 The September interim report notes that further limitations are discussed in Ireland, Expert Group, Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare, November 2021, pp 77–78.

309 Submission 3, Dr J Rob Bray, Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, Table 2.

310 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 20.

311 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

requirements and staffing costs, and note that finding 17 does not take account of recent reforms.[312]

- However, the Diversity Council of Australia commented that it is extremely concerning that childcare in Australia is relatively less affordable than most other OECD countries, and that many countries such as the United Kingdom, Ireland, Canada and New Zealand are moving towards greater regulation of childcare fees and supply-side subsidies.[313]

While the ACCC recognises these limitations, the available OECD data still provides valuable insights on affordability of centre based day care in Australia compared to other OECD countries for the period relevant to the ACCC Inquiry. This section makes the following updates to the analysis in the September interim report:

- It uses the updated data published by the OECD on 3 November 2023 for net childcare costs in 2022.[314] However, as the OECD data for Australia for 2022 continues to use 1 January 2022 as the reference point, it does not reflect the Child Care Subsidy changes that occurred on 7 March 2022 and 10 July 2023. These changes should significantly reduce net childcare costs for Australia for future OECD data although the impact on Australia's relative affordability will depend on other variables such as gross fees[315] and net household income. We note also that a number of other OECD countries are pursuing further, significant reforms intended to improve childcare affordability.
- In addition to the 'OECD – Total' published by the OECD, this section includes an adjusted average which excludes 8 OECD countries where there was a series break in the period 2018 to 2022 (labelled 'OECD – Average').[316] For gross fees, we have also converted each country's gross fees to US dollars using the OECD's Purchasing Power Parities (PPP) index (labelled 'OECD – PPP Average').

7.4.1 From 2018 to 2022, Australia was relatively less affordable than many other OECD countries

In Australia, where the OECD Comparator Family is a couple on average wages, average net childcare costs over 2018 to 2022 came to 16.2% of net[317] household income. In contrast, the adjusted average for OECD countries was 10.8% (figure 7.2). This is despite the Australian Government contribution to fees being significantly higher than most other OECD countries –15% of net household income in Australia compared to the adjusted OECD average of 7.8% over 2018 to 2022.[318]

312 Including: Submission 4, Early Learning & Care Council of Australia, p 12; Submission 7, name withheld; Submission 32, Goodstart Early Learning, pp 27–28; Submission 34, Outside School Hours Council Australia, draft finding 17; Submission 39, Nido Education Limited, draft finding 17; Submission 74, Mighty One Pty Ltd, draft findings 17 and 18; Submission 90, TheirCare, draft finding 17 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

313 Submission 2, Diversity Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

314 OECD tax-benefit model version 2.6.0.

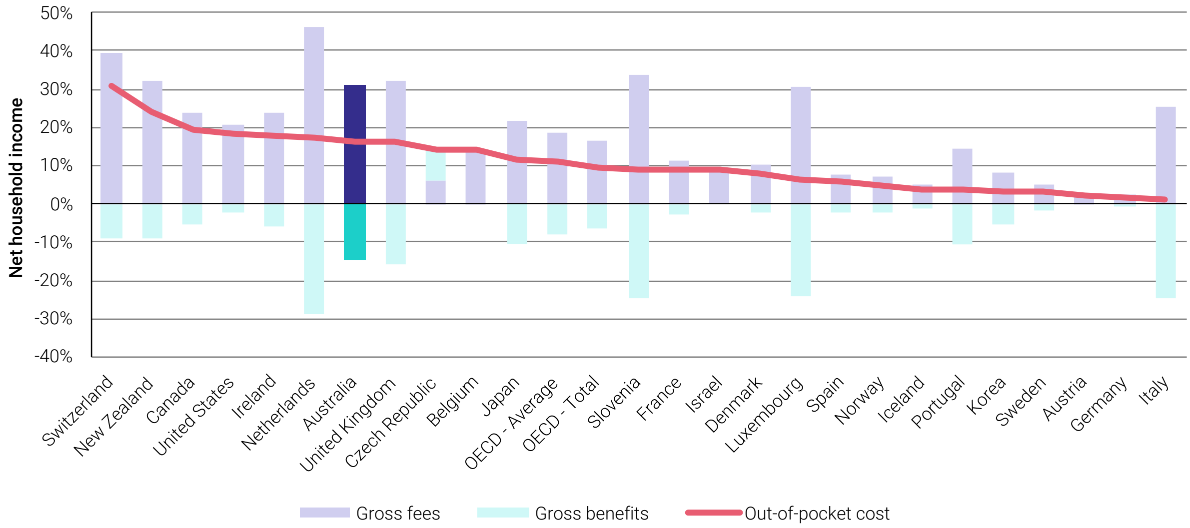
315 See chapters 2 and 3 of this final report. Chapter 3 finds that, between September quarter 2022 and September quarter 2023, in nominal terms, the average fee for centre based day care increased by 10%. Chapter 2 discusses the impact of fee increases on the extent to which changes to the Child Care Subsidy rates on 10 July 2023 reduced out-of-pocket expenses for households.

316 The 8 countries are: Estonia, Greece, Hungary, Latvia, Lithuania, Poland and the Slovak Republic, along with Finland (due to the change from Helsinki to national data). Note also that no data is available for Chile from 2018 to 2022.

317 Net household income includes family benefits, and is after tax and social security contributions. As in the September interim report, the charts in this chapter also include any social assistance and housing benefits.

318 This figure reflects the Gross change in benefits, which are comprised of Childcare benefits, as well as changes in taxes and changes in other benefits.

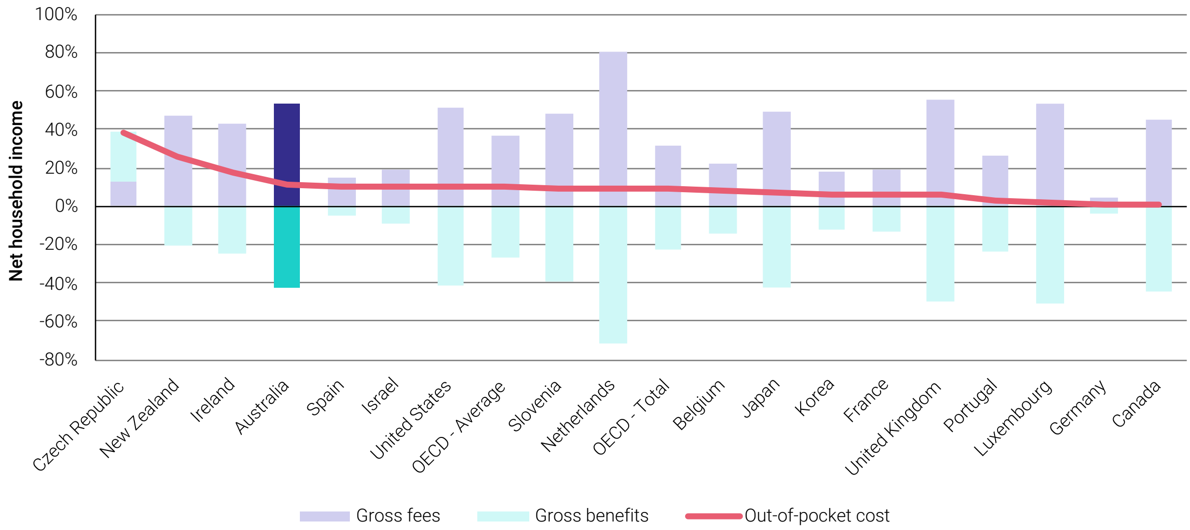
Figure 7.2: Net childcare costs as a share of net household income for a couple on average wages with 2 children, by OECD country, average 2018 to 2022



Source: OECD tax-benefit model – Net childcare costs indicator.

In contrast, for households on the minimum wage, Australia was close to the OECD average. Where the OECD Comparator Family is a couple on minimum wages, average net childcare costs from 2018 to 2022 in Australia were 10.8% of net household income compared to the OECD average of 10% (figure 7.3). For a single person on minimum wages, average net childcare costs were 11.8% of net household income compared to the OECD average of 9.4% (figure 7.4).[319]

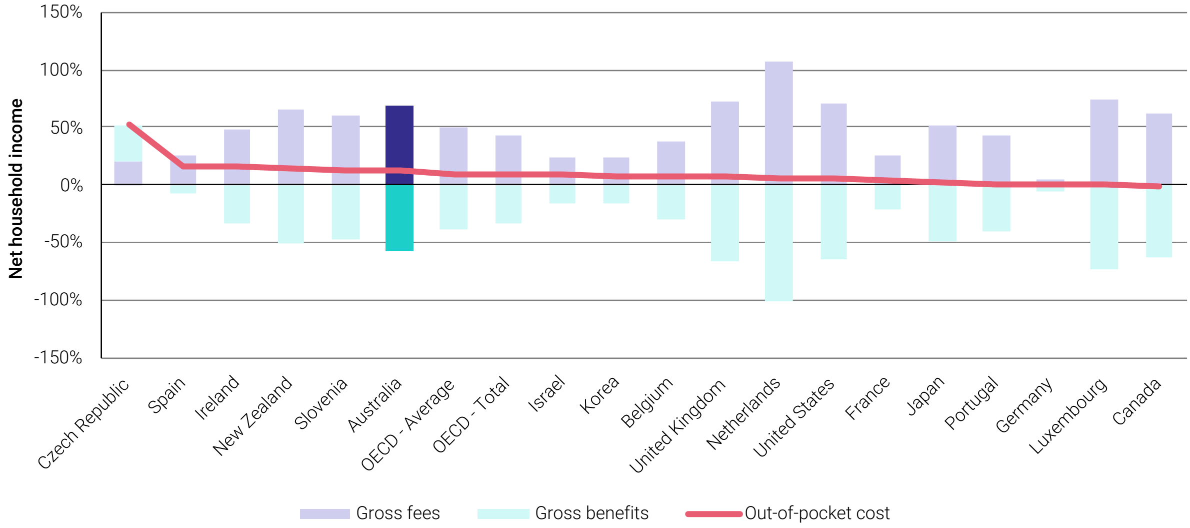
Figure 7.3: Net childcare costs as a share of net household income for a couple on minimum wages with 2 children, by OECD country, average 2018 to 2022



Source: OECD tax-benefit model – Net childcare costs indicator.

319 As noted in the September interim report, our June interim report found that, in the 2021–22 financial year, of those Australian households which use childcare, those with the lowest incomes spent a greater share of their disposable income on childcare. A couple or single person working full-time (38 hours a week) (the OECD Comparator Family) on minimum wages in 2022 would not fall within the lowest income decile in our analysis. A single person earning the minimum wage would be in our income decile 2 (approximately $39,000 to $56,000) and a couple earning minimum wages would be in our income decile 4 (approximately $77,000 to $96,000).

Figure 7.4: Net childcare costs as a share of net household income for a single person on minimum wages with 2 children, by OECD country, average 2018 to 2022



Source: OECD tax-benefit model – Net childcare costs indicator.

7.4.2 Gross fees have increased faster in Australia; one explanation is likely to be that other OECD countries have increased supply-side subsidies more than Australia

From 2018 to 2022, nominal gross fees in Australia increased by 22.8% in comparison to the adjusted OECD average of 6.2% (figure 7.5). As noted in the September interim report, this is comparable to our June interim report finding that, from 2018 to 2022,[320] the average daily fee for centre based day care in Australia increased by 20.8%.[321]

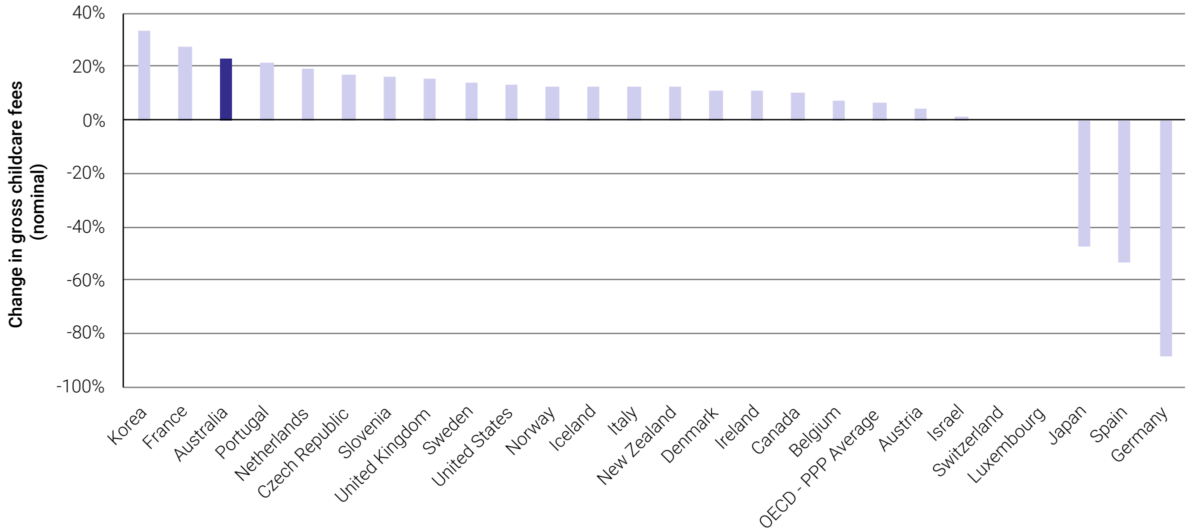
In real terms, the increase was 9.3% in comparison to the adjusted OECD average of minus 9.9% (figure 7.6).[322] The September interim report sets out a number of possible explanations for why gross fees might be higher in Australia. However, the fact that the OECD average real gross fee *decreased* from 2018 to 2022 by 9.9% when the average CPI increase was 17.8%, suggests that other OECD countries have significantly increased supply-side subsidies to providers compared to Australia. Supply-side subsidies reduce the cost of provision and therefore would be expected to reduce the gross fee.

320 September quarter 2018 to December quarter 2022.

321 ACCC, Childcare Inquiry June interim report, p 10, although we found a lower real increase of 4.8%. The June interim report finding that centre based day care per day fees have risen 20.8% in nominal terms and 4.8% in real terms, adjusts for CPI for each quarter from September 2018 to December 2022. The OECD calculation applies an annual CPI from 2018 to 2022.

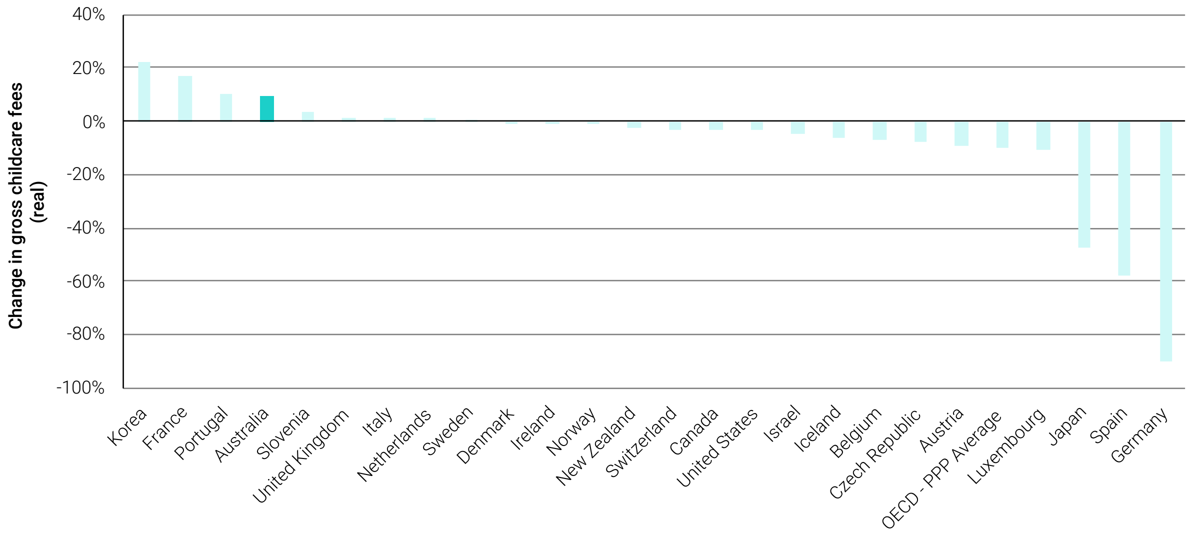
322 Figure 7.6 uses the OECD CPI All Items (COICOP 01–12) series.

Figure 7.5: Change in gross childcare fees, nominal dollars, by OECD country, 2018 to 2022



Source: OECD tax-benefit model – Net childcare costs indicator.

Figure 7.6: Change in gross childcare fees, real dollars, by OECD country, 2018 to 2022



Source: OECD tax-benefit model – Net childcare costs indicator.

7.5 Subsidies and price regulation models: International and Australian approaches

Box 7.1: Subsidies and price regulation models: What are supply-side and demand-side subsidies and direct and indirect price controls?

Governments subsidise early childhood education and care services due to the benefits these services provide to society. The Productivity Commission identifies these benefits as potentially including:[323]

- greater workforce participation, potentially increasing families' income and national income
- through greater workforce participation, other social benefits such as potentially increasing gender equality and disrupting intergenerational disadvantage
- improved childhood development, with children experiencing disadvantage more likely to benefit from increased access.

The ACCC's September interim report noted that the OECD identifies a range of methods for delivering public expenditure to support early childhood education and care, including:[324]

- **supply-side subsidies**, whether through direct public provision or capital or operating subsidies to not-for-profit or for-profit private providers, to cover the provider's costs of providing the service
- **demand-side subsidies** to reimburse households for childcare expenses, whether paid to households or providers, such as childcare fee rebates, targeted cash benefits and tax relief.

As the Centre for Policy Development noted in its submission, **supply-side funding** can also be **demand-driven** (for example, funding to a provider on a per child basis) or **block funding** (for example, based on making a certain number of places available).[325] Block grants tend to be used to support services that are not suited for per client based funding, such as small providers in remote locations.

Direct price controls determine and limit the amount that providers can charge parents and guardians for early childhood education and care services. A price control might:

- set a rate period (such as an hourly, daily or monthly amount) and/or impose a maximum amount
- require the provision of a free service for a certain number of hours
- vary the rate paid by parents and guardians by income or other factors, such as the number of children or an activity test

323 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, November 2023, pp 28–29.

324 ACCC, Childcare Inquiry September interim report, pp 193–195, citing OECD, Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable, June 2020.

325 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12 in relation to findings 17 and 18.

- stipulate that parents or guardians can be charged no more than a certain percentage of the operating cost of care
- be implemented through different tools such as legislation, licensing requirements, government grant conditions, terms of a contract (for example, tender processes in Australia for outside school hours care) or a policy directive (for example, to publicly provided services).

Direct price controls (or direct price controls in conjunction with supply-side subsidies) need to be set at a level which financially sustains provision without driving excessive profits or surplus for providers.[326] Regardless of whether the direct price control applies to public or private providers, the OECD notes that **regulatory measures need to be designed carefully**. In market-based systems, if regulated prices are set too low, regulation could lower quality or lead to market exit if service provision becomes economically unviable. Regulation could have similarly damaging effects in public systems if not accompanied by adequate public subsidies.[327]

In contrast, **caps on the demand-driven subsidy** (whether paid to parents and guardians, or to the provider that parents and guardians have chosen to use) can act as an **indirect price discipline**. In this system, providers can set their own prices but:

- the controls specify the maximum amount that the government will pay per time unit (for example, hourly or daily) and/or maximum total amount that will be paid
- the control is indirect, as households may pay higher fees above the capped limit. The out-of-pocket expenses for households can place downward pressure on gross fees but it will be influenced by how much a household's out-of-pocket expenses are, along with other characteristics of the household and service.

A key question, as identified by Ireland[328] and the Netherlands,[329] is whether a cap on the demand-driven subsidy protects against future price increases or pushes up prices, leading to higher profits for private providers and higher government expenditure and/or out-of-pocket expenses for households. The extent of the downward pressure on prices will depend on the **extent to which localised childcare markets are competitive** and households select providers on the basis of lower prices – that is, how sensitive households are to price increases. (The role of price and price sensitivity in childcare markets in Australia is discussed in chapter 5 of this report, as well as our June and September 2023 interim reports).

Australia's Child Care Subsidy is a demand-side subsidy, which follows the child and is paid to the service provider. The ACCC has been directed to take into consideration the impact and effectiveness of existing price regulation mechanisms, and any impediments inherent in those mechanisms to their effective operation.[330]

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326 ACCC, Childcare Inquiry September interim report, p 202 citing Frontier Economics, Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare, November 2020, p 10.

327 ACCC, Childcare Inquiry September interim report, p 198 citing OECD, Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable, June 2020.

328 ACCC, Childcare Inquiry September interim report, p 194 citing Frontier Economics, Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare, November 2020, p 10.

329 ACCC, Childcare Inquiry September interim report, p 194 citing The Netherlands, Ministry of Social Affairs and Employment, *Report: Childcare Measures*, Rapport Maatregelen Kinderopvang, April 2023.

330 *Competition and Consumer (Price Inquiry – Child Care) Direction 2022* clause 6(f).

7.5.1 Increased public expenditure to improve affordability

The September interim report included analysis of OECD Family Database data which shows, using 2019 data (or the latest data available prior to 2019), that Australia's public expenditure on early childhood education and care for 0–5 year-olds was less than the OECD average. In summary, the September interim report noted:

- In 2019, Australia spent 0.6% of GDP compared to the OECD average of 0.8%.[331]
- As discussed in section 7.4 above, the OECD net childcare costs data for centre based day care from 2018 to 2022 suggests an international trend of increasing supply-side subsidies. The OECD identifies Denmark, Iceland, Norway and Sweden as examples of countries providing early childhood education and care through large-scale publicly operated and/or publicly subsidised systems.[332]
- More broadly, the OECD observes that quality childcare comes at a price, and there are few shortcuts available to governments looking to offer high quality, affordable early childhood education and care to all families regardless of circumstance.[333]

Submissions in response to the ACCC's September interim report also noted Australia's relatively lower expenditure on childcare services. In particular:

- The Community Child Care Association and Community Early Learning Australia, in their joint submission, similarly noted that Australia contributes less than the OECD average, and refer to studies showing that increasing Australia's contribution to that of Nordic countries (about 1% of GDP) would result in significant social and economic benefits.[334]
- The Australian Education Union provided further analysis of OECD data on pre-primary education expenditure on 3–5 year-olds, and enrolments in private preschools.[335]

7.5.2 International price regulation models

In the September interim report, the ACCC undertook an initial review of price regulation reforms being considered in other countries, focusing on the United Kingdom (England), Ireland, the Netherlands, the United States of America, Canada and New Zealand (as countries that, like Australia, primarily rely on market provision) and Sweden (as a comparator). The ACCC's meetings with these countries were also attended by the Australian Department of Education and the Productivity Commission.

Across these countries, we have observed there is a trend towards greater regulation of childcare fees such as low fees or free hours for parents and guardians, which is complemented by supply-side subsidies to cover providers' costs of provision.

Tables 5.1 and 5.2 from the September interim report are set out in Appendix 4 to this report with one significant change. New Zealand's 2023 Budget had included an expansion of the '20 Hours Free' policy to 2-year-olds (in addition to children 3 and above) from 1 March 2024. However, following

331 ACCC, Childcare Inquiry September interim report, pp 192–193.

332 ACCC, Childcare Inquiry September interim report, p 193 citing OECD, Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable, June 2020.

333 ACCC, Childcare Inquiry September interim report, p 193 citing OECD, Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable, June 2020.

334 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

335 Submission 46, Australian Education Union, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 9–10.

New Zealand's general election on 14 October 2023, the new government may revise this policy and introduce a childcare tax rebate.[336]

In response to the September interim report:

- Dr J Rob Bray from the Australian National University suggested a finding that the issue of the cost of care and the financing of childcare is a current challenge being faced by a significant number of major economies, and as noted in the September interim report, is a question which is closely linked to the policy objectives, including the role of early childhood education.[337]
- The Community Child Care Association and Community Early Learning Australia supported the finding that there is a growing international trend towards supply-side subsidies to cover providers' costs of provision, and that this reflects a global shift in the recognition of the value of early childhood education and care, and the capacity of supply-side models to better deliver on policy objectives.[338]
- Guardian Childcare and Education considered that there are limited overseas examples of successful price capped early childhood education and care models in comparable economies. Guardian Childcare and Education submitted that none of the early specific markets quoted by the ACCC have fully introduced their new systems, and the press coverage on those that are underway is far from positive. They noted the Irish and UK systems also offer a very different product and Canada has taken a blunt instrument approach with no visibility of how to provide adequate supply.[339]
- G8 Education Ltd noted the trend towards introducing price control mechanisms in other countries, but that there is limited information on their success.[340]
- Early Learning & Care Council of Australia submitted that it is not clear that price controls have been successful or have worked effectively in cited jurisdictions.[341]
- Outside School Hours Council Australia noted that, in other jurisdictions, supply-side subsidies had been well received but that Ireland's price controls had unfairly impacted certain providers. The submission also noted that Victoria's Establishment Grants and high intensity program had created new services in rural and other thin markets, and enabled the delivery of complex services such as specialist schools or schools that have behavioural challenges.[342]
- The impact of direct price controls failing to keep up with underlying cost pressures was also raised in other submissions including by Goodstart Early Learning, KU Children's Services, Edge Early Learning and Australian Childcare Alliance.[343]

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336 Appendix 4 is as at 1 December 2023, and focuses on price regulation mechanisms. For a broader overview of countries' early childhood education and care policies, see Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, Appendix B (International Models, 8 December 2023).

337 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 21.

338 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

339 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 13.

340 Submission 26, G8 Education Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

341 Submission 4, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12.

342 Submission 34, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, finding 18.

343 Including: Submission 32, Goodstart Early Learning, p 25; Submission 14, KU Children's Services, p 7; Submission 27, Edge Early Learning, p 9; Submission 30, Australian Childcare Alliance, pp 7, 38 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

As noted in the September interim report, although there are limited reviews of early childhood education and care price regulation models across countries,[344] international experience provides the following insights.

First, the design of the price regulation model depends on a country's overarching policy objectives.[345] For example, the universal entitlement to free or very low fee hours commences, or is proposed to commence, at age 3 in Sweden, 9 months in the United Kingdom and from birth in the Netherlands. The number of hours also varies depending on whether the objective is to support labour force participation (for example, the United Kingdom's proposed entitlement to 30 hours a week)[346] or childhood education (for example, Sweden's entitlement to about 15 hours a week excluding school holidays). These broader policy issues form part of the Productivity Commission's terms of reference.

However, secondly, where countries significantly shift their policy settings (for example, free hours or very low fees), there appears to be a trend in market-based economies towards implementing this through a direct price control supported by a supply-side subsidy to cover providers' operating costs. This issue is further discussed in section 7.6.1 below, in relation to our draft recommendation 8.

Thirdly, the September interim report also observed that, across these countries, there appears to be at least 5 broad approaches for implementing greater regulation of childcare fees such as low fees or free hours, complemented by supply-side subsidies to cover costs:[347]

- Market fees: Under this approach, the regulated price/subsidy is based on either the provider's fees at the time the scheme was established (for example, in Ireland, where a regulated provider's fees are frozen as at September 2021) or fees of providers that are not part of the scheme (for example, certain Canadian provinces and American states).
- Benchmarking efficient costs: This approach uses a survey of costs incurred by providers to benchmark efficient costs and determine the regulated price/subsidy (for example certain Canadian provinces and American states), or allocation of funding by central government to regional authorities (for example the United Kingdom).
- Competition for the market: Under this approach, government undertakes a competitive tender process to determine a cost-efficient level of funding.
- Public and not-for-profit provision (for example, in Canada, funding has been prioritised for public or not-for-profit provision).[348]
- Conditional central government funding to regional authorities: Sweden, Canada[349] and the United Kingdom are examples of more decentralised models where central government provides funding to state or local authorities who in turn determine the model for delivering the regulated fees and subsidies in accordance with central government requirements.

344 See the review of evidence in Frontier Economics, Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare, November 2020, pp 14–15.

345 ACCC, Childcare Inquiry September interim report, section 5.4.3.

346 Institute of Fiscal Studies, Does More Free Childcare Help Parents Work More?, IFS Working Paper W16/22, May 2018.

347 ACCC, Childcare Inquiry September interim report, pp 202–204.

348 In Canada, an aim of federal investments is to facilitate access to early learning and child care programs and services 'in particular those that are provided by public and not-for-profit child care providers': An Act respecting early learning and child care in Canada, SC 2023, C-35, s 7(1)(a).

349 Central government funding in Canada is intended to supplement provincial/territorial government funding.

7.5.3 Australian preschool price regulation models

While the ACCC's Inquiry does not cover preschool or kindergarten services in Australia,[350] we have sought to understand price regulation models used for these programs given the prevalence of supply-side funding by state and territory governments.[351]

From 2008,[352] the Australian Government has provided funding to states and territories to support the delivery of preschool for all children in the year before they start school (in general, 4-year-olds)[353] for 600 hours a year (15 hours a week excluding school holidays).[354] In June 2022, New South Wales and Victoria also announced government funded preschool would extend to 30 hours a week for 4-year-olds.[355] In addition, some states and territories are undertaking reforms to fund preschool to 3-year-olds.[356]

The broader social and economic costs and benefits of preschool have been considered in other reviews such as those done by the Nous Group,[357] University of Melbourne[358] and South Australian Royal Commission.[359] The following table 7.1 focuses on whether the supply-side preschool funding by states and territories to private providers (for-profit or not-for-profit) is subject to any price regulation mechanism.

In summary, across states and territories:

- Government delivered preschool is provided in all states and territories (although the extent of provision differs)[360] mainly at no or very low fees.[361] However, states and territories also provide funding to non-government preschool services (for example, standalone, centre based day care, non-government schools and mobile preschools).
- Under the 2022 Preschool Reform Agreement, the Australian Government and states and territories have agreed to implement a 'Commonwealth funding follows child at the setting level approach' from 2023.[362] The Australian Government's contribution must be passed on to benefit

350 See *Competition and Consumer (Price Inquiry – Child Care) Direction 2022* (Cth).

351 For a broader overview of state and territory preschool funding and reforms, see Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, Appendix E (Preschool Funding and Reforms, 8 December 2023).

352 See Australia, Parliamentary Library, Marilyn Harrington, Universal Access to Early Childhood Education: A Quick Guide (Research Paper Series, 2013–14, 1 May 2014).

353 Age cut-offs varying by state and territory are summarised in Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, Appendix E (Preschool Funding and Reforms, 8 December 2023).

354 This was funded, from 2008 to 2021, through the Universal Access National Partnership and, from 2022 to 30 June 2026, the Preschool Reform Agreement (see also the implementation plan and performance report for each state and territory).

355 The Hon. Dominic Perrottet MP, Premier of New South Wales and The Hon. Daniel Andrews MP, Premier of Victoria, Statement of Intent: Joined Commitment to Transform Early Education [media release], 16 June 2022, accessed 7 December 2023.

356 See Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, Appendix E (Preschool Funding and Reforms, 8 December 2023), section E.4; Victorian Government, The Best Start, Best Life reforms, 15 November 2023, accessed 7 December 2023; and NSW Government, 2023 Start Strong for Community Preschools program guidelines, 3 Oct 2023, accessed 7 December 2023. In some states and territories, Aboriginal and Torres Strait Islander children can also access subsidised or free preschool from 3 years of age: South Australia, Royal Commission into Early Childhood Education and Care, *Report* (August 2023) p 178.

357 Nous Group, Universal Access to Early Childhood Education National Partnership (UANP) Review: Final Review Report, COAG Education Council, October 2020.

358 Professor Marco Castillo & Professor Ragan Petrie, 'How much evidence is in Australia's evidence-based policy? The case of expanding early childhood education' in Peter Dawkins and A. Abigail Payne (eds), *Melbourne Institute Compendium 2022: Economic & Social Policy: Towards Evidence-Based Policy Solutions* (2022).

359 South Australia, Royal Commission into Early Childhood Education and Care Report, August 2023.

360 For example, Queensland government delivered kindergarten programs are targeted at where the market is not able to deliver the service.

361 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, Appendix E (Preschool Funding and Reforms, 8 December 2023), box E.1.

362 Preschool Reform Agreement 2022, Additional terms, clause 2.

children in the setting in which they attend via reduced out-of-pocket fees for families, and/or to improve quality such as through the provision of early childhood teachers. States and territories are required to have a robust mechanism in place to provide assurance on how the funding is used.[363]

- The Australian National University's submission to the Productivity Commission notes that it is unclear as to the actual 'dose' of preschool education that occurs in centre based day care and the degree, if at all, to which this is monitored, other than at the level of services saying they used the Early Years Learning Framework and have appropriately qualified staff (or potentially waivers).[364]
- The Nous Review finds, in relation to the objective of promoting delivery at low cost to families, that some downward pressure on price (where fees are charged) appears to have been maintained through the availability of options for most parents in most situations. This competition means that, while some providers will still seek to compete on quality or access to different school pathways, there is not much opportunity for providers to exploit preschool funding for unreasonable commercial gain.[365]
- However, in addition, some states and territories, as a condition of this funding, are also requiring providers not to increase fees more than is reasonably necessary, and imposing reporting and monitoring requirements (for example, the Australian Capital Territory, New South Wales, Queensland and Victoria). A potential role for price monitoring with a credible threat of intervention for the Child Care Subsidy scheme is discussed in section 7.6.2 below.

363 Preschool Reform Agreement 2022, Appendix A (funding principles) clause 6.

364 Dr J Rob Bray & Professor Matthew Gray, The Australian National University Centre for Social Research & Methods, Productivity Commission Inquiry into Early Childhood Education and Care, Submission, 28 April 2023, p 21.

365 Nous Group, Universal Access to Early Childhood Education National Partnership (UANP) Review: Final Review Report, COAG Education Council, October 2020, pp 10 and 79.

Table 7.1: Australian state and territory preschool price regulation models

Australian Capital Territory
▪ ACT children who turn 4 on or before 30 April[366] are entitled to 15 hours of free preschool a week excluding school holidays at an ACT public school.[367] ▪ Under the 2023 ACT PRA Implementation Plan and Performance Report, the ACT distributes Australian Government funding to the non-government sector, including non-government schools and centre based day care. ▪ From 1 January 2024, all children who turn 3 on or before 30 April will be entitled to 300 hours per year of free preschool, delivered through participating Early Childhood and Education Care services (Partner Providers). The Three-year-old Preschool Program Guide (as at 20 November 2023) outlines the funding allocation for 2024 of $2500 per child per year, which comprises both program funding (Program Payment) and fee relief funding (Fee Relief Payment). The Guide does not require Partner Providers to charge a specific fee (such as free hours) but does require Partner Providers to: – use the Fee Relief Payment to cover the gap fee (after the Child Care subsidy has been applied) for up to 300 hours of the year – not increase fees to offset the benefit of the Fee Relief Payment – charge the same gross fee for children in the same cohort irrespective of eligibility for fee relief – retain evidence to support any necessary fee increase such as reasonable increases in operating costs – communicate the fee reduction from Fee Relief Payments to families – demonstrate the pass through as part of the annual reporting process to the Education Directorate, and – agree with the Education Directorate, the proportion of funding that will be used for administration costs.
New South Wales
▪ In addition to delivering fee-free preschool in preschools operated by the New South Wales Department of Education, the NSW Start Strong Program for 2024 funds community preschools and long day care to provide preschool for 600 hours per year to children who: – turn 4 on or before 31 July 2024, or – turn 3 (with priority given to Aboriginal, vulnerable or disadvantaged children) or are at risk of significant harm. ▪ The NSW 2024 Start Strong for Community Preschools Program Guidelines require the provider to: – use the Program Payment for operating expenses – use the Fee Relief Payment to reduce the daily fees as much as possible for 600 hours per year – communicate the fee reduction from Fee Relief Payments to families – demonstrate the fee pass through to the department as part of the annual reporting process – not increase fees to offset the benefit of the Fee Relief Payment – maintain fees adjusted for CPI or, where it is necessary to adjust fees above CPI, such as due to reasonable increases in operating costs, retain evidence to support this.

366 ACT Aboriginal and Torres Strait Islander 3 and 4-year-old children can also access Koori Preschool and Early Entry to preschool, meaning they may access up to 30 hours per week of preschool. Since January 2020, 3-year-old children experiencing vulnerability or disadvantage can access 2 days per week, 48 weeks per year of free early childhood education at participating Early Childhood and Education Care services.

367 The ACT is the major contributor of access to 4-year-old preschool by providing 12 hours a week free. The Preschool Reform Agreement (PRA) provides an additional 3 hours of Australian Government funding.

- The NSW 2024 Start Strong for Community Preschools Program Guidelines also state that the department will be monitoring daily fees and additional charges.
- The NSW 2024 Long Day Care Program Guidelines provide funding through 4 streams:[368]
  - program funding for children aged 4 and above (4YO+ Program Payment)[369]
  - fee relief for families of children aged 4 and above (4YO+ Fee Relief Payment)
  - program funding for children aged 3 (3YO Program Trial Payment)[370]
  - fee relief for families of children aged 3 (3YO Fee Relief Trial Payment).
- Similar to the guidelines for community preschools, the 2024 Long Day Care Program Guidelines require the provider to:
  - allocate the program funding to prescribed purposes
  - apply the fee relief payment as a reduction to a family's session fee or cap fee (after the Child Care Subsidy has been applied)
  - not increase fees to offset the benefit of the fee relief payment
  - charge the same gross fee for children in the same cohort irrespective of eligibility for fee relief
  - where it is necessary to adjust fees, such as due to reasonable increases in operating costs, retain evidence to support the fee increase
  - communicate the fee reduction from the fee relief payment to families
  - demonstrate the fee pass through to the department as part of the annual reporting process.
- The NSW 2024 Long Day Care Program Guidelines also state that the department may undertake a funding compliance review.

Northern Territory

- Northern Territory government schools provide 600 hours per year (15 hours per week) of free preschool for 4-year-old children, and 3-year-olds in very remote locations.
- Under the 2023 NT PRA Implementation Plan and Performance Report, the NT also distributes funding to preschool programs delivered by remote non-government schools where there is no government preschool provision, and preschool delivered by long day care services.
- The Northern Territory also funds an early childhood services subsidy paid directly to early childhood education and care providers to help with the cost of providing a service and to reduce the cost of education and childcare for parents and guardians:
  - The subsidy is a flat rate of $30 per equivalent full-time place, per week for children aged under 2. This rate decreases to $22 for children aged 2 to 5.
  - Centre based day care, family day care and 3-year-old kindergarten are able to receive the subsidy.

Queensland

- From 1 January 2024, kindergarten in Queensland will be free for 15 hours per week, 40 weeks per year for eligible-aged children (primarily, 4 years old) who attend a government-approved program.
- These programs are provided in long day care services and sessional kindergarten services. Sessional kindergarten services are generally not-for-profit organisations. The Queensland Government also delivers kindergarten programs where the market is not able to deliver a kindergarten program.[371]

368 The NSW 2024 Start Strong for Long Day Care program supports eligible services to:
- improve the service they provide through supporting: capability uplift of early childhood teachers and educators; attraction and retention of early childhood teachers and educators; and purchase of educational resources and program development
- reach out to their community to offer and promote quality early childhood education
- reduce the cost of early childhood education for families by providing up to $2,110 per year in fee relief for children aged 4 and above, and up to $500 per year in fee relief for children aged 3.

369 The 4YO+ Program Payment is scaled for enrolments above and below 600 hours, with loadings for Aboriginal and Torres Strait Islander children and services located in areas of relative socio-economic disadvantage.

370 The 3YO Program Trial Payment (formerly known as Trial Payment) includes loadings for Aboriginal and Torres Strait Islander children and services located in areas of relative socio-economic disadvantage.

371 For example, eKindy, State Delivered Kindergarten and Hospital Kindy.

- The 2023 Queensland Kindergarten Funding Essentials for long day care providers required services providers (from 1 January 2023) to:
  - adopt a fee structure that is not a barrier to participation by families, for example, fees charged for eligible children are not more than for any other age group at the service
  - ensure funding is used in accordance with the spending rules, including to reduce out-of-pocket expenses for families, resulting in a fee reduction for eligible children after the Child Care Subsidy is deducted
  - display the fee structure including how subsidies are allocated or passed on to families
  - spend a minimum of 75% of the base subsidy on a prescribed purpose[372]
  - deduct the affordability subsidy (Kindy Family Tax Benefit) from family fees
  - use the service location subsidy to attract and retain teachers
  - use the educational need grant and inclusion subsidy to improve outcomes for eligible children.
- The 2023 Queensland Kindergarten Funding Essentials for long day care providers also state that the department will be monitoring compliance, and that funding will be recovered for periods where these terms have not been met.[373]
- The 2024 Queensland Kindergarten Funding Essentials for long day care providers will set out the requirements for Free Kindy that will apply from 1 January 2024. The requirements are the same as in 2023 except that:
  - free kindy covers the kindergarten component of the day and is the gap families would normally pay after the Child Care Subsidy
  - free Kindy does not cover care before or after the kindergarten program and families will have out-of-pocket expenses for these hours
  - from 2024, service providers must use at least 80% of the base subsidy to improve entitlements for the early childhood teacher delivering the approved program.

South Australia

- South Australian children are eligible to access 600 hours of preschool in the year before full-time school (generally at age 4).[374]
- In addition to government preschool, non-government preschool service providers may apply for funding administered by the South Australian government under the Preschool Reform Agreement.
- The South Australian sample funding agreement requires providers to provide an annual income and expenditure statement setting out how the grant funding was spent, and to certify that it was used for the purpose the grant was provided.

Tasmania

- Tasmanian children are eligible for 600 hours a year of free kindergarten (generally at age 4).
- To receive funding, a non-government school must be not-for-profit. Non-government schools can charge for a preschool program.

Victoria

- Victorian children will be eligible, by 2032, for 30 hours (progressively increasing from 15 hours from 2025) a week of kindergarten for 4-year-olds (to be called 'Pre-Prep').
- The roll-out of Three-Year-Old Kindergarten is in progress and programs will increase to 15 hours a week across the state by 2029.

372 A minimum of 75% of the base subsidy must be spent on: improving entitlements for the early childhood teacher delivering the approved kindergarten program; and/or fee reduction for the kindergarten hours for the eligible aged child.

373 The 2024 Queensland Kindergarten Funding Essentials for long day care providers outlines the funding available to support services to delivery an inclusive and quality education program through a range of inclusion and Kindy Uplift grants. This funding is available to all services in 2024.

374 Aboriginal children or children under guardianship are able to access an additional entitlement of 12 hours per week from the age of 3 years.

- The Victorian Kindergarten Funding Guide 2023 sets out the requirements that apply to service providers (who can be for-profit or not-for-profit) receiving kindergarten funding.[375]
- Service providers are required to use kindergarten funding for 'approved uses' and not for 'disapproved' uses (which include funding other programs, organisation profit and shares, and replacing any long day care subsidies received from the Australian Government).
- As part of regular service monitoring and auditing processes, the department may request evidence of expenditure of kindergarten funding. The department can require the service provider to repay funds used other than in accordance with the service agreement.
- The Victorian Government's 'Free Kinder' initiative is optional for service providers to participate in and requires the acceptance of additional conditions. There are different conditions that apply to standalone (sessional) services and to integrated kindergarten programs delivered in long day care settings. Funded standalone (sessional) services are required to:
  - offer a free 15 hour kindergarten program for 4-year-old enrolments and a free kindergarten program of between 5 and 15 hours for 3-year-old enrolments
  - not charge any compulsory out-of-pocket fees or levies to families, except for cost recovery for one-off excursions for children not eligible for the Kindergarten Funding Subsidy.
- Funded long day care services accessing Free Kinder funding are required to:
  - ensure that children enrolled in a kindergarten program are not charged higher fees in comparison to kindergarten aged children that are not attracting kindergarten funding
  - directly offset the full Free Kinder payment from fees, and indicate the offset on parent invoice statements
  - use any surplus funding on improvement efforts for the funded kindergarten program, such as improving quality and supporting engagement of families.
- The Kindergarten Fee Subsidy (available for eligible sessional services that elect not to opt into Free Kinder) requires service providers to:
- provide eligible children with access to a kindergarten program free of charge for at least 15 hours per week or 600 hours per year in Four-Year-Old Kindergarten and between 200 and 600 hours per year in Three-Year-Old Kindergarten
- charge eligible families no more than the average hourly rate (for that service) for additional hours of service provision above the funded kindergarten hours.

Western Australia

- WA children are eligible for 15 hours of kindergarten per week (600 hours per year) of kindergarten (generally at age 4). This is free in government and community kindergartens.[376]
- In addition to government school-based kindergarten, funding is provided to non-government schools. To receive funding, a non-government school must be not-for-profit. Non-government schools can charge for a preschool program.
- Kindergarten in centre based day care settings is not subsidised beyond the Child Care Subsidy, although grant funding to some services may indirectly contribute to reduced costs for families.

375 The Victorian Kindergarten Funding Guide 2023 also sets out the eligibility criteria for all kindergarten funding streams.

376 With the exception of voluntary contributions up to a maximum of $60 per year and mandatory charges for extra cost optional components under the *School Education Regulations 2000* (WA).

7.6 Policy considerations for government

7.6.1 Significant changes to policy settings may warrant sector-wide direct price controls

Box 7.2: Parent and guardian responses

Many of the responses by parents and guardians to the ACCC's Parents and Guardians Survey, Roundtable and September interim report focus on increases in childcare fees in response to increases in Child Care Subsidy rates. Comments include:

- 'Increasing the subsidy barely helps us because the centre just increases the daily rate to basically keep us at the same cost contribution. It's a guilt free license to increase their prices beyond CPI.'[377]
- '[I]t has actually become a driver for cost increases. As an example. My provider waited until October 2023 to increase their … fees with almost 17%. It would probably have been much less if the subsidies were not increased.'[378]
- 'Childcare operators ensure they increase prices to gain more subsidy. Subsidy not helping families helping for profit sector.'[379]

As discussed in the September interim report,[380] a key question is the extent to which the hourly rate cap, income-dependant subsidy rate and activity test (a demand-side subsidy) provide downward pressure on prices.

The September interim report found that parents' and guardians' demand for centre based day care is driven by a combination of non-price and price factors. Parents and guardians typically consider and prefer services located close to their home. Providers tend to compete on quality rather than price, with low price variation within local markets. However, while margins were highly variable between providers, our analysis in the September interim report did not show systemic excess profits over the period 2018 to 2022:

- Our June interim report found that, from 2018 to 2022, average childcare fees in Australia increased by 20% for centre based day care[381] and outside school hours care,[382] 22% for family day care,[383] and 32% for in home care.[384] These increases were more than inflation. When adjusted for inflation, these increases were 4% for centre based day care and outside school hours care, 6% for family day care and 15% for in home care.[385]
- However, the September interim report found that, between 2018 and 2022, costs for large providers of centre based day care grew faster than inflation. When adjusted for inflation, this

377 Submission 61, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, finding 13.

378 Submission 67, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, finding 13.

379 Submission 75, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, finding 13.

380 ACCC, Childcare Inquiry September interim report, p 199.

381 ACCC, Childcare Inquiry September interim report, p 74 (average daily fee).

382 ACCC, Childcare Inquiry September interim report, p 76 (average session fee).

383 ACCC, Childcare Inquiry September interim report, p 74 (average daily fee).

384 ACCC, Childcare Inquiry September interim report, p 78 (average daily fee).

385 ACCC, Childcare inquiry June interim report, p 73.

increase was 11.6%, although costs for outside school hours care kept pace with inflation.[386] Labour was the main driver of costs (on average, 69% for centre based day care and 77% for outside school hours care).[387] Average labour costs (nominal) from 2018 to 2022 increased by 28% for centre based day care[388] and 7% for outside school hours care[389] large providers. Although the report also noted that head office costs were significant and that there were limitations in the data available to the ACCC.

- The analysis of Business Income Tax 2020–21 de-identified records in chapter 4 of this final report is consistent with the analysis in the September interim report that, on average, profits do not appear excessive across the childcare sector.

The September interim report observed that this is consistent with the finding by Ireland that, while some providers were making significant profits, the sector is generally not regarded as highly profitable, and excessive profits were not being made.[390] The UK, in a 2022 report, found that, in 2021, 26% of all providers were in deficit, 51% around breakeven and 24% in surplus.[391] Although we also note that Ireland's Expert Group went further in identifying the potential for excess profits to develop with increased public investment,[392] and concluded that the 'State cannot be expected to allocate substantial extra funding … and simply leave it up to providers to set whatever fees they wish'.[393]

In the September interim report, we also outlined the challenges of direct price controls. Box 7.1 above discusses the risk that, if price standards are set too low, price regulation could lower quality or lead to market exit. The September interim report also identified the following risks:[394]

- *Increasingly complex methodology*: There is a risk that the methodology and process for determining an efficient cost of service (to set the regulated price) becomes increasingly complex over time, for example variations by the characteristics of the child or nature of service delivery or location and premises. This complexity can have unintended consequences. For example, the Netherlands refers to a locally/regional differentiated price cap incentivising services to open or relocate to boundaries of regions where there is higher funding.[395] Increasingly complex regulatory frameworks and funding arrangements also tend to deter smaller providers.
- *Reset process for the regulated price*: There is a risk that, at each reset, the focus of providers will increasingly shift to maximising profit through influencing regulatory settings rather than improving operations. This in turn may impact relationships between providers and government. The reset process and government budget cycle may also create investment uncertainty which can influence supply and availability of services.
- *Additional charges*: Ireland, the United Kingdom, the Netherlands, Canada and New Zealand have had to regulate to prevent providers circumventing the schemes through excessive charges for additional services and/or hours.

386 ACCC, Childcare Inquiry September interim report, p 10.

387 ACCC, Childcare Inquiry September interim report, p 10.

388 ACCC, Childcare Inquiry September interim report, p 50.

389 ACCC, Childcare Inquiry September interim report, p 52.

390 ACCC, Childcare Inquiry September interim report, p 199 citing Ireland, Expert Group, Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare, November 2021, pp 109–110.

391 ACCC, Childcare Inquiry September interim report, p 199 citing UK, Department for Education, G Cattoretti and G Paull, Frontier Economics, Providers' Finances: Evidence from the Survey of Childcare and Early Years Providers 2021, Research report, March 2022, Figure 3.

392 Ireland, Expert Group, Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare, November 2021, p 110.

393 Ireland, Expert Group, Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare, November 2021, p 90.

394 ACCC, Childcare Inquiry September interim report, pp 202–203.

395 ACCC, Childcare Inquiry September interim report, p 202 citing The Netherlands, Ministry of Social Affairs and Employment, Report: Childcare Measures, Rapport Maatregelen Kinderopvang, April 2023.

- *Quality regulation*: The OECD notes that price regulation needs to be accompanied by well-specified and enforced quality standards.[396]
- *Administrative cost*: Price regulation can impose a significant administrative and regulatory burden on both government and providers, which in turn increases the cost of the scheme.

However, the September interim report also noted that significant policy changes may require a different price regulation model. If Child Care Subsidy settings are significantly changed (such as a 90% universal subsidy) to reduce out-of-pocket expenses for households, then this is likely to further reduce consumer-led price competition and the indirect price impact of the hourly rate cap.

The Productivity Commission's terms of reference for its early childhood education and care inquiry includes considering a universal 90% subsidy rate. The Productivity Commission's draft recommendations include providing all children an entitlement of up to 30 hours or 3 days a week of care without an activity requirement, with a subsidy of 100% of the hourly rate cap for family income up to $80,000.[397] The report also includes preliminary modelling on the impact of moving to a 90% universal subsidy.[398]

Box 7.3: Why could significant changes in policy settings warrant direct price controls?

A key issue is whether an increase in the Child Care Subsidy may lead to excess profits in the childcare sector rather than reduced out-of-pocket expenses for parents and guardians.

Businesses need to make a profit to cover their investment and opportunity cost. A normal profit is where a business makes a rate of return that is the minimum rate required by investors to invest in that business.

Competition constrains the ability of businesses to significantly increase prices and earn above normal profits. The extent to which businesses can increase prices to earn above normal profits depends on the responsiveness (the 'elasticity') of other suppliers and customers to a price increase:

There are certain features of childcare markets that may limit this constraint. This is discussed in chapter 2 of our September interim report and chapter 5 of this final report. In summary:

- For centre based day care, there are short-term barriers to entry and expansion such as workforce shortages, the cost and availability of premises and zoning requirements, and the cost and time to receive accreditation and meet other regulatory requirements. Because the supply curve tends to be inelastic in the short run, the supply of childcare is likely to take a period of time to respond to above normal profits.

396 ACCC, Childcare Inquiry September interim report, p 203 citing OECD, Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable, June 2020.

397 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, draft recommendation 6.2.

398 Productivity Commission, *A path to universal early childhood education and care* ,Draft report, November 2023, pp 5–6, Table 1 (option 6), pp 41–43.

- However, the response by parents and guardians to a price increase will also vary. Lower income households, for whom childcare expenses may take up a larger fraction of the household budget and who have a lower opportunity cost of not being in paid employment, tend to be more sensitive to increases in childcare prices. This reduces the ability of a provider to increase prices above normal profits in the short-term. However, in general, despite how important the overall cost of childcare is to parents and guardians, childcare consumers are less sensitive to small variations in price than in many other markets.[399] Parents and guardians place significant value on non-price factors such as quality, so are generally unwilling to switch provider once their child is settled.

There may also be other factors that mean that childcare providers do not put up their prices as much as they could, such as a commitment to social objectives or a threat of government regulation.

Demand-side subsidies reduce the out-of-pocket costs for parents and guardians. As the Netherlands notes (in the context of its policy proposal to pay 96% of the costs for all parents), an increase in subsidy reduces the incentive households may have to choose a service based on price. Price becomes even less of a determining factor in the choice of whether or not, how much and which childcare service to use where only a small part of the price is paid by the household in out-of-pocket expenses.[400]

This reduces the extent to which competition can provide downward pressure on gross fees, which in turn impacts government expenditure. For example, under a universal 90% subsidy, the impact of an hourly rate cap as a discipline on gross fees would be lessened:

- Parents and guardians will, in general, be less price sensitive if a provider increases its prices up to the hourly rate cap as 90% of the additional cost will be borne by government.
- Where the hourly rate exceeds the hourly rate cap, the parent or guardian bears the full cost of the price increase above the cap. However, as the total net cost for families with an income of more than $80,000 will be less under a universal 90% subsidy, families have a greater capacity to absorb this additional cost.

Consequently, the ACCC's September interim report included the following draft recommendation 7:

> The ACCC supports further consideration of supply-side subsidies and direct price controls. Some changes to the policy settings are likely to reduce the impact of the hourly rate cap as an indirect price control, and may warrant a shift to direct price controls supported by operating grants for regulated childcare providers.

399 ACCC, Childcare Inquiry September interim report, p 14.

400 ACCC, Childcare Inquiry September interim report, p 199 citing The Netherlands, Ministry of Social Affairs and Employment, Report: Childcare Measures, Rapport Maatregelen Kinderopvang, April 2023.

Submissions in response to this draft recommendation were divided:

- Parents and guardians, in general, considered that there is a current need for direct price controls.
- The Diversity Council of Australia called for a more fundamental shift where early childhood education and care is directly funded in the same way as public schools. Similarly, the United Workers Union and Equality Rights Alliance identified the need for a shift to public provision.[401]
- Submissions from a broad range of stakeholders (including C&K Childcare & Kindergarten, Centre for Policy Development, Child Australia, Community Child Care Association and Community Early Learning Australia, Goodstart Early Learning, Gowrie Australia, KU Children's Services, Local Government NSW, The Front Project, TheirCare, and the Secretariat of National Aboriginal and Islander Child Care[402]) supported further consideration of direct price controls and supply-side funding as a means of improving access and affordability, particularly for targeted groups. However, many of these submissions also noted the risk of a blunt tool that does not account for the diversity of contexts and costs across the country. In addition, the NSW Small Business Commissioner noted the need to consider the specific needs of small business services;[403] and the Police Association Victoria identified the need to directly subsidise childcare providers for providing a span of hours that cover shift work.[404]
- Dr J Rob Bray from the Australian National University noted the importance of determining whether excess profits are inappropriately driving up the cost of childcare, and identified the need for further analysis including in relation to capital and return on investment.[405]
- A number of providers (including Edge Early Learning, G8 Education Ltd and Guardian Childcare and Education[406]) did not consider that the case for price controls or regulation had been proven. These submissions also raised concerns with the price controls implemented in other countries, and discussed the difficulty of designing controls to reflect sector complexity and geographical variations in input costs.[407]

Given the challenges of direct price controls and that our analysis does not show systemic excess profit margins from 2018 to 2022, this report recommends that, as part of a market stewardship role, further consideration be given to the pros and cons of supply-side subsidies coupled with other more direct forms of market intervention, as appropriate (recommendation 8). Significant changes to policy settings such as a universal 90% subsidy may also warrant consideration of direct forms of market intervention.

401 Including: Submission 2, Diversity Council Australia, pp 1 and 5; Submission 18, United Workers Union, p 3; Submission 38, Equality Rights Alliance, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

402 Including: Submission 36, The Creche & Kindergarten Association Limited, p 6; Submission 21, Centre for Policy Development, pp 16–17; Submission 16, Child Australia, p 7; Submission 24, Community Child Care Association and Community Early Learning Australia, p 22; Submission 32, Goodstart Early Learning, pp 24–25; Submission 22, Gowrie Australia, p 14; Submission 14, KU Children's Services, p 7; Submission 8, Local Government NSW, p 9; Submission 13, The Front Project, draft recommendation 7; Submission 90, TheirCare, draft recommendation 7; Submission 35, SNAICC, p 8 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

403 Submission 10, NSW Small Business Commissioner, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

404 Submission 9, The Police Association of Victoria, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

405 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 4–7, section 2.3 and p 27. The Municipal Association of Victoria also identified the need for further consideration of the recommendation: Submission 33, Municipal Association of Victoria, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

406 Including: Submission 27, Edge Early Learning, pp 8–9; Submission 26, G8 Education Ltd, pp 9–10; Submission 23, Guardian Childcare and Education, p 11 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

407 See also Submission 4, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 20.

More broadly, our September interim report also identified limitations in the historical data available to the ACCC to assess childcare providers' profits and rates of return, including in relation to:

- small and medium providers
- head office costs
- land costs and payments to related parties
- family day care and in home care.

As discussed in chapter 1 of the September interim report[408] and chapter 2 of this final report, we were also concerned with the quality of the responses by some large providers to the compulsory information notices under section 95ZK of the *Competition and Consumer Act 2010*. Improved information provision and further analysis could be done as part of an ongoing government price monitoring role to assess profit margins and rates of return across the childcare sector, as discussed below.

7.6.2 Strengthening the hourly rate cap as an indirect price discipline

Changes that address barriers to entry or expansion or which provide greater price transparency for households, may help increase the downward pressure on out-of-pocket costs.[409] This includes the recommendations in this report around:

- resetting the methodology used to index the hourly rate cap so that it is more cost reflective (including for differences in staff ratios for age cohorts) (recommendation 2)
- improving the information provided through StartingBocks.gov.au (recommendation 3)
- policies to improve recruitment and retention of childcare workers (recommendation 4).

However, the September interim report also identified the potential role of price monitoring with a credible threat of intervention (draft recommendation 2(d)) as a potential tool to increase the downward pressure on prices and taxpayer burden.[410]

Box 7.4: What is price monitoring with a credible threat of intervention?

The September interim report noted that it is common across countries for government agencies to report publicly on price trends in the regulated childcare sector. For example, both the Netherlands and Australia produce quarterly reports.[411] These reports tend to focus on average prices. However, public monitoring of prices of individual providers combined with a credible threat of further intervention could be another option to support the indirect price discipline of the hourly rate cap, as part of a market stewardship role for government.

408 ACCC, Childcare Inquiry September interim report, p 41 box 1.2.

409 ACCC, Childcare Inquiry September interim report, p 201.

410 ACCC, Childcare Inquiry September interim report, pp 200–201.

411 ACCC, Childcare Inquiry September interim report, p 200 citing United Kingdom's reporting on provider fees and finances, and Ireland's Annual Early Years Sector Profile.

This approach has been used in Australia in sectors outside childcare to provide downward pressure on prices.[412] The September interim report noted that the Australian Government might issue guidance to childcare providers on:

- a de facto formula for annual price increases (which considers the CPI and wage price index for the childcare sector)
- the process that the government agency will follow to investigate instances of price rises above the de facto range (sometimes referred to as 'outliers') so the provider is aware of the type of cost information they will be expected to produce to justify price increases that exceed the de facto level[413]
- the backstop threat of further government action if the provider does not respond or the government finds that the provider is charging excessive prices. Options for further action (varying in the degree of government intervention) could range from:
  - public identification of outliers
  - declaration under the prices surveillance provisions in Part VIIA of the *Competition and Consumer Act 2010*
  - future direct fee regulation under the Child Care Subsidy scheme.[414]

The September interim report also set out limitations in the historical data available to the ACCC to analyse providers' costs and profits in this inquiry.[415] The report observed that, to inform future policy reviews and monitoring of prices, there may be value in further work with the childcare sector to develop a template for the collection and analysis of cost data, with a particular focus on related-party rents and corporate overheads, and improved reliable information from medium sized childcare providers. This work could:

- draw on the cost survey templates being used or developed in other countries
- inform any investigation of outliers and help government assess the justifications provided by services for their price increases.

This was reflected in the ACCC's September interim report draft recommendation 2(d) that consideration be given to including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.

412 ACCC, Childcare Inquiry September interim report, p 201 citing the Australian Government's 2007 Aeronautical Pricing Principles. More broadly, Australia's *Prices Surveillance Act 1983* (now Part VIIA of the *Competition and Consumer Act 2010*) provided for the Prices Surveillance Authority to scrutinise (but not to prevent) proposed price increases.

413 Providers that exceed the de facto level because of higher cost inputs might also consider surveying their customers on their willingness to pay, for example to pay a higher fee for renovations or for an additional language teacher. This approach is used in other sectors. For example, utilities are required to engage with their customers to better understand customer concerns, preferences and priorities and to show that they've taken these into account. Service and price are informed by the things that matter to customers, as opposed to measures set by government. See for example, Victoria, Essential Services Commission, Performance, Risk, Engagement, Management, and Outcomes (PREMO) Water Pricing Framework.

414 Under the Victorian Kindergarten Funding Guide 2023, the department can require the service provider to repay funds used other than in accordance with the service agreement.

415 ACCC, Childcare Inquiry September interim report, pp 39–88, 122–158.

Submissions in response to this draft recommendation were divided:

- Parents and guardians, in general, supported the need for price monitoring although one submission noted the need to be cautious not to scare private enterprise.[416] Another submission did not support the recommendation on the basis that it would not work.[417]
- Submissions from a broad range of stakeholders (including Dr J Rob Bray from the Australian National University, Centre for Policy Development, Community Child Care Association and Community Early Learning Australia, Diversity Council of Australia, Early Learning & Care Council of Australia, G8 Education, Goodstart Early Learning, Gowrie Australia, Guardian Childcare and Education Ltd, JCU Early Learning Centres, North West Queensland Indigenous Catholic Social Services, The Front Project, and UNICEF Australia[418]) supported the recommendation and the need for transparency and reporting. However, some of these submissions also identified the need for further consideration of what a 'credible threat' might involve and close consultation in the development of the recommendation to reflect operational variation.
- Some providers (including the Australian Childcare Alliance, Only About Children and Y Australia[419]) either did not support the recommendation or raised concerns that monitoring would impose additional costs on providers (particularly for smaller providers), and that the value of price monitoring is uncertain as fees were being driven by rising costs and the recommendation could put service viability under threat. The Australian Childcare Alliance also raised concerns that it would give disproportionate power to parents.[420] Nido Education Ltd considered that the reference to a 'credible threat' was an inflammatory politically driven statement.[421]

While recognising that any price monitoring approach would need to be carefully developed so as not to deter investment or impose an unreasonable administrative burden on providers, the ACCC continues to recommend that consideration be given to including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees (recommendation 2(d)).

Such an approach would overcome the limited price sensitivity we have observed in households consuming childcare services (chapter 5 and section 7.6.3 below). This additional downward pressure on prices would also help limit further taxpayer burden over time (which has been observed to date in the provision of childcare services) and avoid instances of excessive pricing that may occur with some providers and/or in some local area markets among the 14,000 services in the sector.

The preschool funding models discussed in section 7.5.3 above provide one possible example where, in some states and territories, providers are required, as a condition of preschool funding,

416 Submission 47 name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 2(d).

417 Submission 78, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 2(d).

418 Including: Submission 3, Dr J Rob Bray Australian National University, p 24; Submission 21, Centre for Policy Development, p 13 (although noting the submission preferred a new funding system); Submission 24, Community Child Care Association and Community Early Learning Australia, pp 18–19; Submission 2, Diversity Council Australia, p 3 (although noting the submission preferred a new funding model); Submission 4, Early Learning & Care Council of Australia, pp 12–13; Submission 26, G8 Education Ltd, p 8; Submission 32, Goodstart Early Learning, p 18; Submission 22, Gowrie Australia, p 8; Submission 23, Guardian Childcare and Education, p 9; Submission 82, JCU Early Learning Centres, draft recommendation 2(d); Submission 65, North West Queensland Indigenous Catholic Social Services, draft recommendation 2(d); Submission 13, The Front Project, draft recommendation 2(d); Submission 11, UNICEF Australia, p 1 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

419 Including: Submission 30, Australian Childcare Alliance, pp 27 and 41; Submission 29, Only About Children, p 3; Submission 19, The Y Australia, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

420 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

421 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 2(d).

to retain evidence to justify an increase in fees above a de facto rate, and the government has a role in monitoring this. The objective is to ensure that the benefit of government funding is passed on to families and guardians, rather than absorbed by providers as above normal profit or to cover inefficient operating costs.

The Productivity Commission's draft report, in discussing its draft recommendation to increase the top subsidy rate to 100% of the hourly rate cap for 30 hours (3 days) a week for households earning $80,000 or less, similarly notes that:[422]

- In reducing out-of-pocket expenses for some families, the higher subsidy rate could also reduce their sensitivity to fee increases. Some providers might take the opportunity to raise fees more rapidly than they might otherwise have done, particularly in areas where many lower income families live (or where there are few higher income families who may change services if fee rises are excessive).
- The Australian Government should monitor changes in fees and out-of-pocket expenses on a regular basis to identify areas where movements are out-of-step with the sector norm. Increases that vary markedly from the norm should prompt closer investigation, and a regulatory response should be considered if they are not reasonable.
- To inform judgements about what reasonable increases might look like, the Australian Government should commission a detailed investigation of costs and profits across the sector every 3 years, along the lines of the work that the ACCC has been undertaking. This work will also signal if the hourly rate cap needs to be reset.

7.6.3 Limits of competition in delivering broader government objectives point to a market stewardship role for government

A key point made in our September interim report is that there are limits in the ability of competition in markets to deliver broader government objectives for early childhood education and care, and that this supports the need for governments to take on a market stewardship role.

Box 7.5: What are the limits of a market-based childcare system?

Consumer choice and provider competition are central to the design of Australia's Child Care Subsidy. However, issues include:

- Thin markets where the cost of supplying a service to a geographic area or cohort of children means there is no competitive provision of services, or any provision at all.
- The importance of non-price factors to parents and guardians such as location and their children's wellbeing which mean they are less likely to choose or switch providers on the basis of lower fees.

422 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, p 39 and draft recommendation 6.1.

In particular, our September interim report found that:

- The decision of providers to supply childcare services in particular markets is driven by their perceptions of viability, which is influenced by occupancy. This in turn is determined by household demand, willingness/capacity to pay and thus relative socio-economic advantage.[423]
- The price of childcare plays an important and influential role in parents' and guardians' decision making in determining how much childcare to use. However, once parents and guardians have determined how much childcare to use and are choosing between similarly priced services within their local area, price plays a less influential role and providers compete more on 'quality' to attract children and families. Once households have selected a provider, the costs to switch services are likely to be high and exceed the benefits of a small price reduction.[424]

These dynamics mean that market forces alone are unlikely to achieve all the objectives of Australian governments, nor meet all community expectations.

Similar issues have arisen in other parts of the care economy, including:

- Aged care services: The Productivity Commission, in its 2022 report on aged care employment, noted some inherent features of the aged care sector which mean that, left to itself, it is unlikely to produce inefficient outcomes. These features include:[425]
  - Information gaps: People might not be well-placed to assess the quality of the services they are engaging, with the relational quality of care not being apparent until after commencing with a service.
  - Search and switching costs: People might be deterred from finding another service if they are dissatisfied. Finding another provider takes time and resources, and can be particularly difficult for older people who do not have family and friends, or other informal carers to assist them.
  - Thin markets: Aged care providers might struggle to be viable in regional and remote locations, where demand is low. And it might be too costly to provide services for older people with specific needs.
  - Risk of harm: Those who are socially isolated or have cognitive impairments that prevent them from expressing their wishes can be particularly vulnerable to substandard care and abuse.
- Disability support services: A 2023 review of pricing and payment approaches for the National Disability Insurance Scheme concluded that an over-reliance on competition has seen some participants face persistent social gaps (including those in remote and First Nations communities). While choice and control has been foundational to the scheme, issues include:[426]
  - Thin markets: Where the number of providers or participants is too small to support the competitive provision of services, or to support any provision.

423 ACCC, Childcare Inquiry September interim report, pp 89–121.

424 ACCC, Childcare Inquiry September interim report, pp 122–158.

425 Productivity Commission, Aged Care Employment, Study report, October 2022, p 24.

426 Australian Government, NDIS Review – The role of pricing and payment approaches in improving participant outcomes and scheme sustainability, May 2023, pp 2, 4, 9–11 and 17.

- – Switching costs: Participants can be slow to switch between providers when dissatisfied.
  - – Group support: The focus on competition between disability service providers has not supported a systematic approach to coordination or 'pooling' demand across multiple participants (for example, travel).
  - – Price caps: As participants purchase supports using NDIS funding and there is no co-contribution, providers have little incentive to charge below the price cap.[427]
- The Independent Review into the National Disability Insurance Scheme concluded that shifting from a government block-funded model to a market-based model where funding follows the participant has enabled participants to have more choice and control, but competition between multiple service providers has not been able to effectively ensure access to supports for all participants in all locations.[428]

Box 7.6: What does a market stewardship role for government encompass?

As Dr J Rob Bray from the Australian National University notes in his submission to the September interim report, a market stewardship role in childcare could range from monitoring and reporting, through to nudging,[429] to more direct roles such as intervention and support for services in areas of lack of supply. Dr J Rob Bray also notes that Australian Government formal planning of childcare services effectively ceased at the end of the 1990s.[430]

427 Our June interim report similarly noted that centre based day care services experience the largest price increase in the September quarter of each year, which coincides with the indexation of the hourly rate cap: ACCC, Childcare Inquiry June interim report, June 2023, p 75.

428 Independent Review into the National Disability Insurance Scheme, Working together to deliver the NDIS, Final report, 7 December 2023, p 178.

429 The different meanings of 'stewardship' are discussed in Katie Moon, Dru Marsh, Helen Dickinson and Gemma Carey, Is All Stewardship Equal? Developing a Typology of Stewardship Approaches (UNSW, Public Service Research Group, Issues Paper No. 2, November 2027). 'Nudging' is a strategy that can be used by a market steward to support consumers to avoid making disadvantageous decisions by influencing the process of choice, for example through default options.

430 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

The September interim report recommended that a market stewardship role be considered by Australian governments. This would involve closely overseeing, and taking responsibility for, overall system functioning and coordination.[431] This would require a clear vision and objectives, developing clear lines of responsibility, active collaboration between providers and government – including regular feedback on best practice and place-based approaches, and evaluation of outcomes.

As part of this role, the report also noted that there could be value in mapping progress over time in meeting government objectives including the delivery of childcare services across areas and cohorts.[432] Where a need for government intervention is identified, such as delivery of a service in an under-served area or cohort, additional demand-side subsidies or supply-side subsidies (whether through public or private provision) may be required.

Although planning controls were suggested in the provider roundtable hosted by the ACCC on 15 September 2023 as part of a market stewardship role,[433] the ACCC does not support licence approvals being used to prevent new entry or expansion. Alongside the Child Care Subsidy scheme, competition, including the threat of entry or expansion, helps to provide some discipline on fees set by providers.

The September interim report identified competitive tender processes (used for many outside school hours care services) as one tool that could be used by government to select a private provider and determine the supply-side funding required to support a service. Although the report also noted limitations around competitive tendering including:[434]

- tendering becomes less feasible where there is a thin market for bidders
- the process may favour large providers who have the capacity to undertake tendering processes and standardise their approach while operating their normal business, and who can continue operating despite the outcome of an individual tender.

This is reflected in the Municipal Association of Victoria's submission in response to the September interim report suggesting a place-based planning approach to deliver a service.[435]

The ACCC's September interim report included the following draft recommendation 6:

> A market stewardship role should be considered for both Australian and state and territory governments, in identifying under-served areas and vulnerable cohorts, along with intervention whether through public or private provision. A competitive tender process is one tool that could be used by governments to facilitate delivery in these areas.

431 S Duckett, A Stobart and H Swerissen, Reforming Aged Care: A Practical Plan for a Rights-Based System, Grattan Institute, November 2020.

432 See, for example, the Digital Gap project to identify gaps in the delivery of digital services to First Nations people.

433 ACCC, Childcare Inquiry childcare providers roundtable summary, 15 September 2023.

434 ACCC, Childcare Inquiry September interim report, p 203.

435 Submission 33, Municipal Association of Victoria, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 5–6.

Submissions were, in general, supportive of draft recommendation 6:

- Parents and guardians, in general, supported the need for a government market stewardship role, with one submission stating 'get the services to where they're needed'.[436] Another submission also emphasised the need to consider domestic and family violence.[437]
- Submissions from a broad range of other stakeholders also supported this recommendation,[438] although some considered that the concept of market stewardship was too narrowly expressed. In particular:
  - The Centre for Policy Development considered that there are challenges across the system, including in terms of access and quality, and that under-supplied areas and vulnerable cohorts are just 2 areas where government stewardship would improve outcomes and value for taxpayer's money, and that, in fact, systemic change may be required.[439]
  - C&K Childcare & Kindergarten, Goodstart Early Learning and KU Children's Services recommended the objectives include sustainability and growth of the not-for-profit sector.[440] A similar issue was raised by Gowrie Australia around the need for a stewardship role to address barriers to growth in the not-for-profit sector.[441] In contrast, the NSW Small Business Commissioner considered that delivery of services should not be biased against small business.[442]
  - Early Learning & Care Council of Australia identified, in addition to thin markets, the need for government to limit new entry to markets with lower occupancy.[443] This was also raised by Goodstart Early Learning and KU Children's Services.[444]
- Some of the submissions in support of the recommendation also discussed the option of competitive tendering. In particular:

436 Submission 86, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

437 Submission 71, Kate Fernandes, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

438 Including: Submission 30, Australian Childcare Alliance, p 45 (the submission also included funding model recommendations to incentivise service provision in areas of unmet demand); Submission 24, Community Child Care Association and Community Early Learning Australia, p 21 (the submission also sets out objectives to be delivered, and identifies the need to settle responsibilities between the Australian Government and states and territories); Submission 2, Diversity Council Australia, p 5; Submission 27, Edge Early Learning, p 3; Submission 20, KPMG, p 9; Submission 65, North West Queensland Indigenous Catholic Social Services, draft recommendation 6 (noting that government supply should be the last option); Submission 29, Only About Children, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

439 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

440 Submission 36, The Creche & Kindergarten Association Limited, p 5 (the submission also sets out broader objectives to be delivered, and identifies the need to outline explicit roles of the Australian Government and state and territory governments); Submission 32, Goodstart Early Learning, pp 23–24; Submission 14, KU Children's Services, p 6. See also the submission from The Front Project on directing competitive tender processes to the not-for-profit sector: Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

441 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 11–12.

442 Submission 10, NSW Small Business Commissioner, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

443 Submission 25, Early Learning and Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 19.

444 Submission 32, Goodstart Early Learning, p 24, Submission 14, KU Children's Services, p 6 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

- Local Government NSW noted that the use of tender-like mechanisms in outside school hours care and other sectors could be used as templates to better ensure service provision in key target areas.[445]
- In contrast, the Centre for Policy Development did not support the use of tendering for provision in under-served areas as it would drive out smaller local providers.[446] Similar concerns were raised by KU Children's Services and Child Australia.[447] The Secretariat of National Aboriginal and Islander Child Care considered that delivery of services for Aboriginal and Torres Strait Islander children and families is often better achieved through targeted and relational contracting processes.[448]
- The Municipal Association of Victoria noted that Victorian local government experience with tendering, particularly in the delivery of human services, had been fraught, particularly in rural and remote areas where there is no competition, and that there is room for different models.[449]
- Outside School Hours Council Australia noted the need for grant funding to go beyond 1 to 2 years.[450] A similar issue of limited funding windows was raised by TheirCare and Y Australia.[451] Another submission also raised the issue of election cycles and political opinion on a government market stewardship role.[452]

- Dr J Rob Bray from the Australian National University considered that the concept of 'stewardship' requires further clarification, including coordination between the Australian and state governments and evaluation of the Community Child Care Fund program.[453] Similarly, some submissions, including by Guardian Childcare and Education,[454] referred to current government market stewardship schemes including the Australian Government announcement on 25 October 2023 of funding to create additional services, and earlier announcements by New South Wales, Victoria and Queensland of government funded childcare centres. Early Learning Association Australia noted the need for stewardship to extend to local government.[455]
- The recommendation was not supported by the United Workers Union who considered that government needs to go from being a market steward to public provision.[456]

445 Submission 8, Local Government NSW, submission in response to ACCC Childcare Inquiry, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 8–9.

446 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

447 Submission 14, KU Children's Services, p 6; Submission 16, Child Australia, p 6 (the submission also identified other mechanisms such as granting funds to local governments, replacing the Child Care Subsidy with supply-side funding, a planning mechanism and determining minimum services required for each local government area) – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

448 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

449 Submission 33, Municipal Association of Victoria , submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 5–6.

450 Submission 34, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

451 Submission 90, TheirCare, draft recommendation 6; Submission 19, The Y Australia, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

452 Submission 91, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

453 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

454 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

455 Submission 15, Early Learning Association Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, draft recommendation 6.

456 Submission 18, United Workers Union, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 14.

Box 7.7: What have recent reviews said about stewardship and options to improve service delivery for childcare?

The need for governments to retain a stewardship function for the human services sector was recognised in the 2016 Intergovernmental Agreement on Competition and Productivity-Enhancing Reforms[457] developed in response to the 2015 Competition Policy Review.[458] It has also been raised in recent reviews of the childcare sector.

New South Wales Independent Pricing and Regulatory Tribunal (IPART): Review of early childhood education and care

IPART's interim report released in October 2023 notes that funding comes from the Commonwealth and state and territory governments through subsidies and families through fees. It is a mix of demand-driven subsidies to families, and special-purpose programs with different but overlapping objectives, eligibility and administration.[459]

The draft recommendations include that state, territory and Commonwealth governments work together to develop an integrated funding approach to early childhood education and care, including clarifying objectives.[460] In particular, the report highlights the importance of coordination, for example in the delivery of wrap-around support services such as health, transport, disability services support and family supports.[461]

South Australia Royal Commission into Early Childhood Education and Care

The SA Royal Commission finds that a 'system steward' needs to be appointed – a government entity must be empowered to set the vision and purpose for the overall system, as well as maintaining system rules to work towards this goal.[462]

The Royal Commission identified the need for a new national settlement of roles and responsibilities in early childhood education and care. States and territories should have primary responsibility for ensuring quality and enabling families to be connected to information and supports. The Commonwealth should have responsibility for accessibility, affordability, and inclusion.[463]

457 Intergovernmental Agreement on Competition and Productivity-Enhancing Reforms 2016, clause 12(b) and Appendix B clause 2(f).

458 Ian Harper, Peter Anderson, Su McCluskey and Michael O'Bryan, Competition Policy Review, Final report, March 2015 pp 223–225.

459 New South Wales Independent Pricing and Regulatory Tribunal, Review of early childhood education and care – Interim Report, October 2023, p 1.

460 New South Wales Independent Pricing and Regulatory Tribunal, Review of early childhood education and care – Interim Report, October 2023, p 3, priority draft recommendation 1.

461 New South Wales Independent Pricing and Regulatory Tribunal, Review of early childhood education and care – Interim Report, October 2023, p 69.

462 South Australia, Royal Commission into Early Childhood Education and Care Report, August 2023, pp 33, 52–53.

463 South Australia, Royal Commission into Early Childhood Education and Care Report, August 2023, p 6, recommendation 5.

Productivity Commission: Review of early childhood education and care

The Productivity Commission's draft report includes a draft recommendation that Australian, state and territory governments should sign a new National Partnership Agreement on Early Childhood Education and Care, which would outline their respective roles and responsibilities as stewards of the system, as well as the objectives all governments seek to achieve in early childhood education and care.[464] This would be supported by a new Early Childhood Education and Care Commission.[465]

Other care economy reviews

More broadly, other care economy reforms are likely to provide insights for the childcare sector. For example, the National Disability Insurance Scheme pricing paper mentioned in box 7.5 above concludes there is a need for governments to have clear roles and responsibilities with a coherent and transparent strategy for stewarding the disability support services market, including the approach for the overall market and for different sub-markets (such as regional and remote markets).[466] The final report for the review includes recommendations on stewardship of the disability support ecosystem.[467]

While recognising the detail is yet to be developed including the respective roles of the Australian Government and state, territory and local governments, the ACCC strongly recommends a market stewardship role for governments to monitor and shape local area markets to ensure they deliver on government objectives and community expectations (recommendation 7).

A market stewardship model will need to be done holistically. Such a role should be broader than developing and monitoring compliance with any direct or indirect pricing mechanism, and should encompass actively oversighting issues such as:

- regularly monitoring market characteristics and trends to periodically:
  - identify how local area markets are functioning and changing
  - determine the most appropriate:
    - form of government support – for example, subsidies, which could be through demand-side funding, government provision or supply-side funding to a non-government provider,[468] or a mix
    - regulatory framework

    to apply in local area markets at particular, set points in time
  - apply and implement the most appropriate form of government support and complementary regulatory measures to meet the needs of local area market communities

464 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, p 54, drafting finding 9.3 and draft recommendations 9.1 and 9.2.

465 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, draft recommendations 9.1 and 9.2.

466 Australian Government, NDIS Review – The role of pricing and payment approaches in improving participant outcomes and scheme sustainability, May 2023, pp 7, 13, 20–21.

467 Independent Review into the National Disability Insurance Scheme, Working together to deliver the NDIS, Final report, 7 December 2023, pp 14–15, 182, 234–267. The report includes the following definition of 'market stewardship' (p 290): 'The market stewardship role of governments is to support: informed participant choice; continuous improvement in service quality and effectiveness; access to quality supports; and appropriate regulation and safeguards for people with disability. A number of government agencies have a market stewardship role of NDIS markets.'

468 International approaches to public and not-for-profit provision are discussed in ACCC, Childcare Inquiry September interim report, pp 203–204.

- workforce issues – depending on the local area market in question, this could include providing training and support to educators or managing short or long-term measures to address staffing shortages (or excess capacity)
- quality – services should be regularly monitored and supported to meet quality requirements and expectations of the community
- developing appropriate measures and monitoring outcomes of government regulation and subsidy against each stated policy objective.

The Productivity Commission's draft report similarly finds that governments in Australia spend nearly $13 billion each year on early childhood education and care with little coordination, and that system stewardship is a missing part of the policy puzzle.[469] The Productivity Commission's draft recommendations include a new National Partnership Agreement on Early Childhood Education and Care, and a proposed allocation of roles across the Australian and state and territory governments. The Productivity Commission proposes that this would be supported by a new Early Childhood Education and Care Commission.[470] There are different options for allocation of market stewardship roles across the Australian, state, territory and local governments, but a high degree of communication and coordination will be needed.

469 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, pp 13, 54.

470 Productivity Commission, *A path to universal early childhood education and care*, Draft report, November 2023, draft recommendations 9.1 and 9.2.

8. Stakeholder feedback

8.1 Introduction

In preparing our final report findings and recommendations, the ACCC has received input and feedback from a variety of stakeholders including:

- information collected from parents and guardians through our translated surveys,
- information and feedback obtained through roundtables with key stakeholder groups
- submissions from a range of parties and stakeholders in response to the September interim report, (including our draft findings and recommendations).

This chapter summarises relevant feedback from the above sources.

A table setting out our draft findings and recommendations against our final findings and recommendations, along with summary explanations for changes can be found at Appendix 5.

8.2 Translated parents and guardians surveys

We used online surveys to engage with parents and guardians to understand their perspectives on:

- choice – what factors parents and guardians consider when choosing childcare services, a greater understanding of quality indicators, and whether there are viable substitutions between services (relevant to our market definition and competition assessment)
- cost – whether households perceive their service(s), and childcare more generally, as affordable
- access – whether households face barriers to accessing services such as long wait times or other supply issues.

The surveys also collected demographic data with an understanding that perspectives may vary across demographic groups.

We conducted an English language parents and guardians survey between 18 April 2023 and 4 June 2023, which received about 4150 responses. The insights from this survey informed our June and September interim reports.

To deepen our understanding of preferences and challenges faced by culturally and linguistically diverse households, we also translated the parents and guardians survey into Traditional Chinese, Simplified Chinese, Korean, Vietnamese and Arabic.

These translated surveys were open between 4 September 2023 and 8 October 2023. We received about 185 responses which have informed our final report. The translated survey responses provide valuable insight into the childcare issues faced by those with a culturally and linguistically diverse background.[471]

471 We note the number of respondents to this survey was less than responses to the English survey.

8.2.1 Insights from the translated parents and guardians survey

In comparison to the English language parents and guardians survey, a higher proportion of respondents to the translated parents and guardians survey said they had not looked for childcare since 2020 because it was too expensive (28% of respondents compared to 18% for the English language parents and guardians survey). We note the proportion of respondents to the translated parents and guardians survey with an annual household income of less than $180,000 was 80% compared to 55% for the English language parents and guardians survey.

More respondents to the translated parents and guardians survey also said they do not receive a Child Care Subsidy, compared to respondents to the English language parents and guardians survey (24% compared to 11% of respective respondents). We do not know the reason why respondents did not receive the subsidy. However, as raised during the culturally and linguistically diverse communities roundtable, this could be because households have difficulty accessing the Child Care Subsidy due to work limitations for visa holders, and because people seeking asylum are generally not eligible for the subsidy.

For respondents to the translated parents and guardians survey who do not use childcare, the main reasons given were financial. The most common reason for not using childcare was that it was not affordable (17% of respondents), followed by tax or financial reasons (13%). About 10% of respondents did not use childcare because they cannot access the Child Care Subsidy. In contrast, the most common reasons for respondents to the English language parents and guardians survey who do not use childcare were that they were still waiting for a place (22% of respondents), followed by the choice to stay home with children (16% of respondents).

There was also a large difference in the willingness to pay out-of-pocket for childcare fees between survey respondents. About 75% of respondents to the translated parents and guardians surveys were willing to pay $50 or less per child for centre based day care, whereas, about 75% of respondents to the English language parents and guardians survey were willing to pay $80 or less.

8.3 Roundtables

The ACCC hosted a series of roundtables with key stakeholder groups in August and September. We invited stakeholders to talk about the childcare market as relevant to the inquiry directions.

Table 8.1: Stakeholder roundtables conducted in course of childcare inquiry

Stakeholder group	Date	Format (virtual/in-person)
Childcare educators	11 August 2023	Virtual
Culturally and linguistically diverse communities	11 August 2023	Virtual
First Nations peoples	25 August 2023	Virtual
First Nations peoples	8 September 2023	In-person (Darwin)
Childcare providers	15 September 2023	Virtual
Parents and guardians	22 September 2023	Virtual
In home care	22 September 2023	Virtual

These roundtables were attended by ACCC Commissioners and staff. We heard a range of experiences and views from participants at the forums, which provided valuable insights for the purposes of our inquiry.

Detailed feedback and insights gained from our roundtables are included in analysis in chapters 2 to 7. Summaries of each roundtable are also included on the ACCC's website. Some additional observations from the roundtables are below.

8.3.1 Cost is a barrier to using childcare

At the parents and guardians roundtable in September 2023, stakeholders expressed concerns that the cost of childcare is a barrier to households accessing services. Childcare is a major source of financial stress for many households. Some households are using a combination of childcare and free preschool or kinder (where available) to reduce the cost of care[472] and some households are increasingly making the choice that at least one parent or guardian will not work.[473]

Many households are frustrated by the lack of transparency in fees and fee-setting, and this impacts their ability to budget. Stakeholders also consider there should be consistency in how fees for childcare services are presented, particularly with respect to what is included in the fee. For example, how many hours of care are included and whether the fee includes food, nappies, and other consumables.[474]

At the in home care roundtable, there were concerns that the hourly rate cap for in home care services is insufficient and leads to a large out-of-pocket gap payment for households, given that educators may charge higher fees due to working non-standard hours.[475] In addition, geographically isolated families are likely to incur expenses in addition to the educator's fee, such as housing, travel, training and food costs for the educator.[476] These additional expenses are not covered by the Child Care Subsidy.

For many children with disability or complex needs, shorter sessions may be more beneficial and manageable, but the fee and subsidy structure for centre based day care services are usually based on a child attending a full day of care. This means out-of-pocket expenses are higher for these households if the child only attends part of the day. This is particularly the case for those children and households with only limited subsidised hours, and they may face significant out-of-pocket costs once their subsidised hours are exhausted as a result of longer, full day session lengths.[477]

For many First Nations households, the price of childcare is a significant barrier to access. Households can be priced out of a childcare service, particularly given the high costs of providing services in remote locations.[478] A childcare service may be eligible for funding from the Community Child Care Fund, however, this is dependent on local households and households who attend the service applying for and using the Child Care Subsidy.[479]

472 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 3.
473 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 1.
474 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 2.
475 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 3.
476 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, pp 2–3.
477 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 2.
478 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 5.
479 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 4.

8.3.2 Many parents and guardians have difficulty in accessing the Child Care Subsidy, especially those with a diverse background or experiencing vulnerability

Stakeholders at the parents and guardians roundtable noted that many staff at childcare services spend hours of their own time helping households contact Centrelink and navigate access to the Child Care Subsidy. Without this assistance, many households would not be able to access childcare.[480]

At the culturally and linguistically diverse communities roundtable, we heard that these communities face particular challenges, as people seeking asylum in Australia are not generally eligible for the Child Care Subsidy. Navigating government portals, such as myGov, and submitting paperwork to support applications for the activity test is difficult and time consuming, particularly for those who are not proficient in English.[481]

At the in home care roundtable, stakeholders explained that parents and guardians find it challenging to engage with multiple entities to receive childcare and access the Child Care Subsidy, Additional Child Care Subsidy and wrap around supports.[482] Some stakeholders also viewed the information required and language used in applications for the Additional Child Care Subsidy to be a barrier, which reduces the willingness of some parents and guardians to take advantage of this additional funding. For example, individuals who have experienced domestic violence are required to put their case in writing, which can repeat the trauma previously experienced and be a barrier to access.[483]

The ACCC also hosted 2 roundtables with First Nations peoples. At both roundtables, stakeholders expressed concerns about the suitability of the Child Care Subsidy system for First Nations parents and guardians. This impacts their willingness to apply for subsidies to which they are entitled.[484]

At the First Nations virtual roundtable, participants described that the 'hoops' to jump through for parents, grandparents, and kinship carers to be assessed for Child Care Subsidy eligibility are too many, too hard, and too slow to be resolved. Many participants spoke of frustration at the barriers faced by First Nations households in interacting with myGov and Centrelink.[485] There is also a lack of flexibility in the current system to recognise First Nations kinship care relationships in a timely way to enable access to the Child Care Subsidy.[486] The roundtable participants told us that mainstream funding and eligibility frameworks apply a 'one size fits all' model onto diverse First Nations communities with differing needs.

Parents and guardians who have had negative experiences with government departments are often reluctant to provide the necessary information to Services Australia to get approved for the Child Care Subsidy.[487] In particular, parents and guardians are reluctant to apply for the Additional Child Care Subsidy because this flags vulnerability, is culturally unsafe and may attract attention from the child protection system and create a real fear that a child could be removed.[488]

480 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 2.

481 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 3.

482 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 3.

483 ACCC, Childcare Inquiry in home care roundtable summary , 22 September 2023, p 4.

484 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023; ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023.

485 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 3.

486 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 4.

487 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 3.

488 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 3; ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023, p 3.

8.3.3 Workforce is the key issue facing the childcare sector and is particularly pronounced for culturally and linguistically diverse groups and First Nations children and communities

At the roundtables we heard of the importance of workforce in all areas of childcare provision. This is particularly pronounced for diverse cohorts including culturally and linguistically diverse groups, and First Nations children and communities.

The educator roundtable discussed the importance of recognising the professionalism of childcare educators and of viewing their role as part of the continuum of a career in education.[489] Stakeholders outlined that there is a shortage of qualified staff and that workforce turnover is currently higher than ever.[490] Qualified staff (even at Certificate III level) are being employed immediately post-study. They are expected to 'hit the ground running', at times, without good mentoring in place, which puts pressure on the workforce.[491] In addition, many workers, including more experienced workers and new graduates, are now choosing casual employment instead of ongoing employment to access slightly higher casual rates, gain more control over their hours and days, and obtain relief from the paperwork and reporting obligations of permanent staff.[492]

At the provider roundtable we heard that it is hard to attract educators at the award rate. Wages are a key driver of fee increases, and wages and conditions are moving beyond the existing industrial award framework.[493] Stakeholders said that staffing is the biggest constraint to supply, with providers saying they are limiting available places due to the challenges of finding sufficient staff to meet ratios.[494] In addition, changes in the temporary skilled migration income thresholds have reduced access to skilled labour, and has increased costs. This has impacted some parts of the country more than others, and costs must be passed on to parents and guardians.[495]

At the culturally and linguistically diverse roundtable we heard that even established services are facing a workforce shortage. This is particularly important as parents and guardians acknowledge the benefit of having multicultural educators for their children to ensure culturally and linguistically diverse households feel welcome in childcare services.[496]

Workforce availability and sustainability issues are particularly pronounced for the First Nations childcare sector. Stakeholders at the First Nations roundtables explained that pay increases will make it hard for some First Nations centres to stay open due to the increased costs, since their viability is already borderline. The cost of staffing is especially high for smaller services in remote areas, and many educators report feeling stretched by the workload. Staff are uncomfortable taking time off, even when facing burnout, because of the added burden it places on their colleagues.[497]

489 ACCC, Childcare Inquiry educator roundtable summary, 11 August 2023, p 1.
490 ACCC, Childcare Inquiry educator roundtable summary, 11 August 2023, pp 1, 3.
491 ACCC, Childcare Inquiry educator roundtable summary, 11 August 2023, p 1.
492 ACCC, Childcare Inquiry educator roundtable summary, 11 August 2023, p 3.
493 ACCC, Childcare Inquiry provider roundtable summary, 15 September 2023, p 1.
494 ACCC, Childcare Inquiry provider roundtable summary, 15 September 2023, p 2.
495 ACCC, Childcare Inquiry provider roundtable summary, 15 September 2023, p 2.
496 ACCC, Childcare Inquiry culturally and linguistically diverse communities roundtable summary, 11 August 2023, p 5.
497 ACCC, Childcare Inquiry First Nations roundtable summary (in person), 8 September 2023, p 8.

8.3.4 Children with disability or complex needs face particular challenges in accessing appropriate childcare

At our roundtables we heard of the particular challenges faced by households who have a child with disability or complex needs wanting to access childcare.

At the parents and guardians roundtable we heard that children with disability and/or complex needs are often excluded from childcare. Parents and guardians are told educators do not have the necessary skills or resources, or the centre has reached its quota of children with disability and/or complex needs. Parents and guardians of children with disability or complex needs who have been accepted in a centre may also be told their child can no longer attend, as staff are not qualified or the child is too disruptive.[498]

Stakeholders discussed that the best outcomes for children with disability and/or complex needs are to be with children in their community and age group. Parents and guardians want their children to have the same experiences as their siblings, go to the same childcare service as other children in the neighbourhood, and to see a community built around the child and household which facilitates the following years of education and development. There needs to be investment in infrastructure and educator training to support this.[499]

We heard that an integrated service model should be the standard, with wrap around services available at childcare. With this model, children would be supported to attend other services without parents needing to take their children from one service to another.[500]

At the in home care roundtable, participants noted that children with disability are often turned away from mainstream childcare services as their needs outweigh the capacity of services to provide appropriate care, however in home care is not an affordable alternative for these parents and guardians.[501] We also heard that households with children with disability have difficulty accessing suitable in home care. Children under 5 years old typically cannot access National Disability Insurance Scheme (NDIS) funding, and so will rely on the in home care sector for support. However, it is challenging to find childcare educators with the necessary skills to meet the household's needs. Many households with children with disability are isolated, so the barriers to mainstream childcare further isolates them and delays access to care.[502]

8.3.5 Market dynamics lead to more services in some areas but limited choice in other areas

At the provider roundtable we heard that there is a proliferation of centres in areas of high growth and with greater socio-economic advantage, and conversely 'childcare deserts' in areas that cannot attract capital investment. Lack of capital in regions reflects the business risks of operating in those areas. Stakeholders noted that the government should play a role in bringing capital to markets that cannot attract it, and that Closing the Gap targets for First Nations communities and access to early childhood education would not happen without sponsored capital.[503]

We also heard that, due to government incentives, competition is increasing for children in older years and preschool. Households will often choose free kindergarten and enrol children in centre based day care on other days, resulting in them having children in different centres throughout the week. Participants said that when analysing the sector, it is important to look across age groups, and

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498 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, pp 3–4.

499 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 4.

500 ACCC, Childcare Inquiry parents and guardians roundtable summary, 22 September 2023, p 4.

501 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 3.

502 ACCC, Childcare Inquiry in home care roundtable summary, 22 September 2023, p 2.

503 ACCC, Childcare Inquiry provider roundtable summary, 15 September 2023, p 2.

consider whether government reforms and incentives are leaving centre based day care services with the more challenging and cost-heavy age groups.[504]

8.4 Submissions to the inquiry

The ACCC provided its September interim report for the inquiry into childcare services to the Treasurer in September 2023. The report was released on 1 October 2023 ('September interim report'). The September interim report made draft findings and recommendations, and invited interested parties to make submissions in response to those findings and recommendations to inform our final report.

Submissions were provided by either completing a guided submission form on the ACCC's Consultation Hub that prompted short-form responses to each draft finding and recommendation, or via submitting a written submission to the ACCC via the Consultation Hub. The submissions process closed on 29 October 2023.

The ACCC received 50 guided submission responses via the Consultation Hub. Guided submission responses were received predominantly from parents and guardians, educators and providers.

The ACCC also received 44 written submissions. These document responses were received from a range of stakeholders including peak bodies, academics, policy and advocacy groups, providers, state and local government bodies, and union and other workforce-related associations.

As the inquiry is a public process, pursuant to s 95R(1) of the *Competition and Consumer Act 2010* (Cth), the ACCC published written submissions from stakeholders on its website.

Key issues raised in submissions to our September interim report are discussed below at 8.4.1 to 8.4.6. This discussion is structured around key themes and, where possible, stakeholder feedback on draft findings and the relevant draft recommendations are discussed together.

8.4.1 Objectives and priorities of childcare policies

There was strong support for draft recommendation 1, that the Australian Government reconsider and restate the key objectives and priorities of its childcare policies.[505]

Many submissions noted that there are other reforms and reviews occurring, including the development of the Early Years Strategy[506] and Productivity Commission inquiry into Childcare – with some noting these being timely to assist the Australian Government in outlining its objectives.

Some submissions (including from the Early Learning & Care Council of Australia, Community Early Learning Australia, the Australian Childcare Alliance, KU Children Services, Goodstart Early Learning, and the Creche & Kindergarten Association Limited)[507] stated that government policy should prioritise the educational learning and developmental benefits to children as its first objective, followed by supporting workforce participation. Many also emphasised the need for education and care to be affordable and of high quality.

504 ACCC, Childcare Inquiry provider roundtable summary, 15 September 2023, p 2.

505 ACCC, Childcare Inquiry September interim report, p 29.

506 See https://www.dss.gov.au/families-and-children-programs-services/early-years-strategy for more information.

507 Submission 25, Early Learning & Care Council of Australia; Submission 24, Community Child Care Association and Community Early Learning Australia; Submission 30, Australian Childcare Alliance; Submission 14, KU Children's Services; Submission 32, Goodstart Early Learning; Submission 36, The Creche & Kindergarten Association Limited – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

While Early Childhood Australia supported the recommendation, it also stated that the ACCC should not use the term 'childcare' in its report, and instead adopt language that reaffirms the role of early childhood educators and teachers.[508]

In this report the use of 'childcare' reflects that we have been directed to examine approved childcare services, and not standalone preschools/kindergartens. We have thus continued using this term in our report, for example, when discussing the different approved childcare services. However, we acknowledge that early childhood education and care more accurately reflects the role of early childhood educators and teachers and that childcare policy is a part of the broader early childhood education and care policies of the Australian Government.

8.4.2 Impact and effectiveness of existing price regulation mechanisms and importance of information for parents and guardians

Our September interim report draft findings 13, 14, and 15 related to the effect of existing price regulation mechanisms. Draft recommendation 2 suggested changes to the Child Care Subsidy with a focus on the hourly rate cap and effect of the activity test as well as recommending that government have a stronger price and outcomes monitoring role. Draft finding 16 and draft recommendation 3 related to the importance of information for parents and guardians and recommended a refocusing of the StartingBlocks.gov.au website.[509]

The design of the Child Care Subsidy has had a limited effect on placing downward pressure on prices

There was general agreement from parents and guardians with draft finding 13 regarding the limited effect the design of the Child Care Subsidy and existing price regulation mechanism has had on placing downward pressure on prices and limiting the burden on taxpayers. This sentiment was also reflected in support for reviewing and improving the existing Child Care Subsidy.

However, some stakeholders questioned whether the ACCC had gathered sufficient information to show that the existing price regulation mechanisms had not put downward pressure on prices:

- Dr J Rob Bray, Australian National University, stated that 'downward pressure can only be achieved if services are currently achieving excess profits, which can be reduced down, or through cost savings in the operation of services. The scope for either of these cannot be considered to have been identified within the report.'[510]
- G8 Education Ltd said it 'does not consider that the case for price controls or regulation has been proven. This is particularly relevant considering the ACCC have found fee increases are lower than the rise in costs and that margins earned are not excessive'.[511]

Other stakeholders noted that costs had risen and/or margins were not excessive:

- Guardian Childcare and Education stated '[t]he current mechanism is constraining prices, the current market is competitive, efficient and with no evidence of excessive margins.'[512]

508 Submission 43, Early Childhood Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 1.

509 ACCC, Childcare Inquiry September interim report, pp 29–32.

510 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 17.

511 Submission 26, G8 Education Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

512 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

- The Australian Childcare Alliance stated '[i]t could be reasonably assumed that providers charging (on average 9%) above the HRC, is a reflection of services trying to cover growing costs of service delivery, and not 'services pricing at excessive levels' or motivated to make 'excessive profits''.[513]

One submission, which did not agree with finding 13, raised concerns that the belief that prices should be constrained due to competition and the hourly rate cap in a market with increasing costs and where price is not the primary determinant is not sensible.[514]

Family Day Care Australia noted that the lower Child Care Subsidy rate cap applied to family day care (compared to centre based day care) is a significant issue affecting the sustainability and viability of the family day care sector.[515] Family Day Care Australia considers the hourly rate cap for family day care should be raised, at least in line with centre based day care to more accurately reflect the cost of providing family day care. Family Day Care Australia also advocates for an additional loading of 20% to the recalculated Child Care Subsidy hourly rate cap to reflect the additional costs of providing non-standard hours of care.[516] Family Day Care Australia also noted that a daily rate cap would not be appropriate in family day care services as daily rates are not common in this sector, and a capped daily rate would likely act as a barrier to entry.[517]

Providers optimise session lengths to maximise subsidy

There were mixed views regarding draft finding 14 that providers optimise session lengths to match activity test entitlements in order to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.

While some providers acknowledged they optimise session lengths, they usually said that this was to help households:

> '… the case for utilising session lengths is primarily to improve a family's affordability within the structural design of the CCS and the activity test. It is not a focus to maintain revenues or profits; this focus comes from daily attendances, rather than session length.'[518]

> 'ELACCA members design session lengths with the deliberate, primary purpose of affordable early learning and care that meets the needs of their community/family demographics.'[519]

The way that the policy design affects incentives was also noted by the Centre for Policy Development:

> '… providers and parents respond to the incentives set by government and seek to maximise the benefits of the policy and funding available. CPD [(Centre for Policy

513 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 32.

514 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 4.

515 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

516 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 5–6.

517 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

518 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 34.

519 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 4.

> Development)] notes that the more complex the funding or entitlement system, the greater scope there is for this to occur and result in unintended or perverse outcomes.'[520]

Similarly, the submission from Dr J Rob Bray, Australian National University, stated:

> '… the policy can be seen as one which had a potentially unrealistic underlying objective of changing the charging structure used by most CBDC [(centre based day care)] services, without an appreciation of the reasons why they have adopted the long sessional charging structure. This is amplified by the focus on the 'hourly rate' which is essentially a derived component working in concert with the limitations imposed by approved hours on session lengths'.[521]

Some parents and guardians did not agree that providers were attempting to minimise out-of-pocket expenses, stating that the hours they were charged for, were more than they used.[522]

The Child Care Subsidy is complex and difficult to navigate

Most submissions agreed with draft finding 15 that the Child Care Subsidy is complex, which makes it difficult to accurately estimate and compare out-of-pocket expenses. Of all the submissions that responded to this finding, 69% were in agreement, with parents and guardians in particular agreeing with the finding. For example, one person stated '[w]hat is the utility of a subsidy system which is so complex? It benefits no-one.'[523] Another said, 'the activity test is ridiculous and until you delve into the complexity of billing hours and amount of hours worked, it's very difficult to understand.'[524]

Community Early Learning Australia also agreed with the finding, stating, 'this [complexity] reflects our experience with families and member services. This complexity is even greater when considered in conjunction with the many variable offerings within the state funded preschool /kindergarten sector.'[525]

Many submissions emphasised the need to improve accessibility, especially for culturally and linguistically diverse households and disadvantaged households.

Some providers disagreed, with Guardian Childcare and Education stating: '[w]e disagree that the hourly cap is not visible to families or is difficult to understand. The subsidy available to families is visible at all stages of their journey. There are any number of CCS [(Child Care Subsidy)] calculators available to families.'[526]

The Child Care Subsidy would benefit from review and there is qualified support for a daily fee for centre based day care services and relaxation of the activity test

There was strong support for a review into the existing price regulation mechanisms as outlined in draft recommendation 2. Many submissions noted that the Child Care Subsidy could be improved

520 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12.

521 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 19.

522 See for example, Submission 72, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

523 Submission 51, Gary Tennant, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

524 Submission 50, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

525 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 14.

526 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 4.

to be simpler, better reflect cost drivers, and be more reflective of significant variations in factors like age and location. However, many submissions acknowledged that there is a trade-off between improving how accurately the rate cap reflects costs and increasing its complexity.

A number of parents and guardians[527] noted in their submissions that recent price increases diminished the benefit of the changes to the Child Care Subsidy which came into effect in July 2023.

One parent or guardian wrote that:

> 'Increasing the subsidy barely helps us because the centre just increases the daily rate to basically keep us at the same cost contribution. It's a guilt free license to increase their prices beyond CPI.'[528]

An educator commented that, in their experience, most centre based day care services and family day care educators had increased fees following the Child Care Subsidy changes which meant the savings were not passed on to households. However, they pointed to the need for providers to meet rising costs.[529]

Responses to draft recommendation 2(a), which outlines the need to determine an appropriate base for the rate cap and index it to more closely reflect the relevant input costs, are discussed in more detail in section 8.4.4 below. However, in summary, the majority of the submissions that responded to this draft recommendation supported readjusting the hourly rate cap, if the current model is maintained.

Of the submissions that responded to draft recommendation 2(b) in relation to a daily fee for centre based day care services, about 85% were in support, although many qualified their support by noting that any unintended consequences would need to be thoroughly explored.

Submissions noted a clear benefit to moving to a daily rate cap for centre based day care, if it could be implemented without further reducing flexibility and quality, or introducing other unintended consequences. Submissions agreed that this would help households compare and assess their out-of-pocket expenses.

Submissions noted that the following issues would need to be considered in implementation:

- Ensuring daily caps are cost reflective for different communities and contexts.[530]
- Ensuring that funding reflects the real cost of service delivery across different service types.[531]
- Considering what the operating hours of services for a day would be, and ensure that any daily cap amount reflects that.[532]

There was strong support among stakeholders for draft recommendation 2(c), which stated consideration be given to removing, relaxing or substantially reconfiguring the current activity test. Almost all stakeholders (89%) who responded to this recommendation, agreed. Any changes to the activity test would need to be considered in tandem with considerations of a daily fee cap for centre based day care as they interact and need to be consistent.

527 Submission 67, name withheld; Submission 86, name withheld; Submission 51, Gary Tennant; Submission 52, name withheld; Submission 70, name withheld – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

528 Submission 61, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

529 Submission 83, Narelle Cooper, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

530 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

531 Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

532 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

Those who supported recommendation 2(c) highlighted the disproportionate impact the current activity test has on particular cohorts, including children from households with low income, First Nations children and households, single parent or guardian households and households from non-English speaking backgrounds.[533] For example, SNAICC, the national non-government advocacy group for Aboriginal and Torres Strait Islander children and families, referred to analysis that showed:

> '… the current activity test is contributing to at least 126,000 children from the poorest households missing out on critical childcare. Specifically, Aboriginal and Torres Strait Islander families are over 5 times more likely to be limited to one day of subsidised childcare per week.'[534]

This is consistent with observations, including from our stakeholder roundtables, in relation to the impact that administrative burdens associated with applying and proving eligibility for the Child Care Subsidy can have on those from a First Nations or culturally and linguistically diverse background, who may not feel culturally safe in their engagement with government agencies. A number of stakeholders cited the impact of the current activity test on parents and guardians in casual or variable work, who face uncertainty due to the risk of misreporting irregular work hours and being left with over-payment debt.[535]

Some stakeholders also noted that the current activity test discourages workforce participation, particularly among lower income earners. As one parent explained:

> 'It's hard for me to re-enter the workforce as I would be on minimum wage, and the current activity test is punishing me and showing that I would be out of pocket a substantial amount if I were to put my 2 children into care for 10 hours a day, 5 times a week. I wouldn't be left with much money after paying for child care, so what's the point?'[536]

Stakeholders varied in views on exactly how they considered the activity test should be changed. For example, some stakeholders expressed a view that the activity test should be abolished completely and replaced with a universal minimum entitlement for all children. Other stakeholders suggested that it should be abolished for particular cohorts such as low income earners.[537] We note that the Productivity Commission modelled various options for relaxing the activity test in its draft report. It has recommended abolishing the activity test for all households for 3 days of subsidised childcare (up to 30 hours per week), with activity testing to remain for any additional childcare beyond this.[538]

Some stakeholders expressed concern that changes to the activity test (particularly relaxing or abolishing it) would exacerbate pressure on demand for childcare places.[539] We note that it is important any consideration of changes to the activity test consider implications for demand, and must be accompanied by consideration of the need for supply-side measures (including measures to address workforce shortages).

533 See for example, Submission 11, UNICEF Australia, p 1; Submission 35, SNAICC, p 6; Submission 19, The Y Australia, p 2 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

534 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

535 See for example, Submission 89, Brotherhood of St. Laurence; Submission 11, UNICEF Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 1–2; Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

536 Submission 76, Tomeeka Gilbert, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, 5 October 2023.

537 Submission 17, Independent Education Union of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

538 Productivity Commission, *A path to universal early childhood education and care*, Draft Report, Canberra, November 2023, pp 36–39, 89.

539 See for example, Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

The hourly rate cap as an indirect price control

Submissions in response to draft recommendation 2(d) recommending a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, were divided.

Parents and guardians, in general, supported the need for price monitoring although one submission noted the need to be cautious and not scare private enterprise.[540] Another submission did not support the recommendation on the basis that it would not work.[541]

Submissions from a broad range of stakeholders (including Dr J Rob Bray from the Australian National University,[542] Centre for Policy Development,[543] Community Child Care Association and Community Early Learning Australia,[544] Diversity Council of Australia,[545] Early Learning & Care Council of Australia,[546] G8 Education Ltd,[547] Goodstart Early Learning,[548] Gowrie Australia,[549] Guardian Childcare and Education,[550] JCU Early Learning Centres,[551] North West Queensland Indigenous Catholic Social Services,[552] The Front Project,[553] and UNICEF Australia[554]) supported the recommendation and the need for transparency and reporting. However, some of these submissions also identified the need for further consideration of what a 'credible threat' might involve and close consultation in the development of the recommendation to reflect operational variation.

Some providers (including the Australian Childcare Alliance,[555] Only About Children[556] and the Y Australia[557]) either did not support the recommendation or raised concerns that monitoring would impose additional costs on providers (particularly for smaller providers), and that the value of price monitoring is uncertain, as fees were being driven by rising costs and the recommendation could

540 Submission 47 name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

541 Submission 78, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

542 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 24.

543 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 13 (although noting the submission preferred a new funding system).

544 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 18–19.

545 Submission 2, Diversity Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3 (although noting the submission preferred a new funding model).

546 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023 pp 12–13.

547 Submission 26, G8 Education Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

548 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 18.

549 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

550 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

551 Submission 82, JCU Early Learning Centres, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

552 Submission 65, North West Queensland Indigenous Catholic Social Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

553 Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

554 Submission 11, UNICEF Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 1.

555 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 27, 41.

556 Submission 29, Only About Children, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

557 Submission 19, The Y Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

put service viability under threat. The Australian Childcare Alliance also raised concerns that it would give disproportionate power to parents.[558] Another provider also considered that the reference to a 'credible threat' was an inflammatory politically driven statement.[559]

Outdated information on StartingBlocks.gov.au limits its effectiveness

Of the submissions that responded to draft finding 16, 84% were in agreement that StartingBlocks.gov.au is not widely known or used by parents and guardians and can contain outdated information. Many contributors highlighted the complexity of the Child Care Subsidy and the importance of offering accurate and transparent information for parents, enabling them to make well informed decisions on quality and fees.[560]

The Australian Children's Education & Care Quality Authority administers StartingBlocks.gov.au and clarified that it does update the website daily, however 'the accuracy of fee and vacancy on the website relies on the provision of this information by services and providers, and this is an area the Australian Government continues to progress with the sector'.[561]

Stakeholder feedback on draft recommendation 3 strongly endorsed the recommendation to reconsider the information gathered and reported on the StartingBlocks.gov.au website so that it is better focused on meeting parents' and guardians' information needs.

Multiple submissions highlighted the inherent value in maintaining StartingBlocks.gov.au as the primary national website for service information. Family Day Care Australia also noted that StartingBlocks.gov.au should include the entire childcare sector by including individual family day care educators to present a true and accurate picture for households.[562]

Some submissions noted that, in its current form, StartingBlocks.gov.au is likely to fall well short of any objectives to support downward pressure on prices and it may not ever meet that expectation without adequately incentivising providers to maintain up-to-date information.[563]

Some submissions suggested that data collection mechanisms, which are required for Child Care Subsidy reporting, could be streamlined to alleviate the burden on providers.[564]

Goodstart Early Learning, a large not-for-profit provider, noted that as an interim measure to support better transparency, a legislative requirement should be introduced for providers to update their fees on StartingBlocks.gov.au within 14 days' notice of a change.[565]

558 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

559 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

560 For example, Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 31.

561 Submission 1, Australian Children's Education & Care Quality Authority, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

562 Submission 12, Family Day Care Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

563 Submission 8, Local Government NSW, submission in response to ACCC Childcare Inquiry submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

564 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 15.

565 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 20.

8.4.3 Childcare prices

While our September interim report did not include any specific findings in relation to the price of childcare services, we received some feedback from stakeholders about this.

Price increases are the result of increasing costs

Some providers noted that increasing costs are driving fee increases and particularly highlighted staffing cost pressures with the recent award rate increases and the need to attract staff. This feedback is consistent with our draft finding 1 in the September interim report in relation to labour being the main driver of cost for supplying childcare.

Affinity Education Group Education noted that fee decisions were influenced by regulatory requirements in the sector, such as educator-to-child ratios, accreditation pathways and award wages, which affect the costs of supply. Affinity Education Group also noted the increase in the award wage alone was 16% from 2018 to 2022. Additional staff costs, including superannuation and payroll tax in some states, have also increased. Providers also need to compete with preschools or primary schools for Early Childhood Teachers, and pay higher wages to attract staff.[566]

KU Children's Services made similar observations about needing to increase fees to pay for competitive staff wages:

> 'Without additional funding, community based, not-for-profit (NFP) providers cannot pay their teachers and educators equally to their peers working in schools without increasing fees and intensifying the cost-of-living pressure on families.'[567]

Local area market dynamics also influence prices

Consistent with our observations in the September interim report that childcare markets can be highly localised,[568] the Early Learning & Care Council of Australia, noted that local market dynamics can influence prices. This includes differences in demand, community demographics, number of competitors, occupancy rates, age and condition of infrastructure, as well as different property and staffing costs for different centres.[569]

Edge Early Learning made similar comments, noting providers charge different fees in different locations based on differences in the local cost of living, level of demand, availability and cost of qualified staff, and suitable facilities.[570]

Local area market dynamics also play a role in the price of family day care services, as noted by a family day care educator, who submitted that 'a provider in a higher upmarket suburb can charge up to 50% higher in their daily fees.' The educator also noted that they consider the fees of local competitors, both family day care services and centre based day care services, when setting their fees.[571]

566 Submission 45, Affinity Education Group, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 2–3.

567 Submission 14, KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

568 ACCC, Childcare Inquiry September interim report, pp 107–114.

569 Submission 4, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

570 Submission 27, Edge Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

571 Submission 83, Narelle Cooper, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

8.4.4 Costs and profits

September interim report draft findings 1 to 4 summarised the ACCC's findings on the key costs incurred by providers in delivering childcare services. We found that labour, land and location are the key factors driving costs. Draft findings 9 to 12 discussed the impact some supply, demand and competition factors have on childcare provider viability, quality and profits, including that occupancy is a key driver of profits and viability. Draft recommendation 2(a) recommended determining an appropriate base for the rate cap that better reflects input costs relevant to the delivery of childcare services.[572]

Regulation compliance and quality drives labour costs

In our September interim report, draft finding 1 was that labour is the main driver of cost for supplying childcare, and that labour costs have increased significantly for large centre based day care providers over the last 5 years. Draft finding 3 found that not-for-profit providers appear to invest cost savings from lower land costs into labour.

Of the submissions that responded to draft finding 1, 79%, agreed that labour was the major cost for supplying childcare. The Australian Childcare Alliance outlined that many of the small providers they represent may also underrepresent labour costs, as owners may not pay themselves a salary or wage while performing work duties.[573]

Some providers and peak bodies highlighted that regulation, including educator-to-child ratios, is a key driver of labour costs, and the regulatory compliance cost category used by the ACCC underrepresented true regulatory burden.[574] Although centre based day care providers noted that regulation was driving up costs, when commenting upon the appropriateness of regulation, providers expressed support for regulatory requirements and the current educator-to-child ratios, noting that they were necessary for quality and safety.[575] Outside school hours care providers, such as TheirCare, and Outside School Hours Care Australia noted that the regulations may be less appropriate for outside school hours care services, and could be driving up cost unnecessarily.[576]

Parents and guardians who responded were more likely than providers to not agree that labour was the major cost driver for childcare, as many could not understand how staff earning close to minimum wage could account for such a large proportion of costs, given the high prices.

Of the submissions that responded to draft finding 3, 65% agreed with this finding, although there was a clear split amongst for-profit and not-for-profit providers.

Belmont Community Child Care Centre noted they attempt to keep high educator-to-child ratios.[577] Goodstart Early Learning noted they were funding additional inclusion support educators, which

572 ACCC, Childcare Inquiry September interim report, pp 28–30.

573 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p5.

574 Submission 32, Goodstart Early Learning; Submission 30, Australian Childcare Alliance; Submission 45, Affinity Education Group; Submission 27, Edge Early Learning – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

575 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

576 Submission 90, TheirCare; Submission 34, Outside School Hours Council Australia; Submission 94, Outside School Hours Council Australia – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

577 Submission 69, Belmont Community Child Care Centre, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

could be an example of this reinvestment.[578] The Community Child Care Association and Community Early Learning Australia also noted their not-for-profit providers were investing in inclusion.[579]

Some for-profit providers or peak bodies representing for-profit providers argued that not-for-profit providers were only able to maintain this approach due to their tax exempt status with regards to either company tax, payroll tax or fringe benefits tax.[580]

Dr J Rob Bray, Australian National University, submitted that this finding applies only to centre based day care, and within the outside school hours care sector, not-for-profit providers have lower labour as well as land and related costs.[581]

Use of land is the other significant cost driver for centre based day care

Draft finding 2 in our September interim report noted that land and related costs are the other significant driver of cost for centre based day care providers.

Of the submissions that responded to draft finding 2, 69% were in agreement, with many providers also noting costs are increasing.[582] The Early Learning Association Australia, a peak body advocating on behalf of not-for-profit childcare centres, noted that many of their members were no longer being offered peppercorn rents, instead having to pay market rates and reducing viability.[583] Nido Education Limited, a provider actively involved in greenfield development, noted construction costs had increased 60% in the past 18 months.[584]

Nido Education Limited and the Centre for Policy Development also requested more analysis of the factors influencing rent, such as lease terms and capital contributions.[585]

The submissions from Dr J Rob Bray, Australian National University, highlighted the need to look at whether land costs were inflated where providers were renting or licencing from a related entity.[586]

Location influences the costs to supply for different cost categories

As part of our examination of the costs to supply childcare, draft finding 4 in the September interim report was that location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, we found costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.

Of the submissions that responded to draft finding 4, 74% agreed with this finding. However, some providers and peak bodies disagreed, noting that some areas in Major Cities attracted far higher rents

578 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 15.

579 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

580 Submission 30, Australian Childcare Alliance; Submission 45, Affinity Education Group; Submission 23, Guardian Childcare and Education; Submission 39, Nido Education Limited – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

581 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

582 Submission 39, Nido Education Limited; Submission 32, Goodstart Early Learning; Submission 64, Dynamic Learners Early Childhood Centre – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

583 Submission 15, Early Learning Association Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

584 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

585 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

586 Submission 3, Dr J Rob Bray Australian National University – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

than other areas in Major Cities.[587] Goodstart Early Learning noted that Tewantin in the Sunshine Coast was classified as a Major City but had far lower land costs than services in the Brisbane central business district in the same category.[588]

Community Child Care Association and Community Early Learning Australia commented that the cost of caring for households facing severe disadvantage may be hidden by the fact that the current system may not service them at all.[589]

Centre based day care and outside school hours care sectors are generally profitable

There was significant support for draft finding 9 that, on average, large centre based day care and outside school hours care providers appear to be profitable and financially viable. Of the submissions that responded to this finding, 89% agreed. Two small providers disagreed with the finding, noting that it was labour costs and the staff shortage that are causing them to become financially unsustainable.[590]

TheirCare noted that demand for outside school hours care services had reduced following the COVID-19 pandemic, and providers' margins were lower than those in the centre based day care analysis.[591] The same submissions identified that casual bookings along with staffing constraints were reducing profitability for outside school hours care services.

A number of submissions questioned the definition of profitability used in the September Interim Report.[592] Dr J Rob Bray, Australian National University, indicated it may be good to examine distribution of profits across the sector, rather than averages.[593]

Occupancy is key for profitability and viability

There was significant support for draft finding 10 that occupancy is a key driver of revenue and therefore profits and viability, with 91% of those who responded to this finding agreeing with it. Community Early Learning Australia noted this was the case for their members and highlighted it 'is an important supply issue in areas of 'thin markets'',[594] while Affinity Education Group noted that occupancy is a key driver of revenue, however, market occupancy had been flat since 2017.[595]

Providers, as well as peak bodies, noted there were some additional factors that fed into this finding. The Early Learning & Care Council of Australia noted that ratios complicate whether increased

587 Submission 32, Goodstart Early Learning; Submission 23, Guardian Childcare and Education; Submission 25, Early Learning & Care Council of Australia – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

588 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 33.

589 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

590 Submission 85, Picnic Point Preschool and Childcare Centre; Submission 92, CASS Care Ltd – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

591 Submission 90, TheirCare, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

592 Submission 39, Nido Education Limited; Submission 21, Centre for Policy Development; Submission 3, Dr J Rob Bray Australian National University – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

593 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

594 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12.

595 Submission 45, Affinity Education Group, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

occupancy results in greater profit, because in instances where ratios are exactly met, caring for an additional child will require another educator and reduce profitability.[596]

Another consideration related to occupancy, noted by Nido Education Limited and the Early Learning & Care Council of Australia, was the proportion of those in care under 3 years of age.[597] Across submissions and responses to the ACCC's compulsory notices, providers and their peak bodies noted that services frequently cross subsidise the cost of providing services to younger children with fees collected from older children.

Higher demand drives higher margins in more advantaged areas in major cities

In our September interim report, draft finding 11 was that on average, margins are higher:

- for for-profit providers of centre based day care than not-for-profit
- in Major Cities and more advantaged areas
- for services with higher quality.

Demand for childcare is greater in areas with high workforce participation and female workforce participation rates, and these areas tend to be more common in more advantaged areas in Major Cities. We also found that the willingness to pay is higher in these areas, and that for-profit providers are more likely to direct supply to these areas to meet demand. As occupancy is a key driver of profitability, taken together, this results in higher profit and operating margins across these factors.

Of the submissions that responded to finding 11, 75% agreed. Guardian Childcare and Education noted that in their experience, for-profit providers were far more likely to seek efficiencies in their business leading to greater profit.[598] Some for-profit providers and their peak bodies noted that for-profit providers were earning greater profits despite having higher tax costs.[599]

Dr J Rob Bray, Australian National University, noted that not-for-profit providers likely reinvest their profits and it may not be evident where they are making 'profit'.[600]

Staffing constraints affect quality, profitability and viability

Draft finding 12 noted that the ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service. Of submissions that responded to this finding, 89% were in agreement. Nido Education Limited agreed with the finding and noted that changes in regulations along with high costs of training have made it hard to attract and retain staff.[601] Affinity Education Group noted that a 'sustainable supply of trained staff ... [would] alleviate cost industry pressures'.[602]

596 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

597 Submission 39, Nido Education Limited; Submission 25, Early Learning and Care Council of Australia – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

598 Submission 23 , Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

599 Submission 23 , Guardian Childcare and Education; Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

600 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

601 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

602 Submission 45, Affinity Education Group, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 1.

Peak bodies – the Front Project, Outside School Hours Care Australia, Community Early Learning Australia and Community Child Care Association – all noted the association between retaining good staff and quality childcare.[603] Parents and guardians also supported the view that there is a connection between retaining educators and quality care, noting that happier educators provide better quality care and service.[604]

The hourly rate cap needs adjusting, but inclusion should be funded through the Inclusion Support Program

Of the submissions that responded to Recommendation 2(a) that an appropriate base for the rate cap needs to be determined to reflect the input costs relevant to delivery of childcare services, 88% were in support of readjusting the hourly rate cap, if the current model was maintained.

This included most providers, who agreed the current indexation methodology was insufficient for rising costs in the sector. Affinity Education Group submitted that the indexation methodology should be amended to capture, and correlate with, the increases in land and labour costs, while Goodstart Early Learning suggested the recommendation specifically outline the input costs and cost structures associated in delivering childcare.[605] KU Children's Services differed, recommending 'that the hourly rate cap be increased to 85% of fees charged, and wage price indexation'.[606]

Only About Children cautioned against determining a single appropriate base rate cap based on actual costs given the complexity involved.[607] Goodstart Early Learning also suggested that the Productivity Commission and Australian Government should 'explicitly consider… how financing instruments and indexation approaches for ECEC can best reflect labour costs'.[608] Both the Early Learning & Care Council of Australia and Gowrie Australia[609] highlighted that the labour costs for childcare services were rising higher than the wage price index, as reported in the ACCC's June interim report, and pointed out it would not be a good indexing measure for the hourly rate cap. Gowrie Australia went on to say:

> 'Salaries are the largest but not the only cost driver, and consideration should be given to the feasibility of indexing other key elements of the cost of delivery, including property and wider employment costs. For example, current workforce pressures are requiring additional investments in professional learning, wellbeing initiatives, and higher levels of central support to services, all of which is creating additional cost pressures. Further, there are costs involved in implementing new regulatory requirements and policy initiatives (such as updates to the National Quality Framework or introduction of new data collection requirements).'[610]

Submissions were supportive of further funding for inclusion support, however, they noted that this was better delivered through a separate program rather than built into loadings for the Child

603 Submission 13, The Front Project; Submission 94, Outside School Hours Council Australia; Submission 24, Community Child Care Association and Community Early Learning Australia – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

604 Submission 47 name withheld; Submission 76, Tomeeka Gilbert; Submission 86, name withheld – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

605 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

606 Submission 14 , KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

607 Submission 29, Only About Children, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

608 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

609 Submission 25, Early Learning & Care Council of Australia, p7 Submission 22; Gowrie Australia – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

610 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

Care Subsidy. The Early Learning & Care Council of Australia expressed that they were 'concerned that the inclusion funding loading described in the report was unlikely to be sufficient'.[611] Goodstart Early Learning noted that the Inclusion Support Program Additional Educator funding should be immediately increased up to $39 per hour, while noting that 'the hourly rate cap is not an appropriate funding or regulatory mechanism to recognise or cover these costs'.[612]

8.4.5 Competition and market dynamics

In our September interim report, draft findings 5, 6, 7 and 8 related to competition in childcare markets. Draft recommendation 4 related to attraction and retention of educators and workforce. and draft recommendation 5 related to maintaining and expanding supply-side support for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians. [613]

Availability, price and quality all influence demand for centre based day care, but the relative weight of these factors will differ across households

Stakeholder feedback on draft finding 5, relating to parents' and guardians' demand for centre based day care and the importance they place on quality, was overwhelmingly supportive. Of stakeholders who responded to this finding, 83% agreed and the majority of those were parents and guardians.

In relation to quality, a number of submissions noted the importance of informal, rather than formal, measures of quality, as indicated in the draft finding. These submissions emphasised the lack of weight parents and guardians place on formal quality ratings,[614] an observation made in both our June and September interim reports.[615]

Among stakeholders who disagreed, general commentary was that cost and availability (rather than quality) are driving factors of parents' and guardians' decisions around centre based day care, particularly where households have low incomes or are in an area with limited availability. For example, one parent noted that quality is not a high priority in rural areas where parents do not have the option of choosing between multiple centres.[616]

Competition on the basis of quality can only occur where parents and guardians have a choice of service

Feedback from stakeholders on draft finding 8, relating to providers competing to attract and retain children on the basis of quality, was more mixed, with just over half of stakeholders who responded to this finding agreeing (56%).

Similar to draft finding 5, those who disagreed primarily focused on the importance of availability as a threshold requirement that renders other considerations – including price and quality – less significant.

611 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

612 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

613 ACCC, Childcare Inquiry September interim report, pp 28–34.

614 Submission 13, The Front Project; Submission 61, name withheld; Submission 66, name withheld – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

615 ACCC, Childcare Inquiry September interim report, pp 95–97; ACCC, Childcare Inquiry June Interim Report, p 63.

616 Submission 80, Biloela Early Learning Centre, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

A number of stakeholders also noted that draft finding 8 has limited or no application to outside school hours care.[617] This is because children usually attend the outside school hours care service attached to their school, so parents and guardians do not have a choice of provider.

The factors that influence viability of childcare services are broad and differ across service types

Among stakeholders who responded to draft finding 6 in relation to providers' supply decisions being influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location, the vast majority (82%) agreed.

A number of stakeholders who agreed with the draft finding did so in principle, but noted they did not necessarily agree that socio-economic advantage was a key influence over providers' considerations of viability. For example, one provider noted that their services were rarely located in high socio-economic areas, and more likely to be in 'the mortgage belt primarily with low to middle-income families'.[618]

Those who disagreed with the draft finding had a similar focus. For example, Guardian Childcare and Education noted it disagreed that providers locate new services solely in areas that have more advantageous demographics.[619]

While viability drives decision-making of most providers, the factors that providers take into account when considering and forecasting viability will also differ across service types. For example, a provider of outside school hours care agreed with the finding in relation to viability being a driving factor, but noted that there are other factors in addition to a location's socio-economic advantage that impact demand for their service and therefore viability. This includes the size of the school (with smaller schools, even in metropolitan areas, being potentially unviable) as well as behavioural needs of the children (with the Child Care Subsidy considered inadequate to cover the cost of caring for children with disability and/or complex needs, which is problematic for services at specialist schools).[620]

Another provider of outside school hours care disagreed with the finding, observing that some providers of outside school hours care have the lowest margins in more advantaged areas.[621]

617 Submission 34, Outside School Hours Council Australia; Submission 39, Nido Education Limited – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

618 Submission 39, Nido Education Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

619 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

620 Submission 90, TheirCare, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

621 Submission 34, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

Staffing constraints are a barrier to competitive childcare markets

There was overwhelming support for draft finding 7 that staffing constraints are a barrier to more childcare providers entering or expanding their operations in childcare markets. Of submissions that responded to this draft finding, 79% agreed.

A number of submissions from providers supported our observation in the September interim report that staffing shortages are having a material impact on the number of childcare places services are able to offer.[622] For example:

- one provider stated they were unable to enrol more children to operate at their service's licensed capacity without hiring quality educators, but they could not find any.[623]
- another provider indicated that despite some of their services having high occupancy rates, they are unprofitable due to staffing shortages which are forcing them to rely on more costly casual agency staff. This was a barrier to them expanding their services.[624]
- A provider with services in remote areas noted that their supply decisions are based only on their ability to staff rooms, and when they cannot offer care it is not because they are at capacity but because they cannot get staff.[625]
- a provider in a rural area stated that finding qualified educators is difficult, which limits the number of children they can care for under educator-to-child ratios.[626]
- the Outside School Hours Council Australia observed that severe and ongoing workforce shortages are having a direct impact on the ability of outside school hours care services specifically to open additional sites as well as expand availability at existing sites.[627]

Submissions also highlighted factors contributing to staff shortages, including low wages, burdensome regulation and paperwork, and a misconception that childcare is 'babysitting' rather than an important source of early education.[628]

622 ACCC, Childcare Inquiry September interim report, p 104.

623 Submission 64, Dynamic Learners Early Childhood Centre, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

624 Submission 80, Biloela Early Learning Centre, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

625 Submission 92, CASS Care Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

626 Submission 87, Southern Mallee District Council – Mallee COGS Lameroo, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

627 Submission 34, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

628 Submission 69, Belmont Community Child Care Centre; Submission 79, name withheld; Submission 86, name withheld – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

Addressing workforce shortages is critical, but must not be at the cost of quality

Almost all stakeholders (96% of those who responded) supported draft recommendation 4, which recommended that governments further consider how existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the childcare sector.

Some stakeholders provided commentary on measures they considered could be used to improve attraction and retention in the childcare sector. This included:

- improved wages and conditions.[629] A number of stakeholders noted a need for parity with pay and conditions in other education sectors (including primary schools)[630]
- tax benefits. For example, North West Queensland Indigenous Catholic Social Services suggested tax benefits for workforce in rural and remote areas,[631] while the Independent Education Union of Australia recommended tax incentives or annual bonuses for those who remain in the industry long-term[632]
- reduced paperwork and documentation requirements.[633] A number of stakeholders noted that onerous paperwork requirements detract from the ability of educators to engage with children and provide quality care[634]
- improving recognition and awareness of the important role that early childhood educators play.[635] In supporting this recommendation, one parent observed that '[c]hildcare isn't valued as a career and due to parent's need to use it so can work, it's seen as a basic service (or glorified babysitting) and not as early education for kids'[636]
- greater support for education, training and professional development, including support for workers to study and upskill, and increased support for traineeships.[637] Some stakeholders emphasised the need for this support to be accessible to Aboriginal and Torres Strait Islander early childhood workers (for example, by ensuring there is remote area in-person delivery and support).[638]

629 See for example, Submission 32, Goodstart Early Learning, p 22; Submission 43, Early Childhood Australia, p 6; Submission 2, Diversity Council Australia, p 4; Submission 16, Child Australia, p 3; Submission 11, UNICEF Australia, p 2; Submission 25, Early Learning & Care Council of Australia, p 16; Submission 27, Edge Early Learning, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

630 See for example, Submission 8, Local Government NSW, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 7.

631 Submission 65, North West Queensland Indigenous Catholic Social Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

632 Submission 17, Independent Education Union of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 11.

633 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

634 See for example, Submission 87, Southern Mallee District Council – Mallee COGS Lameroo; Submission 74, Mighty One Pty Ltd – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

635 See for example, Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 17.

636 Submission 86, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

637 Submission 13, The Front Project; Submission 12, Family Day Care Australia, p 7; Submission 25, Early Learning & Care Council of Australia, pp 16– 17; Submission 27, Edge Early Learning, p 3; Submission 22, Gowrie Australia, p 9; Submission 36, The Creche & Kindergarten Association Limited – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

638 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 13.

A number of stakeholders highlighted the need for any initiatives designed to increase workforce attraction and retention to not result in compromised quality (including in the form of reduced educator-to-child ratios).[639]

The outside school hours care sector is highly casualised and involves short split shifts. One stakeholder noted that this work is often viewed as a stepping stone to employment in other parts of the care and education industry, making the outside school hours care sector a critical feeder and trainer of employees in the education industry more generally. This stakeholder also noted that outside school hours care caters to primary school age children, who generally have significantly more agency and are more capable of basic self-care than children below school age.[640]

Ensuring First Nations children, parents and guardians have access to high quality affordable childcare is critical

There was widespread support for draft recommendation 5 that recommended maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians. Among stakeholders who responded to this recommendation, 91% expressed support.

A number of submissions highlighted it is important that supply-side support options are developed and implemented in close consultation with First Nations communities. As noted by stakeholders:

> 'Funding models that prioritise self-determination and sustainability in Aboriginal and Torres Strait Islander communities require a commitment to ongoing consultation, collaboration, and partnership between Indigenous communities and government agencies or other stakeholders. These models must be flexible, adaptable, and responsive to the changing needs and priorities of communities over time.'[641]

> 'We acknowledge the ongoing dialogue with Aboriginal and Torres Strait Islander children, families and organisations, in the development and implementation of policy and funding settings for Aboriginal and Torres Strait Islander children. Consideration of supply-side support options for Aboriginal Community Controlled Organisations should also be based on co-design with the relevant communities and take into account place-based options.'[642]

While in-principle support for this recommendation was strong, some stakeholders noted that in expanding supply-side support options, the ACCC should consider investigating the other barriers that impact Aboriginal Community Controlled Organisations in providing childcare services.

SNAICC strongly supported this recommendation[643] and listed a number of challenges faced by Aboriginal Community Controlled Organisations (in addition to funding) that discourage and limit the engagement of Aboriginal and Torres Strait Islander children in early years education – including administrative barriers, activity test barriers, culturally unsafe statutory systems (including the requirement a child be deemed 'vulnerable or considered to be at risk of harm, abuse or neglect' to be eligible for ACCS), funding that is narrowly focused on educational outcomes and not holistic

639 See for example, Submission 22, Gowrie Australia; Submission 21, Centre for Policy Development, p 15 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

640 Submission 34, Outside School Hours Council Australia; Submission 94, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

641 Submission 15, Early Learning Association Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

642 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

643 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

outcomes, and lack of supply in many areas where Aboriginal and Torres Strait Islander children reside.[644]

- SNAICC also noted that alternative funding models are needed to support Aboriginal Community Controlled Organisations along with Aboriginal and Torres Strait Islander led backbone support services (such as development of a local workforce, and regulatory compliance).
- These themes were supported at the First Nations roundtable, particularly in relation to wrap-around services (such as early intervention pathways, building parenting capacity, transport, meals and clothing to minimise shame, and health services).[645]
- Other submissions from a broad range of stakeholders also supported this recommendation, noting that demand-driven funding models do not work in many communities, particularly in remote communities with a proportion of Aboriginal and Torres Strait Islander children.[646] A submission also noted the opportunity to use existing programs such as Connected Beginnings and the THRYVE Pilot Project for the Australian Government to listen and learn from Aboriginal and Torres Strait Islander communities.[647]
- Dr J Rob Bray, Australian National University, considered that there is a need for a clearer finding which identifies the market's inability to deliver these services. In particular, Dr Bray referred to the evaluation of the 2018 Child Care Package which identified a number of issues including the unwillingness, and/or inability, of many parents to comply with the requirements of the Child Care Subsidy, the rigidities of this including approved hours, the extent to which the social construction of 'parents' did not reflect kinship and other care giving responsibilities, as well as the demand on parents to make co-payments for services.[648] The Centre for Policy Development also noted the need for further context as the September interim report did not identify higher costs specific to First Nations Children.[649]
- The Municipal Association of Victoria supported the need for supply-side support for services in remote or very remote locations or locations where affordability for First Nations households is an issue, but considered that this should not be limited to Aboriginal Community Controlled Organisations.[650] Another childcare provider did not support the recommendation on the basis that all children deserve equal rights.[651]

644 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 10–11.

645 ACCC, Childcare Inquiry First Nations roundtable summary (virtual), 25 August 2023.

646 Submission 30, Australian Childcare Alliance, p 3; Submission 89, Brotherhood of St Laurence; Submission 36, The Creche & Kindergarten Association Limited, p 5; Submission 16, Child Australia, p 6; Submission 24, Community Child Care Association and Community Early Learning Australia; Submission 2, Diversity Council Australia, p 5; Submission 25, Early Learning & Care Council of Australia, p 18; Submission 27, Edge Early Learning, p 3; Submission 32, Goodstart Early Learning, pp 22–23; Submission 22, Gowrie Australia, p 10; Submission 23, Guardian Childcare and Education, p 10; Submission 20, KPMG, p 9; Submission 14, KU Children's Services, p 6 (in particular, the submission refers to the need for place-based approaches and co-design); Submission 8, Local Government NSW, p 8; Submission 65, North West Queensland Indigenous Catholic Social Services; Submission 29, Only About Children, p 3; Submission 13, The Front Project; Submission 90, TheirCare; Submission 11, UNICEF Australia, p 2; Submission 31, Uniting NSW ACT, (noting the submission includes broader recommendations relating to services for First Nations communities); Submission 18, United Workers Union, p 14 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

647 Submission 15, Early Learning Association Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

648 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 26.

649 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 15.

650 Submission 33, Municipal Association of Victoria , submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5.

651 Whitsunday Shire Family Day Care, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

8.4.6 Proposed price regulation models

In our September interim report, draft findings 17 and 18 related to international childcare costs and regulatory approaches, and draft recommendations 6 and 7 outlined a market stewardship role for government with consideration of supply-side support and direct price controls.[652]

Affordability of childcare in Australia compared to other OECD countries

In relation to draft finding 17 that overseas data indicates childcare in Australia is relatively less affordable than in most other OECD countries, stakeholders noted that limitations in the OECD data may impact the comparative analysis.

- Dr J Rob Bray, Australian National University, provided modelling on the impact of the March 2022 and July 2023 changes, which significantly reduce net costs for Australian families. In summary, for a couple on average wages, childcare cost as a percentage of net household income is reduced to 9.1%.[653] The submission also raised concerns with OECD revisions to the methodology it uses to calculate the gross fee in Australia for a 40 hour week, which underestimates the gross fee.[654]
- Guardian Childcare and Education considered the analysis to be overly simplistic in that it does not: consider differing tax regimes and philosophical approaches of countries; take into account recent changes to the Australian funding system; or address different service provision models in other countries.[655] Other submissions also raised the impact of comparative regulatory requirements and staffing costs, and noted that finding 17 does not take recent reforms into account.[656]
- The Diversity Council of Australia commented it is extremely concerning that childcare in Australia is relatively less affordable than most other OECD countries, and that many countries such as the United Kingdom, Ireland, Canada and New Zealand are moving towards greater regulation of childcare fees and supply-side subsidies.[657]

Submissions in response to the September interim report also noted Australia's relatively lower expenditure on childcare.

In particular, the Community Child Care Association and Community Early Learning Australia noted that Australia contributes less than the OECD average, and refers to studies showing that increasing Australia's contribution to that of Nordic countries (about 1% of GDP) would result in significant social and economic benefits.[658]

- The Australian Education Union provided further analysis of OECD data on pre-primary education expenditure on 3 to 5 year olds, and enrolments in private preschools.[659]

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652 ACCC, Childcare Inquiry September interim report, pp 29–35.

653 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, Table 2.

654 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 20.

655 Submission 23 , Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

656 Submission 32, Goodstart Early Learning, pp 27–28; Submission 25, Early Learning & Care Council of Australia, p 12; Submission 74, Mighty One Pty Ltd; Submission 39, Nido Education Limited; Submission 7, name withheld; Submission 90, TheirCare – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

657 Submission 2, Diversity Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

658 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

659 Submission 17, Independent Education Union of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 9–10.

International price regulation models

There were a number of submissions that provided a written response to draft finding 18 that many OECD countries are moving toward greater regulation of childcare fees and supply-side subsidies.

- Dr J Rob Bray, Australian National University, suggested that the issue of the cost of care and the financing of childcare is a challenge being faced by a significant number of major economies. The submission noted that this is a question which is closely linked to policy objectives, including the role of early childhood education.[660]
- The Community Child Care Association and Community Early Learning Australia supported this finding, and noted that this reflects a global shift in the recognition of the value of childcare, and the capacity of supply-side models to better deliver on policy objectives.[661]
- Guardian Childcare and Education considered that there are limited overseas examples of successful price capped childcare models in comparable economies. Guardian Childcare and Education also submitted that none of the specific markets quoted by the ACCC have fully introduced their new systems, and the press coverage on those that are underway is far from positive. They also noted that the Irish and UK systems offer a very different product, and Canada has taken a blunt instrument approach with no visibility of how to provide adequate supply.[662]
- G8 Education Ltd noted the trend towards introducing price control mechanisms in other countries, but observed that there is limited information on their success.[663]
- Early Learning & Care Council of Australia submitted that it is not clear that price controls have been successful or have worked effectively in cited jurisdictions.[664]
- The Outside School Hours Council of Australia noted that, in other jurisdictions, supply-side subsidies had been well received but that Ireland's price controls had unfairly impacted certain providers. The submission also noted that Victoria's Establishment Grants and high intensity program[665] had created new services in rural and other thin markets, and enabled the delivery of complex services such as specialist schools or schools that have behavioural challenges.[666]
- The impact of direct price controls failing to keep up with underlying cost pressures was also raised as a risk in other submissions, including by Goodstart Early Learning,[667] KU Children's Services,[668] Edge Early Learning[669] and Australian Childcare Alliance.[670]

660 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 21.

661 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

662 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 13.

663 Submission 26, G8 Education Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

664 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12.

665 Refer to Victoria Government, High Intensity Outside School Hours Care Initiative for students with disabilities, (https://www.vic.gov.au/high-intensity-outside-school-hours-care-initiative-for-students-with-disabilities), 26 October 2023, accessed 7 December 2023.

666 Submission 94, Outside School Hours Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

667 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 35.

668 Submission 14 , KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 7.

669 Submission 27, Edge Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

670 Submission 30, Australian Childcare Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 7, 38.

Limits of competition in delivering broader government objectives, pointing to a market stewardship role for government

Submissions were, in general, supportive of draft recommendation 6 which suggested consideration of a market stewardship role for Australian and state and territory governments.

Parents and guardians, in general, supported the need for a government market stewardship role, with one submission stating 'get the services to where they're needed'.[671] Another submission also emphasised the need to consider domestic and family violence.[672]

Submissions from a broad range of stakeholders also supported this recommendation,[673] although some considered that the concept of market stewardship was too narrowly expressed. In particular:

- The Centre for Policy Development considered that there are challenges across the system, including in terms of access and quality, and that under-supplied areas and vulnerable cohorts are just 2 areas where government stewardship would improve outcomes and value for taxpayer's money, and that, in fact, systemic change may be required.[674]
- The Creche & Kindergarten Association Limited,[675] Goodstart Early Learning[676] and KU Children's Services[677] recommended the objectives include sustainability and growth of the not-for-profit sector.[678] A similar issue was raised by Gowrie Australia around the need for a stewardship role to address barriers to growth in the not-for-profit sector.[679] In contrast, the NSW Small Business Commissioner considered that delivery of services should not be biased against small business.[680]

671 Submission 86, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

672 Submission 71, Kate Fernandes, ACCC Childcare Care Inquiry September Interim Report, October 2023, draft recommendation 6.

673 Submission 30, Australian Childcare Alliance, p 45 (the submission also included funding model recommendations to incentive service provision in areas of unmet demand); Submission 24, Community Child Care Association and Community Early Learning Australia, p 21 (the submission also sets out objectives to be delivered, and identifies the need to settle responsibilities between the Australian Government and states and territories); Submission 2, Diversity Council Australia, p 5; Submission 27, Edge Early Learning, p 3; Submission 20, KPMG, p 9; Submission 65, North West Queensland Indigenous Catholic Social Services (noting that government supply should be the last option); Submission 29, Only About Children, p 3 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

674 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

675 Submission 36, The Creche & Kindergarten Association Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 5 (the submission also sets out broader objectives to be delivered, and identifies the need to outline explicit roles of the Australian Government and states and territories).

676 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 23–24.

677 Submission 14, KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

678 See also the submission from The Front Project on directing competitive tender processes to the not-for-profit sector: Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

679 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 11–12.

680 Submission 10, NSW Small Business Commissioner, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

- Early Learning & Care Council of Australia identified, in addition to thin markets, the need for government to limit new entry to markets with lower occupancy.[681] This was also raised by Goodstart Early Learning[682] and KU Children's Services.[683]

Some of the submissions in support of the recommendation also discussed the option of competitive tendering. In particular:

- Local Government NSW noted that the use of tender-like mechanisms in outside school hours care and other sectors could be used as templates to better ensure service provision in key target areas.[684]
- in contrast, the Centre for Policy Development did not support the use of tendering for provision in under-served areas as it would drive out smaller local providers.[685] Similar concerns were raised by KU Children's Services[686] and Child Australia.[687] SNAICC considered that delivery of services for Aboriginal and Torres Strait Islander children and households is often better achieved through targeted and relational contracting processes.[688]
- the Municipal Association of Victoria noted that Victorian local government experience with tendering, particularly in the delivery of human services, had been fraught, particularly in rural and remote areas where there is no competition. The submission noted that there is room for different models.[689]
- a submission also noted the need for grant funding to go beyond 1 to 2 years.[690] A similar issue of limited funding windows was raised by TheirCare[691] and the Y Australia.[692] Another submission also raised the issue of election cycles and political opinion on a government market stewardship role.[693]

Dr J Rob Bray, Australian National University, noted that a market stewardship role in childcare could range from monitoring and reporting, through to nudging, to more direct roles such as intervention

681 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 19.

682 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 24.

683 Submission 14, KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

684 Submission 8, Local Government NSW, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 8–9.

685 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 16.

686 Submission 14, KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

687 Submission 16, Child Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6 (the submission also identified other mechanisms such as granting funds to local governments, replacing the Child Care Subsidy with supply-side funding, a planning mechanism, and determining minimum services required for each local government area).

688 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

689 Submission 33, Municipal Association of Victoria, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 5–6.

690 Submission 34, Outside School Hours Council Australia; Submission 94, Outside School Hours Council Australia, p 8 – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

691 Submission 90, TheirCare, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

692 Submission 19, The Y Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

693 Submission 91, name withheld, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

and support for services in areas of lack of supply. Dr Bray also noted that Australian Government formal planning of childcare services effectively ceased at the end of the 1990s.[694]

Dr Bray also considered that the concept of stewardship requires further clarification, including coordination between the Australian and state governments and evaluation of the Community Child Care Fund program.[695] Similarly, some submissions, including by Guardian Childcare and Education,[696] referred to current government market stewardship schemes including the Australian Government announcement on 25 October 2023 of funding to create additional services, and earlier announcements regarding government funded childcare centres by New South Wales, Victoria and Queensland. Another submission noted the need for stewardship to extend to local government.[697]

The recommendation was not supported by the United Workers Union who considered that government needs to go from being a market steward to delivering public provision.[698]

Significant changes to policy settings may warrant sector-wide direct price controls

Some stakeholders raised concerns regarding draft recommendation 7 that noted support for further consideration of supply-side subsidies and direct price controls. This included those who both did and did not support it. The key concerns (which were also identified by the ACCC in the September interim report) were that direct price controls are complex and could erode quality, investment and innovation, leading to reduction in choice, increased turnover, supply shortages, and ultimately market exit.

The Centre for Policy Development noted in its submission, that supply-side funding can also be demand-driven (for example, funding to a provider on a per child basis) or block funding (for example, based on making a certain number of places available).[699]

Submissions in response to this draft recommendation were divided. Parents and guardians, in general, considered that there is a current need for direct price controls. The Diversity Council of Australia called for a more fundamental shift where childcare is directly funded in the same way as public schools.[700] Similarly, the United Workers Union[701] and Equality Rights Alliance[702] identified the need for a shift to public provision.

694 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

695 Submission 3, Dr J Rob Bray Australian National University, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 27.

696 Submission 23, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 10.

697 Submission 15, Early Learning Association Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

698 Submission 18, United Workers Union, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 14.

699 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 12 in relation to findings 17 and 18.

700 Submission 2, Diversity Council Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 1 & 5.

701 Submission 18, United Workers Union, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

702 Submission 38, Equality Rights Alliance, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 3–5.

Submissions from a broad range of stakeholders (including Creche & Kindergarten Association Limited,[703] Centre for Policy Development,[704] Child Australia,[705] Community Child Care Association and Community Early Learning Australia,[706] Goodstart Early Learning,[707] Gowrie Australia,[708] KU Children's Services,[709] Local Government NSW,[710] The Front Project,[711] TheirCare,[712] and SNAICC)[713] supported further consideration of direct price controls and supply-side funding as a means of improving access and affordability, particularly for targeted groups. However, many of these submissions also noted the risk of a blunt tool that does not account for the diversity of contexts and costs across the country. In addition, the NSW Small Business Commissioner noted the need to consider the specific needs of small business services,[714] and the Police Association Victoria identified the need to directly subsidise childcare providers for providing a span of hours that cover shiftwork.[715]

Dr J Rob Bray, Australian National University, noted the importance of determining whether excess profits are inappropriately driving up the cost of childcare, and identified the need for further analysis including in relation to capital and return on investment.[716]

A number of providers (including Edge Early Learning,[717] G8 Education Ltd[718] and Guardian Childcare and Education[719]) did not consider that the case for price controls or regulation had been proven. These submissions also raised concerns with the price controls implemented in other countries, and discussed the difficulty of designing controls to reflect sector complexity and geographical variations in input costs.[720]

703 Submission 36, The Creche & Kindergarten Association Limited, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 6.

704 Submission 21, Centre for Policy Development, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 16–17.

705 Submission 16, Child Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 7.

706 Submission 24, Community Child Care Association and Community Early Learning Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 22.

707 Submission 32, Goodstart Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 24–25.

708 Submission 22, Gowrie Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 14.

709 Submission 14, KU Children's Services, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 7.

710 Submission 8, Local Government NSW, submission in response to ACCC Childcare Inquiry submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 9.

711 Submission 13, The Front Project, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

712 Submission 90, TheirCare, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

713 Submission 35, SNAICC, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 8.

714 Submission 10, NSW Small Business Commissioner, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 2.

715 Submission 9, The Police Association of Victoria, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 3.

716 Submission 3, Dr J Rob Bray Australian National University, pp 4–7, 27 and section 2.3; Submission 33, Municipal Association of Victoria, p 6 (the Municipal Association of Victoria also identified the need for further consideration of the recommendation) – submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023.

717 Submission 27, Edge Early Learning, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 8–9.

718 Submission 26, G8 Education Ltd, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, pp 9–10.

719 Submission 2, Guardian Childcare and Education, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 11.

720 Submission 25, Early Learning & Care Council of Australia, submission in response to ACCC Childcare Inquiry September interim report, 19 December 2023, p 20.

Appendix 1 – Competition and Consumer (Price Inquiry—Child Care) Direction 2022

Competition and Consumer (Price Inquiry—Child Care) Direction 2022

made under the *Competition and Consumer Act 2010*

Compilation No. 01

Compilation date: 25 August 2023

Includes amendments up to: *Competition and Consumer (Price Inquiry—Child Care) Amendment Direction 2023*

Prepared by The Treasury

About this compilation

This compilation

This is a compilation of the *Competition and Consumer (Price Inquiry—Child Care) Direction 2022* that shows the text of the law as amended and in force on 25 August 2023 (the ***compilation date***).

The notes at the end of this compilation (the ***endnotes***) include information about amending laws and the amendment history of provisions of the compiled law.

Uncommenced amendments

The effect of uncommenced amendments is not shown in the text of the compiled law. Any uncommenced amendments affecting the law are accessible on the Legislation Register (www.legislation.gov.au). The details of amendments made up to, but not commenced at, the compilation date are underlined in the endnotes. For more information on any uncommenced amendments, see the series page on the Legislation Register for the compiled law.

Application, saving and transitional provisions for provisions and amendments

If the operation of a provision or amendment of the compiled law is affected by an application, saving or transitional provision that is not included in this compilation, details are included in the endnotes.

Modifications

If the compiled law is modified by another law, the compiled law operates as modified but the modification does not amend the text of the law. Accordingly, this compilation does not show the text of the compiled law as modified. For more information on any modifications, see the series page on the Legislation Register for the compiled law.

Self-repealing provisions

If a provision of the compiled law has been repealed in accordance with a provision of the law, details are included in the endnotes.

Contents

Authorised Version F2023C00816 registered 19/09/2023

Part 1—Preliminary

1 Name

This instrument is the *Competition and Consumer (Price Inquiry—Child Care) Direction 2022*.

3 Authority

This instrument is made under the *Competition and Consumer Act 2010*.

4 Definitions

Note: Expressions have the same meaning in this instrument as in the *Competition and Consumer Act 2010* as in force from time to time—see paragraph 13(1)(b) of the *Legislation Act 2003*.

In this instrument:

approved child care service has the meaning given by section 194G of the *A New Tax System (Family Assistance) (Administration) Act 1999*.

child care subsidy has the meaning given by section 3 of the *A New Tax System (Family Assistance) Act 1999*.

goods has the meaning given by subsection 95A(1) of the Act.

inquiry has the meaning given by subsection 95A(1) of the Act.

not-for-profit has the same meaning as it has in the *Charities Act 2013*.

price has the meaning given by subsection 95A(1) of the Act.

services has the meaning given by subsection 95A(1) of the Act.

State or Territory authority has the meaning given by subsection 95A(1) of the Act.

supply has the meaning given by subsection 95A(1) of the Act.

the Act means the *Competition and Consumer Act 2010*.

Part 2—Price inquiry into child care services

5 Commission to hold an inquiry

(1) Under subsection 95H(1) of the Act, the Commission is required to hold an inquiry into the market for the supply of child care services. The inquiry is *not* to extend to any of the following:

(a) the supply of a good or service by a State or Territory authority;

(b) reviewing the operation of any Australian law (other than the Act) relating to approved child care services, except as necessary to consider the matters set out in section 6; and

(c) reviewing the operation of any program funded by the Commonwealth, or any policy of the Commonwealth (other than policies relating to competition and consumer protection, and in considering the matters set out in section 6).

(2) For the purposes of subsection 95J(1), the inquiry is to be held in relation to goods and services that are approved child care services.

(3) Under subsection 95J(2), the inquiry is *not* to be held in relation to the supply of goods and services of that description by a particular person or persons.

6 Directions on matters to be taken into consideration in the inquiry

Under subsection 95J(6) of the Act, the Commission is directed to take into consideration all of the following matters in holding the inquiry:

(a) the costs incurred by providers of goods and services covered by subsection 5(2), including:

(i) the cost and availability of labour; and

(ii) the use of land and related costs; and

(iii) finance and administration costs; and

(iv) regulatory compliance costs; and

(v) the cost of consumables; and

(b) the prices charged, since 1 January 2018, by providers of goods and services covered by subsection 5(2), including:

(i) price changes following the commencement of the *Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022*; and

(ii) price changes as a result of Commonwealth policies that have the objective of lowering child care costs to consumers; and

(c) how costs and prices differ by:

(i) provider type (for example, commercial and not-for-profit); and

(ii) provider size (for example, providers operating a single child care centre and providers operating multiple child care centres); and

(iii) type of child care services provided (for example, centre based day care, outside school hours care, family day care and in home care); and

(iv) age and characteristics of the child in child care; and

(v) geographical location (for example, urban, regional, and remote); and

(vi) level of competition present in the market for the supply of child care services; and

(vii) overall quality rating of the child care services provided, as assessed against the *National Quality Standard* (as at 1 February 2018) under the National Quality Framework, as published on the Australian Children's Education and Care Quality Authority website; and

(d) factors affecting demand, supply and competition in the market for child care services, including:

(i) the extent and existence of supplier practices and strategies in response to the existing government funding arrangements and regulatory settings; and

(ii) the impacts on the market from the coronavirus known as COVID-19, including the impact of the temporary coronavirus response measures contained in the *Child Care Subsidy Minister's Rules 2017*; and

(e) the impact of the above factors on child care provider viability, quality and profits; and

(f) the impact and effectiveness of existing price regulation mechanisms and any impediments inherent in those mechanisms to their effective operation.

7 Directions as to holding of the inquiry

Under subsection 95J(6) of the Act, the Commission in holding the inquiry is directed to do all of the following:

(a) give to the Treasurer a first interim report on the inquiry by no later than 30 June 2023;

(b) give to the Treasurer a second interim report on the inquiry by no later than 30 September 2023.

8 Period for completing the inquiry

For the purposes of subsection 95K(1) of the Act, the inquiry is be completed, and a report on the matter of inquiry given to the Treasurer, by no later than 31 December 2023.

Endnotes

Endnote 1—About the endnotes

The endnotes provide information about this compilation and the compiled law.

The following endnotes are included in every compilation:

Endnote 1—About the endnotes
Endnote 2—Abbreviation key
Endnote 3—Legislation history
Endnote 4—Amendment history

Abbreviation key—Endnote 2
The abbreviation key sets out abbreviations that may be used in the endnotes.

Legislation history and amendment history—Endnotes 3 and 4
Amending laws are annotated in the legislation history and amendment history.

The legislation history in endnote 3 provides information about each law that has amended (or will amend) the compiled law. The information includes commencement details for amending laws and details of any application, saving or transitional provisions that are not included in this compilation.

The amendment history in endnote 4 provides information about amendments at the provision (generally section or equivalent) level. It also includes information about any provision of the compiled law that has been repealed in accordance with a provision of the law.

Misdescribed amendments
A misdescribed amendment is an amendment that does not accurately describe how an amendment is to be made. If, despite the misdescription, the amendment can be given effect as intended, then the misdescribed amendment can be incorporated through an editorial change made under section 15V of the *Legislation Act 2003*.

If a misdescribed amendment cannot be given effect as intended, the abbreviation "(md not incorp)" is added to the details of the amendment included in the amendment history.

Endnote 2—Abbreviation key

ad = added or inserted
am = amended
amdt = amendment
c = clause(s)
C[x] = Compilation No. x
Ch = Chapter(s)
def = definition(s)
Dict = Dictionary
disallowed = disallowed by Parliament
Div = Division(s)
exp = expires/expired or ceases/ceased to have effect
F = Federal Register of Legislation
gaz = gazette
LA = *Legislation Act 2003*
LIA = *Legislative Instruments Act 2003*
(md not incorp) = misdescribed amendment cannot be given effect
mod = modified/modification
No. = Number(s)
Ord = Ordinance
orig = original
par = paragraph(s)/subparagraph(s) /sub-subparagraph(s)
pres = present
prev = previous
(prev…) = previously
Pt = Part(s)
r = regulation(s)/rule(s)
reloc = relocated
renum = renumbered
rep = repealed
rs = repealed and substituted
s = section(s)/subsection(s)
Sch = Schedule(s)
Sdiv = Subdivision(s)
SLI = Select Legislative Instrument
SR = Statutory Rules
Sub-Ch = Sub-Chapter(s)
SubPt = Subpart(s)
underlining = whole or part not

Endnote 3—Legislation history

Name	Registration	Commencement	Application, saving and transitional provisions
Competition and Consumer (Price Inquiry—Child Care) Direction 2022	1 November 2022 (F2022L01421)	2 November 2022	—
Competition and Consumer (Price Inquiry—Child Care) Amendment Direction 2023	24 August 2023 (F2023L01113)	25 August 2023	—

Endnote 4—Amendment history

Provision affected	How affected
s2	rep LA s48D
s7	rs F2023L01113

Appendix 2 – Inquiry Process

Inquiry directions

On 28 October 2022, the Treasurer directed the ACCC to conduct a price inquiry into the market for the supply of childcare services. In summary, the direction required the ACCC to consider:

a. the costs incurred by providers of childcare services

b. the prices charged by providers, since 1 January 2018

c. how costs and prices differ by provider characteristics (including size, business structure and type of service provided), location, the level of competition in the market, the characteristics of children in care and service quality

d. the factors that affect demand, supply and competition in the childcare market

e. how these factors affect providers' viability, quality and profitability

f. the effectiveness of existing price regulation mechanisms.

The original direction required the ACCC to provide an interim report to the Treasurer by 30 June 2023 and a final report to the Treasurer by 31 December 2023.

On 22 August 2023 the Assistant Minister for Competition, Charities and Treasury issued an amended direction to direct the ACCC to give to the Treasurer a second interim report on the inquiry by 30 September 2023.

The complete direction, encompassing both the original 28 October 2022 direction and the 22 August 2023 amended direction, is attached at Appendix 1.

Inquiry process

In conducting the inquiry, the ACCC received and analysed information from a variety of sources, including:

- information held by providers through compulsory information requests
- information held by providers, services and educators through voluntary information requests
- data obtained from Australian Government agencies (such as CCS administrative data)
- information collected from parents and guardians through our English and translated surveys
- information on overseas jurisdictions' childcare frameworks and price control mechanisms including through discussions with representatives from these jurisdictions
- information and feedback obtained through roundtables with key stakeholder groups
- submissions from a range of parties and stakeholders
- meetings with a range of stakeholders
- telephone and written reports from the public through the ACCC Infocentre.

Compulsory information requests

The ACCC used its compulsory information gathering powers under s 95ZK of Part VIIA of the *Competition and Consumer Act 2010* to obtain information and documents from select providers of childcare services. The ACCC issued a total of 54 compulsory information notices to large providers that operate 40 or more services over the course of our inquiry.

These notices enabled the ACCC to examine a wide range of information, data and documents, including detailed information that had not been previously collected or available for the Australian childcare sector. In particular, this included information on the income and costs incurred by large childcare providers, and internal strategy documents.

Confidentiality protocols as set out by s 95ZN of Part VIIA of the *Competition and Consumer Act 2010* were followed with regards to publishing information collected from the compulsory information request notices.

Voluntary information requests

The ACCC used voluntary information requests to obtain information from small providers (those operating between one and 4 childcare services), medium providers (those operating between 5 and 39 childcare services), family day care services and educators, and in home care providers and educators. We engaged with these providers, services and educators through site visits, virtual meetings and surveys, in order to support obtaining the information in a productive, efficient and consistent way.

Using voluntary information requests, we obtained information from over 150 small providers and 26 medium providers of centre based day care and outside school hours care. We also obtained information from 44 family day care and in home care service providers and support agencies, and 25 family day care and in home care educators. Additionally, we received information from 229 family day care educators and 52 in home care educators via a voluntary survey.

Data from other Australian Government agencies

Our analysis and findings are supplemented and supported by information and data shared with the ACCC by numerous other Australian Government agencies. These include:

- administrative data on the Child Care Subsidy, including information on attendance, fees charged, Child Care Subsidy and Additional Child Care Subsidy paid, child and household characteristics, service and provider characteristics was provided by the Department of Education. We referred to this important information in conducting a significant amount of our analysis, in particular in calculating average fees, subsidies and out-of-pocket expenses, attendance and enrolment information and service income
- data relating to service characteristics, waivers and breaches from both publicly available sources and directly through our engagement with ACECQA. This enabled us to analyse by National Quality Framework rating and inform our examination of waivers
- industry benchmarks data from the Australian Tax Office to assist in our examination of profit ratios over time in our September interim report
- various figures including Census population and estimated resident population data, price indexes (including Consumer Price Index and Wage Price Index), SEIFA indexes and various geographies from publicly available Australian Bureau of Statistics Data, in particular to inform our analysis by location or SEIFA and estimates of real price change
- data on expenses, income and profits from the Australian Bureau of Statistics' Business Longitudinal Analysis Data Environment in our analysis of profitability and expenses.

Parents and guardians surveys

We used online surveys to engage with parents and guardians. In particular, the surveys were designed to understand parents' and guardians' perspectives of:

- choice – what factors parents and guardians consider when choosing childcare services, a greater understanding of quality indicators, and whether there are viable substitutions (relevant to our market definition and competition assessment)
- cost – whether families perceive their service(s), and childcare more generally, as affordable
- access – whether families face barriers to accessing services such as long wait times or other supply issues.
- The surveys also collected demographic data with an understanding that perspectives may vary across demographic groups.

The English language survey was open between 18 April 2023 and 4 June 2023. The survey was also translated into Traditional Chinese, Simplified Chinese, Korean, Vietnamese and Arabic, in order to deepen our understanding of preferences and challenges faced by culturally and linguistically diverse families. The translated surveys were open between 4 September 2023 and 8 October 2023.

The ACCC received about 4150 responses to our English parents and guardians survey and about 185 responses to our translated surveys.

Review of reforms being undertaken in international jurisdictions

The ACCC, along with the Productivity Commission and Department of Education, met with overseas government agencies to obtain information on the early childhood education and care policy and operational frameworks and price regulation mechanisms employed in other jurisdictions. Our review of other countries focused on the United Kingdom (England), Ireland, the Netherlands, the United States of America, Canada and New Zealand (as countries that primarily rely on market provision like Australia), and Sweden (as a comparator).

In addition to these meetings with overseas counterparts, we also obtained information from the Organisation for Economic Co-operation and Development (OECD) to understand how Australia's prices and government expenditure on childcare services compares to other countries.

Roundtables

The ACCC hosted a series of roundtables with key stakeholder groups in August and September. We invited stakeholders to talk about the childcare market as relevant to the inquiry directions.

Stakeholder group	Date	Format (virtual/in-person)
Childcare educators	11 August 2023	Virtual
Culturally and linguistically diverse communities	11 August 2023	Virtual
First Nations peoples	25 August 2023	Virtual
First Nations peoples	8 September 2023	In-person (Darwin)
Childcare providers	15 September 2023	Virtual
Parents and guardians	22 September 2023	Virtual
In Home Care	22 September 2023	Virtual

The roundtables were attended by ACCC Commissioners and staff. We heard a range of experiences and views from participants at the forums, which provided invaluable insights for the purposes of our inquiry. The summaries of the roundtables discussions are available on the ACCC childcare inquiry website.

Submissions to the inquiry

The ACCC released its second interim report for the inquiry into childcare services on 1 October 2023. The second interim report made draft findings and recommendations, and welcomed interested parties to make submissions in response to those draft findings and recommendations outlined in the report, in order to inform our final report.

Submissions were able to be provided either by completing a guided submission form on the ACCC's Consultation Hub website that prompted short-form responses to each finding and recommendation, or via submitting a PDF or Word document to the ACCC via email or the Consultation Hub. The submissions process closed on 29 October 2023.

The ACCC received 52 guided submission responses via the Consultation Hub. Guided submission responses were received predominantly from parents and guardians, educators and providers.

The ACCC also received over 40 PDF and Word documents in response to the second interim report. These document responses were received from a range of stakeholders including peak bodies, academics, policy and advocacy groups, providers, state and local government bodies, and union and other workforce-related associations.

As the inquiry is a public process, pursuant to s 95R(1) of the *Competition and Consumer Act 2010,* the ACCC published written submissions from stakeholders on its website.

Reports to the ACCC Infocentre

The Infocentre is the ACCC's initial response centre for all telephone and written enquiries and reports from consumers and businesses about competition and consumer issues in Australia. The Infocentre compiled childcare-related queries or statements received from members of the public into weekly reports. These reports were considered by the inquiry to identify trends and inform areas for further analysis and examination.

Inquiry reports

The ACCC released our first interim report (also referred to as our 'June interim report') for the inquiry into childcare services on 5 July 2023. It focused on prices, supply and demand for childcare, and an initial examination of the impact of the Child Care Subsidy. The ACCC issued our second interim report (also referred to as our 'September interim report') on 1 October 2023.

The second interim report focused on the costs of providing childcare services, the nature of competition in childcare markets, the profitability and viability of the sector, and the effectiveness of Australia's existing price regulation mechanisms in aiding affordability of childcare. The second interim report also contained our draft findings and recommendations, and invited stakeholders to make submissions by 29 October 2023.

Both interim reports are available on the ACCC website.

This final report builds on our analysis undertaken throughout the inquiry and contains our final findings and recommendations in relation to the areas explored as per our inquiry directions. The final report was provided to the Treasurer on 31 December 2023.

Appendix 3: Daily out-of-pocket expense by area

Table 1: Average daily fee and out-of-pocket expense by Statistical Area Level 4, September quarter 2023[721]

Statistical Area Level 4 name	State	Average daily fee	Average daily out-of-pocket expense	Number of services
Sydney – Eastern Suburbs	New South Wales	$161.81	$90.24	132
Sydney – North Sydney and Hornsby	New South Wales	$161.11	$86.79	213
Perth – Inner	Western Australia	$158.98	$76.52	63
Sydney – Ryde	New South Wales	$156.98	$72.67	90
Melbourne – Inner	Victoria	$155.03	$73.43	202
Sydney – City and Inner South	New South Wales	$154.64	$76.88	144
Sydney – Inner West	New South Wales	$154.39	$74.91	145
Melbourne – Inner East	Victoria	$153.68	$68.13	120
Sydney – Northern Beaches	New South Wales	$153.67	$78.91	109
Melbourne – Inner South	Victoria	$152.07	$68.57	156
Sydney – Baulkham Hills and Hawkesbury	New South Wales	$146.39	$62.23	134
Brisbane Inner City	Queensland	$144.99	$66.05	107
Australian Capital Territory	Australian Capital Territory	$143.53	$61.22	187
Geelong	Victoria	$142.29	$44.16	91
Bendigo	Victoria	$141.14	$39.21	36
Melbourne – North West	Victoria	$140.85	$42.60	120
Melbourne – Outer East	Victoria	$140.48	$46.32	160
Mornington Peninsula	Victoria	$140.19	$43.35	95
Melbourne – West	Victoria	$139.77	$45.27	271
Melbourne – North East	Victoria	$139.32	$46.64	165
Perth – North West	Western Australia	$138.61	$46.50	180
Brisbane – North	Queensland	$136.56	$48.12	86
Perth – South West	Western Australia	$136.45	$45.73	144

721 Statistical Area Level 4 are geographic areas built from whole Statistical Areas Level 3. They are the largest sub-state regions in the Main Structure of the Australian Statistical Geography Standard. The boundaries represent labour markets and the functional area of Australia capital cities, respectively. See Australian Bureau of Statistics, Statistical Area Level 4, accessed 1 December 2023.

Statistical Area Level 4 name	State	Average daily fee	Average daily out-of-pocket expense	Number of services
Melbourne – South East	Victoria	$135.56	$40.00	275
Brisbane – South	Queensland	$135.50	$47.48	135
Central Coast	New South Wales	$135.28	$41.23	132
Brisbane – West	Queensland	$135.06	$52.26	71
Adelaide – South	South Australia	$135.04	$39.25	109
Perth – South East	Western Australia	$134.85	$43.09	163
Adelaide – West	South Australia	$134.63	$40.73	67
Adelaide – Central and Hills	South Australia	$134.50	$47.14	112
Sydney – Sutherland	New South Wales	$134.15	$56.60	132
Adelaide – North	South Australia	$133.84	$33.50	117
Ballarat	Victoria	$133.70	$35.54	50
Newcastle and Lake Macquarie	New South Wales	$133.64	$42.74	156
Western Australia – Outback (North)	Western Australia	$133.11	$58.25	32
Perth – North East	Western Australia	$132.25	$41.13	80
Sydney – Blacktown	New South Wales	$131.08	$46.00	168
Sunshine Coast	Queensland	$131.04	$40.21	118
Moreton Bay – South	Queensland	$130.58	$37.64	84
Sydney – Parramatta	New South Wales	$130.49	$42.50	247
Central West	New South Wales	$130.44	$38.30	77
Sydney – Inner South West	New South Wales	$129.99	$41.77	314
Illawarra	New South Wales	$129.48	$41.50	148
Murray	New South Wales	$129.16	$34.98	47
Hunter Valley excluding Newcastle	New South Wales	$128.94	$35.94	102
Western Australia – Outback (South)	Western Australia	$127.78	$43.10	33
Sydney – South West	New South Wales	$127.58	$37.32	217
Richmond – Tweed	New South Wales	$127.23	$35.19	69
Gold Coast	Queensland	$126.72	$37.41	246
Brisbane – East	Queensland	$125.55	$40.22	82
Capital Region	New South Wales	$125.08	$39.68	75
Moreton Bay – North	Queensland	$124.60	$31.35	92
Hume	Victoria	$124.57	$33.73	58
Riverina	New South Wales	$124.56	$34.41	66

Statistical Area Level 4 name	State	Average daily fee	Average daily out-of-pocket expense	Number of services
Bunbury	Western Australia	$124.26	$35.28	53
Toowoomba	Queensland	$124.14	$32.21	64
Ipswich	Queensland	$124.06	$32.37	144
Coffs Harbour – Grafton	New South Wales	$123.84	$30.41	54
Shepparton	Victoria	$123.76	$30.83	41
Warrnambool and South West	Victoria	$123.26	$33.07	32
Darwin	Northern Territory	$122.75	$42.07	69
Mackay – Isaac – Whitsunday	Queensland	$122.66	$39.77	52
Latrobe – Gippsland	Victoria	$122.51	$31.41	65
Cairns	Queensland	$122.50	$32.76	89
Sydney – Outer West and Blue Mountains	New South Wales	$122.45	$36.90	158
Mid North Coast	New South Wales	$122.15	$31.21	77
Sydney – Outer South West	New South Wales	$122.01	$35.33	151
New England and North West	New South Wales	$120.89	$32.91	59
Townsville	Queensland	$120.77	$34.20	102
Central Queensland	Queensland	$120.74	$35.66	62
Hobart	Tasmania	$119.76	$36.92	67
Southern Highlands and Shoalhaven	New South Wales	$119.53	$34.12	65
North West	Victoria	$119.51	$30.91	39
Logan – Beaudesert	Queensland	$119.39	$28.68	160
Far West and Orana	New South Wales	$118.95	$32.31	38
South Australia – South East	South Australia	$118.52	$29.07	42
Launceston and North East	Tasmania	$118.37	$33.83	37
Mandurah	Western Australia	$116.54	$31.24	28
Darling Downs – Maranoa	Queensland	$113.09	$28.62	39
West and North West	Tasmania	$112.77	$28.64	24
Wide Bay	Queensland	$112.24	$26.95	91
Barossa – Yorke – Mid North	South Australia	$109.88	$28.33	28
Western Australia – Wheat Belt	Western Australia	$105.40	$29.31	45
South Australia – Outback	South Australia	$103.25	$29.04	24
Northern Territory – Outback	Northern Territory	$99.21	$34.90	50
Queensland – Outback	Queensland	$96.92	$33.79	37
South East	Tasmania	$92.11	$24.08	11

Appendix 4: International price regulation models

Table 1: International indirect price regulation models

The Netherlands

Policy

- Providers determine fees (as in Australia). The reimbursement is currently subject to a maximum hourly rate cap (which depends on the type of childcare). The subsidy depends on income and the number of children, and is a sliding scale ranging from 33% (highest income) to 96% (lowest income).
- From 1 January 2023, the activity test was removed so that households are entitled to a maximum of 230 hours per month per child regardless of whether they work or study.
- From 2027 (extended from 2025), the Government is proposing to reimburse 96% of childcare costs for working parents (although there was a subsequent change in government in July 2023).[722] The form of price regulation has not been announced.
- In April 2023, the Netherlands completed 2 reports on market structure and the role of private equity and potential policy measures. As part of this review of potential policy measures, the ACCC understands that the Netherlands may also undertake a cost survey.[723]

Process

- The hourly rate cap was introduced in 2005, indexed annually based on inflation (20%) and wage index (80%) across the general economy.
- Since 2005, there has been a significant increase in the share of prices above the hourly rate cap. Quarterly public reporting by the Netherlands shows that the share of day care providers charging above the cap increased from 57.4% in 2019 to 72.5% in 2022. The relative difference between the average price and hourly rate cap changed from 0.1% to 4.7%.

New Zealand

Policy

- The 2023 Budget includes an expansion of the '20 Hours Free' policy to 2-year-olds in addition to children 3 and above from 1 March 2024. However, following New Zealand's general election on 14 October 2023, the new government is likely to revise this policy, and possibly introduce a childcare tax rebate of up to 25 per cent on childcare costs for families earning up to $180,000 a year.
- There is also a childcare subsidy system for up to 50 hours of care (or 9 hours per week if the activity test is not met). The rate depends on size of family, income and hours in childcare. Households receiving 20 hours free early childhood education cannot receive the Childcare Subsidy for the same hours.

Process

- The subsidy rate to providers per child under the '20 Hours Free' Scheme was set in 2006/2007. There has been indexation but not in every year so the value of the subsidy has declined over time.[724]

722 Section 5.3.7 of the September interim report referred to this universal entitlement to free hours commencing at 6 weeks in the Netherlands. In fact, the entitlement would commence from birth.

723 See the discussion on potential price regulation options in The Netherlands, Ministry of Social Affairs and Employment, Report: Childcare Measures, Rapport Maatregelen Kinderopvang, April 2023.

724 The range of policy options considered by New Zealand are set out in New Zealand, Ministry of Education, Education Report: Advice for Income Support Ministers' November meeting, November 2022.

Table 2: international direct price regulation models

Canada
Policy ▪ Canada is aiming to reduce fees to $10 a day, on average, by 2026 in regulated care. The initial target for coverage of the scheme is 59% of children aged 0–5 years (based on the uptake of licensed childcare in Quebec). ▪ The federal government is achieving this by entering into agreements with provinces/territories (grant funding is then directed to centres), with provinces determining whether the fee is income tested or universal. **Process** ▪ Cost methodology example – Alberta: Alberta Cost Control Framework and For-Profit Expansion Plan developed under the Canada-Alberta Agreement, requires operators to commit to achieving an average fee to households of $10 per day in 2025–26, and provides for Alberta to determine government supply-side funding based on Operator Core Child Care Costs and Reasonable Profit/Surplus Earnings (operator grant). ▪ Market fee example – Newfoundland and Labrador: Childcare centres choosing to participate in the Operating Grant Program are required to use prescribed parent fees and receive an Operating Grant as compensation for lost revenue, based on average market rates for parent fees, for example, from 1 January 2023, for infants, $10/day plus $53.50/day operating grant with an extra $10 for enhanced services.[725]
Ireland
Policy ▪ In 2022, Ireland announced an increase in childcare subsidies, and pledged to cut childcare costs by 50% over a two-year period. ▪ For providers that are part of the National Childcare Scheme – Core Funding Scheme, gross fees were frozen, from September 2022, as at 30 September 2021 (around the time the Expert Group made its recommendations).[726] This means there is a wide variation of regulated fees. The fees are not automatically indexed, for example, to inflation. ▪ In addition to this, households receive a demand-side subsidy (which is paid to the childcare provider and subtracted from the fee paid by the family). Households can choose: – a universal subsidy which is not means tested (at €1.40 an hour up to a maximum of 45 hours a week per child),[727] or – a subsidy which is based on household income, age and a work study test. **Process** ▪ The operating grant formula under the Core Funding Scheme applies the same rates to all providers based on their operating hours, number of places offered by services, age group of children for whom the places are offered, and a premium for graduate staff. ▪ This year, cost data will be available through the requirement for services to provide validated financial returns. This will assist in determining the gap between operating costs and frozen fees. ▪ The demand-side subsidy was introduced in 2019. From January 2023, the base subsidy significantly increased, from €0.50 to €1.40 an hour.

725 The Canada-Newfoundland and Labrador Canada-wide Early Learning and Child Care Agreement recognises regulated child care services and programs that existed in Newfoundland and Labrador prior to the signing of the agreement, including the provincial Operating Grant Program.

726 See the Core Funding Partner Service Funding Agreement for Year 1.

727 Increasing to €2.14 from September 2024.

Sweden

Policy

- From ages 3 to 6, children are entitled to at least 525 hours of free preschool per year (roughly 15 hours per week excluding holidays).
- Fee caps apply to both private and public childcare providers.
- Households with infant children in childcare (2 years and under) or who require additional hours of care pay a co-contribution. The fee schedule has 2 components:
  - The charge per child is determined as a fixed percentage of gross household income (the fee for the first pre-school child can be a maximum of 3%; 2% for the second child; and 1% for the third child; from the fourth child there is no additional fee).
  - Per-child fees are capped (monthly income ceiling), indexed annually. Low income households pay nothing.
- Central government distributes funding to municipalities, but the cost of the scheme is also funded by municipalities through taxes.
- Municipalities are required to distribute funds for private providers on the same principles as they distribute to their public providers.[728]

Process

- While there is a requirement for day care to have a teacher, there are no broader national staff ratios or minimum qualification requirements. A current issue in Sweden is the quality of care and an increasing number of staff with no educational qualifications.

United Kingdom (England)

Policy

- Currently, all 3 and 4-year-olds are entitled to 15 hours per week of free childcare or early education, rising to 30 hours for working households, and 15 hours for disadvantaged 2-year-olds, over 38 weeks of the year.
- The first 15 hours is universal, the additional 15 hours is not available if one parent has a taxable income of more than £100,000 a year.
- Government funding for these places is paid directly to providers. Many parents pay additional charges for meals and activities.
- By September 2025, working parents will be able to claim 30 hours of free childcare a week, over 38 weeks of the year, from 9 months up to their child starting school.
- Parents can claim support for the additional hours of childcare through tax free childcare and, for those on lower incomes, universal credit.

Process

- The UK Department for Education surveys a sample of more than 10,000 providers (Survey of Childcare and Early Years Providers: Technical Report) (includes costs) to determine the funding formula for local authorities to in turn allocate funding to providers.
- The United Kingdom is currently reviewing funding rates for 2024–25.
- The threshold of £100,000 a year has been identified as having a distortionary effect.[729]

728 See Centre for Research on Families and Relationships, The University of Edinburgh, Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding, Final report, March 2013, p 51.

729 For example, UK House of Commons Treasury Committee hearing; Institute of Fiscal Studies, Childcare Reforms Create a New Branch of the Welfare State – but also Huge Risks to the Market, Press release, 15 March 2023.

United States of America

Policy

- Currently, the US provides funding to states/territories (Child Care and Development Block Grant) targeted at young children in poverty. Household income cannot exceed 85% of state median income but in practice US states and territories set a significantly lower threshold.
- President Biden's 2021 'Build Back Better' childcare reforms proposed to:
  - make attendance at licensed childcare centres free for the lowest-earning households, and would have cost no more than 7% of family income for those earning up to double the state's median income
  - provide universal free preschool for children ages 3 and 4
  - increase the pay of childcare workers and preschool teachers to be equivalent to kindergarten teachers if they have similar credentials.
- As the reforms did not pass Congress, the April 2023 Executive Order requires federal departments to undertake initiatives to increase access to high quality childcare without additional funding.

Process

- To determine the subsidy amount, each state is required to undertake a market survey every 3 years. Most states use market rates, being the fees charged by providers. The federal benchmark is 75% of prices in the market (that is, the rate charged by 3 out of every 4 childcare providers). However, some states use a cost-based model, for example, New Mexico.
- Existing public programs, which target low-income households, serve a small fraction of eligible households. Of the children eligible under federal rules, only 14% received subsidies in FY2017 under state and territory funding criteria.[730]

730 US Department of the Treasury, The Economics of Child Care Supply in the United States, September 2021.

Appendix 5: Changes to draft recommendations and findings

Changes to draft recommendations

Draft recommendation	Final recommendation	Comments
Draft recommendation 1 The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its childcare policies and supporting measures, including the relevant price regulation mechanism.	**Recommendation 1** The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its early childhood education and care policies and supporting measures, including the price regulation mechanism.	The ACCC has retained this recommendation, but has updated the reference to 'childcare policies' to 'early childhood education and care policies and supporting measures'. While the ACCC has used the term 'childcare' throughout its reports, consistent with the Treasurer's direction, we acknowledge that early childhood education and care more accurately reflects the role of early childhood educators and teachers and that childcare policy is a part of the broader early childhood education and care policies of the Australian Government.

Draft recommendation 2	Recommendation 2	
The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and existing hourly rate cap mechanism, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:	The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and hourly rate cap, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:	The ACCC has adjusted recommendation 2(a) to reflect the particular need to reconsider the hourly rate caps for family day care and in home care, based on our analysis and submissions received, as well as supporting more broad scale review of the in home care program by the Australian Government. We have also removed the reference to the cost associated with caring for children with disability and/or complex needs and children in remote areas, as we consider that these are more appropriately addressed via the mix of policy measures considered under recommendations 6 and 7.
a. determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs as well as the additional costs associated with providing childcare services in remote areas and to children with disability and/or complex needs	a. Determining an appropriate base for the hourly rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs. As part of this, the family day care and in home care hourly rate caps should be reviewed and consideration given to increasing them. This should ensure providers can adequately cover costs, including appropriate labour costs.	We have updated recommendation 2(b) to clarify that it only relates to centre based day care services, and acknowledge feedback from stakeholders that daily rates are not common in family day care or in home care and outside school hours care.
b. changing the hourly rate cap to align with the relevant pricing practice for the service type. This could include consideration of a daily fee cap for centre based day care. Consideration will need to be given to setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality	b. Changing the hourly rate cap to a daily rate cap for centre based day care services to improve price transparency. There would need to be more detailed exploration of the incentives and consequences of such a change, including consideration of setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality. In particular, the need to ensure flexibility of operating times for households or children with disability and/or complex needs should be considered.	Recommendation 2(c) has been retained unchanged as it was widely supported by stakeholders and our analysis continues to show that the hourly rate cap acts as a barrier to households with low income accessing care.
c. removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care	c. Removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to disadvantaged children (for example, households with low incomes or in disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.	We have retained recommendation 2(d) in a substantially similar form to the draft recommendation, but have clarified that the monitoring should include prices, costs, profits and outcomes, not just prices and outcomes.
d. including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.	d. A stronger role for governments to monitor providers' prices, costs, profits and outcomes, supported by a credible threat of regulatory intervention to place downward pressure on fees.	Despite some stakeholders raising concerns that price monitoring would not reflect operational variations and would impose an additional cost on providers, particularly small providers, the ACCC continues to recommend a stronger monitoring role by government, backed by a credible threat of intervention, to put downward pressure on fees and limit taxpayer burden over time (see chapter 7). Monitoring would help overcome competition constraints in the childcare sector including the limited price sensitivity we have observed in households using childcare services (see chapter 5). We acknowledge that this would need to carefully balance the impact on providers.

Draft recommendation 3 The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents' and guardians' information needs, and balanced against the costs of collecting and publishing information. This could include: a. considering the frequency, granularity and accuracy of information collected and published, to ensure currency for parents and guardians b. focusing on publishing information that assists parents to accurately estimate out-of-pocket expenses and relevant information to assist parents assess quality factors c. incorporating input and advice from the Behavioural Economics Team of the Australian Government d. ensuring information is appropriately and effectively publicised to parents and guardians.	**Recommendation 3** The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents' and guardians' information needs – balanced against the costs of collecting and publishing information. This could include: a. considering the frequency, granularity and scope of information submitted by childcare providers and published, to ensure currency and relevance for parents and guardians b. focusing on collecting and publishing information that assists parents and guardians to accurately estimate out-of-pocket expenses and relevant information to assist parents and guardians assess quality factors c. incorporating input and advice from the Behavioural Economics Team of the Australian Government, or other behavioural economist d. ensuring information is appropriately and effectively publicised to parents and guardians.	The ACCC has retained this recommendation largely unchanged, although recommendation 3(b) has been amended slightly to suggest the Australian Government focus on both collecting and publishing information that assists parents to accurately estimate out-of-pocket expenses. We have been advised that the administrators of StartingBlocks.gov.au (the Australian Children's Education & Care Quality Authority) do not have access to and so cannot publish information on session lengths, which is an important piece of information for parents estimating their out-of-pocket expenses.
Draft recommendation 4 The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.	**Recommendation 4** The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.	Recommendation 4 has been retained unchanged as there was strong support for the recommendation from stakeholders and the ACCC's analysis continues to show that workforce shortages are affecting all childcare markets, with effects most pronounced for under-served and unserved markets.

Draft recommendation 5 The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.	**Recommendation 6** The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians. Consideration should be given to identifying alternative approaches for First Nations households to access the Child Care Subsidy (and other childcare entitlements). This should recognise the current lack of flexibility in the system to take account of, for example, kinship care arrangements. It should also recognise and account for the barriers that can exist to stop or inhibit First Nations households engaging with Centrelink or Services Australia, such as practical documentation or evidence barriers and historical and cultural barriers associated with past trauma.	This recommendation has been amended to recognise that the lack of culturally safe spaces is a barrier to First Nations children accessing childcare (see chapter 5).
Draft recommendation 6 A market stewardship role should be considered for both Australian and state and territory governments, in identifying under-served areas and vulnerable cohorts, along with intervention whether through public or private provision. A competitive tender process is one tool that could be used by governments to facilitate delivery in these areas.	**Recommendation 7** A market stewardship role should be considered for government, by both Australian and state and territory governments, to monitor, regulate and shape childcare markets to ensure they deliver government objectives. A key part of this role should be identifying under-served or unserved markets and cohorts of childcare users. The stewardship role should also encompass consideration of appropriate interventions, whether through demand-side subsidies or supply-side subsidies, or a mix, as well as any complementary regulatory measures that may be necessary.	This recommendation has been amended to reflect stakeholder feedback that the market stewardship concept requires further clarification (see chapter 7). The recommendation has also been amended to remove the explicit reference to competitive tendering, reflecting that there are a range of tools governments can use to intervene in markets, and the market steward should determine the most appropriate support mechanisms to apply in local area markets. A single approach is unlikely to deliver on government objectives or meet community expectations (see chapter 7). The recommendation has also been amended to recognise the importance of considering Australia's Disability Strategy, among other things, based on stakeholder feedback on the importance of considering inclusion.

Draft recommendation 7 The ACCC supports further consideration of supply-side subsidies and direct price controls. Some changes to the policy settings are likely to reduce the impact of the hourly rate cap as an indirect price control, and may warrant a shift to direct price controls supported by operating grants for regulated childcare providers.	**Recommendation 8** The ACCC supports further consideration of the benefits and challenges of supply-side subsidies (particularly as a longer term consideration) coupled with other more direct forms of market intervention, as appropriate.	This recommendation has been refined to suggest that, as part of a market stewardship role (for example, for under-served or unserved markets), further consideration be given to the pros and cons of supply-side subsidies coupled with other more direct forms of market intervention, as appropriate (chapter 7). Significant changes to policy settings such as a universal 90% subsidy may also warrant consideration of direct forms of market intervention.
Additional recommendation in the final report		
Recommendation 5 The Australian Government should design policy options to better meet the needs of children and households for whom in home care services are intended to serve.		
Comments This recommendation is based on the additional analysis of in home care services we undertook for our final report and the findings we have made in respect of this sector (see chapter 6).		

Changes to draft findings

Draft finding	Final finding	Comments
Draft finding 1 Labour is the main driver of cost for supplying childcare, accounting for 69% at centre based day care and 77% at outside school hours care. Labour costs have increased significantly for large centre based day care providers over the last 5 years.	**Finding 8** Labour is the main driver of cost for supplying childcare, accounting for 69% of the total costs for centre based day care services and 77% of total costs for outside school hours care services. Labour costs have increased significantly, especially for large centre based day care providers over the last 5 years.	This finding has been retained substantially unchanged. See chapter 1 of the September interim report.
Draft finding 2 Land and related costs are the other significant driver of cost for centre based day care providers.	**Finding 9** Land and related costs are the other significant driver of cost for centre based day care providers.	This finding has been retained unchanged. See chapter 1 of the September interim report.
Draft finding 3 Not-for-profit providers appear to face lower land costs than for profit providers, but these savings are invested into labour.	**Finding 10** Not-for-profit providers appear to face lower land costs than for-profit providers, but these savings are invested into labour for centre based day care services.	We have clarified that for centre based day care providers savings from land costs appear to be invested into labour. See chapter 1 of the September interim report.
Draft finding 4 Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.	**Finding 11** Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and greatest socio-economic advantage.	This finding has been retained unchanged. See chapter 1 of the September interim report.
Draft finding 5 Parents' and guardians' demand for centre based day care is driven by a complex combination of factors. Parents look to prevailing market prices, however informal measures of quality are key considerations.	**Finding 16** Parents' and guardians' demand for centre based day care is driven by a complex combination of factors. Where a choice of services is available, parents and guardians look to prevailing market prices, however informal measures of quality are key considerations.	This finding has been amended to acknowledge that not all households will have a choice in services available. See chapter 2 of the September interim report and chapter 5 of this final report.

Draft finding 6 Providers' supply decisions are influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location.	**Finding 17** Providers' supply decisions are influenced by expectations of viability, which are heavily influenced by demand for childcare in an area. When considering current or expected future demand, the demographics of an area (many of which are related to relative socio-economic advantage) and existing supply are key factors providers take into account.	This finding has been retained, however, additional information has been added to make it clearer that when forecasting viability and making supply decisions, providers consider demand in the context of the particular local market which includes the extent to which there is or is likely to be unmet demand. In making this assessment, demographic factors (particularly socio-economic advantage) and existing supply are key (but not exclusive) factors taken into account by providers. See chapter 2 of the September interim report.
Draft finding 7 Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets.	**Finding 18** Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets. These are more pronounced in regional and remote locations, and impacts are exacerbated for suppliers serving communities or children experiencing disability, complex needs and/or disadvantage.	This finding has been amended to reflect additional insights from waiver usage and waitlist data, which indicates staffing constraints are more pronounced for some areas and cohorts See chapter 5 of this final report.

Draft finding 8 The nature of competition reflects the unique demand and supply factors in childcare markets; price plays a less influential role once households have chosen how much childcare to use and providers compete on quality to attract and retain children and families.	**Finding 19** The nature of competition reflects the unique demand and supply factors in childcare markets. a. For centre based day care, price plays a less influential role once households have chosen how much childcare to use and found available services. Where providers compete to attract and retain children and families, they do so on the basis of quality. b. For outside school hours care, providers compete on price and quality for the opportunity to operate a particular service. Because children generally attend the outside school hours care service attached to their school, parents and guardians choose between using the service (if it has availability and they are happy to pay the service fee) or finding alternative care (such as informal care). c. For family day care, a preference for this type of care is based on its specific service characteristics – including a home-like environment, small number of children cared for and consistency of a single educator. Once a household has decided to use family day care, they will consider similar factors to centre based day care when choosing a service (with location, availability and quality more influential than price). If there is limited availability or parents and guardians are not satisfied with quality of services available, they may consider centre based day care as an alternative. d. For in home care, strict eligibility requirements mean it is only available where other forms of care are not suitable or accessible. Where a household is eligible and a provider is available, price is the primary consideration with households choosing between using in home care at the service price or not using the service at all.	This finding has been amended to reflect the nuanced role that price plays across different types of childcare services. See chapter 2 of the September interim report.

Draft finding 9 On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.	**Finding 12** On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.	This finding has been retained, unchanged. See chapter 3 of the September interim report and chapter 4 of this final report.
Draft finding 10 Occupancy is a key driver of revenue and therefore profits and viability.	**Finding 13** Occupancy is a key driver of revenue and therefore profits and viability.	This finding has been retained, unchanged. See chapter 3 of the September interim report and chapter 4 of this final report.
Draft finding 11 On average, margins are higher: ▪ for for-profit providers of centre based day care than not-for-profit ▪ in Major Cities and more advantaged areas ▪ for services with higher quality.	**Finding 14** On average, margins are higher: a. for for-profit providers of centre based day care than not-for-profit b. in Major Cities and more advantaged areas c. for services with higher quality ratings.	This finding has been retained, unchanged. See chapter 3 of the September interim report and chapter 4 of this final report.
Draft finding 12 The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service.	**Finding 15** The ability to attract and retain staff is a key determinant of perceived quality, which affects the profitability and viability of a service.	This finding has been retained, unchanged. See chapter 3 of the September interim report and chapter 4 of this final report.

Draft finding 13 The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and limiting the burden on taxpayers.	**Finding 25** The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and constraining the burden on taxpayers. The hourly rate cap does not act as an effective signal of high prices. a. For centre based day care, providers consider many other factors when setting daily fees besides the hourly rate cap. These include competitors' prices, households' willingness and ability to pay, and costs, as well as the activity test and households' out-of-pocket expenses. b. For outside school hours care, most services are priced well below the hourly rate cap. Fees are often determined over a longer period of time and defined in licence agreements, and not necessarily re-evaluated each year. As such, the hourly rate cap generally does not have much bearing on provider pricing decisions. c. For family day care and in home care, there is a high share of services charging above the hourly rate cap, which likely reflects the costs of providing these services exceeds the hourly rate cap.	In this environment we consider that there is limited scope for the existing price regulation mechanisms to put downward pressure on prices. As such, this finding has been retained but additional details have been included on the impact of the hourly rate cap for each service type. The ACCC acknowledges feedback from stakeholders that: ▪ there is limited scope for services to charge lower fees given cost increases and that we have found no evidence of widespread excessive profits, and that . ▪ we cannot rely on competition (a key tenant of the existing price regulation mechanisms) to constrain prices in a market where there are increasing costs and price is not the primary determinant of household's decisions. to provide further explanation of how it relates to each service type. See chapter 2 of this final report and chapter 4 in the September interim report.
Draft finding 14 Childcare providers are optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.	**Finding 26** Centre based day care providers are often optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.	This finding has been clarified to confirm it is only applies in respect of centre based day care. The ACCC also acknowledges feedback that this optimisation can benefit both households and considers this is clear in the finding. See Chapter 4 of the September interim report.
Draft finding 15 The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.	**Finding 27** The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.	This finding has been retained unchanged. See chapter 4 of the September interim report.

Draft finding 16 More information is important for parents and guardians, yet the comparator website StartingBlocks.gov.au is not widely used by parents and guardians and can contain outdated information.	**Finding 28** The website StartingBlocks.gov.au is not widely used by parents and guardians. It relies on services to provide information and this information can be out of date or not supplied. The website administrator, ACECQA, does not receive data on session length so cannot publish the session length on the StartingBlocks website. This significantly limits parents' and guardians' ability to estimate out-of-pocket expenses and easily compare fees between services.	This finding has been amended to reflect that the Australian Children's Education & Care Quality Authority, that administers StartingBlocks.gov.au updates the site daily, however the accuracy of fee and vacancy on the website relies on the provision of this information by services and providers. See chapter 4 of the September interim report.
Draft finding 17 Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.	**Finding 29** OECD data indicates centre based day care in Australia from 2018 to 2022 was relatively less affordable for households than in most other OECD countries.	This finding has been amended to include additional information on the OECD data source. See chapter 7 of this final report.
Draft finding 18 Many OECD countries are moving toward greater regulation of childcare fees such as low fees or free hours for parents and guardians, supported with supply-side subsidies to cover providers' costs of provision.	**Finding 30** There appears to be a trend across OECD countries towards supply-side subsidies to cover providers' costs of provision.	This finding has been amended to reflect the broad range of countries covered by the OECD data source. See chapter 7 of this final report.

Additional findings in the final report

Finding 1

Childcare services in Australia provide education, care and developmental support to a diverse range of children and households in significantly different locations and situations (see chapters 1 and 7 of this final report).

Finding 2

Childcare markets under current market settings are not delivering on accessibility and affordability for all children and households across Australia (see chapter 2 of the September interim report and chapters 5 and 7 of this final report).

Finding 3

Childcare markets in Australia can broadly be described as adequately served, under-served and unserved (see chapter 7 of this final report).

Finding 4

A single approach to government regulation and intervention ('one size fits all') is unlikely to deliver government objectives or meet community expectations across all childcare markets in Australia (see chapter 7 of this final report).

Finding 5

Childcare services and government support and regulation (across different levels of government) are highly interconnected. A change to one aspect of the system can have wide-ranging impacts across the sector. Issues and policy responses cannot be considered in isolation and must be assessed across the whole childcare sector (see chapter 1 and 7 of this final report).

Finding 6

Childcare fees across all services have grown faster than inflation and wages since the introduction of the Child Care Subsidy (see chapter 3 of this final report).

Finding 7

Outside school hours care licence agreements likely constrain fee growth (see chapter 3 of this final report).

Finding 20

The numbers of family day care services and in home care services have reduced significantly across Australia since 2018 (see chapter 6 of this final report).

Finding 21

Reductions in the number of family day care services has a disproportionate impact on culturally and linguistically diverse households and on households in less advantaged areas (see chapter 6 of this final report).

Finding 22

There is little financial incentive for family day care and in home care educators to enter or remain in the sector, as effective wages are below comparable award rates for other forms of childcare (see chapter 6 of this final report).

Finding 23

The level of funding under the hourly rate cap for in home care is inadequate. The family day care hourly rate cap is also unlikely to be sufficient to adequately cover costs and recompense educators (see chapter 6 of this final report).

Finding 24

The in home care sector is unlikely to appropriately serve all the children and households it is intended to (see chapter 6 of this final report).

Finding 31

As a condition of supply-side funding, some Australian states and territories are requiring providers not to increase fees more than is reasonably necessary, and imposing reporting and monitoring requirements (see chapter 7 of this final report)

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