



Childcare inquiry

Interim report

June 2023



Acknowledgement 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
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This ACCC issued a list of errata on 22 September 2023. This report has been revised to reflect those amendments.

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Glossary

Activity test	An assessment of the combined hours of work, training, study, recognised voluntary work or other recognised activity undertaken by a parent (or 2 parents in a two-parent household). The activity test is used to determine the number of hours of subsidised childcare a household is entitled.
Additional Child Care Subsidy	A payment that provides targeted fee assistance to households and children facing barriers in accessing affordable childcare in certain circumstances.
Approved childcare places	The maximum number of children the service can legally provide care for at any one time. This is reported by ACECQA for centre based day care and outside school hours care services. Family day care approved places are ordinarily determined at the educator (rather than service) level and are excluded unless otherwise indicated. Excludes In home care.
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.
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.
Daily fee	A calculation of the daily fee charged for childcare services. This is calculated by dividing total fees charged by the total number of days within a period.
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.
Greater Capital City Statistical Areas (GCCSAs)	Geographic areas built to represent the functional area of each of the 8 state and territory capital cities which includes populations

	who regularly socialise, shop or work within the city, but may live either in the city or in the small towns and rural areas surrounding the city.
Hourly fee	A calculation of the hourly fee charged for childcare services. This is calculated by dividing total fees charged by the total number of hours within a period.
Hourly rate cap	The hourly rate cap places an upper limit on the amount of Child Care Subsidy the Australian Government will subsidise for each hour of care. Any fee amount charged above the rate cap is not eligible for a subsidy.
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 an

	approved service for the purposes of CCS, 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
Quality Improvement Plan	A document created by a provider to help self-assess their performance in delivering quality childcare services.
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	A calculation of the session fee charged for childcare services. This is calculated by dividing total fees charged by the total number of sessions within a period
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.
Subsidised hours	The number of childcare hours eligible for government assistance, to help households with the cost of childcare.

Acronyms

ACCS	Additional Child Care Subsidy
ASGS	Australian Statistical Geography Standard
CCB	Child Care Benefit
CCR	Child Care Rebate
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

Overview

Introduction

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

Children can benefit from childcare by being educated and cared for in a safe environment, which supports their early development. For parents and guardians, being able to access affordable childcare enables them to work, volunteer, train or study.

This report is the ACCC's first interim report as part of our inquiry into childcare services.

It focuses on prices, supply and demand for childcare and an initial examination of the impact of the Child Care Subsidy.

The Treasurer directed the ACCC to inquire into 4 different childcare services, each of which are eligible for the Child Care Subsidy – centre based day care, family day care, outside school hours care and in home care. Preschools and informal care by friends and relatives are not within the scope of this inquiry.

Our inquiry is being informed by an extensive amount of data regarding the costs of providing childcare services from large, medium and small providers. We are currently collating, checking and analysing this database of childcare costs. This is the first time an extensive and detailed set of cost information has been collected for the Australian childcare sector.

This cost information is a vital input into better understanding the childcare sector from a household, provider and educator perspective. The ACCC has been directed to examine and report on prices, costs and profits in the childcare market, which will help inform government decisions on the effectiveness of government support and policies to provide childcare for Australian children and households.

We have collected cost and other information from childcare providers on both a compulsory and voluntary basis. We will report on costs information and our analysis of it in our September 2023 consultation paper, and our final report due to the Treasurer by 31 December 2023.

Childcare services in Australia

During 2022, an estimated 1.09 million children aged 5 and under and 655,000 children aged 6–13 attended a childcare service. This represented 60% of all 0–5 year old children and 25% of all 6–13 year old children in Australia.

While the number of approved childcare places has increased by 17% between 2018 and 2022, this increase has not been consistent across all services nor all geographic regions in Australia.

Centre based day care and outside school hours care make up 97% of all childcare services. The number of these services has increased since 2018, while the numbers of family day care and in home care services have decreased. The decline in family day care and in home

care services is likely to impact households in vulnerable situations and areas disproportionately, because they rely more on these care types than other households.

This interim report finds that 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 around 2 kilometres, and is shortest in Sydney and Melbourne (Major Cities include localities within capital cities and other major population centres like Wollongong and Mount Barker, for example). In Inner Regional and Outer Regional Australia, parents and guardians travel slightly further.

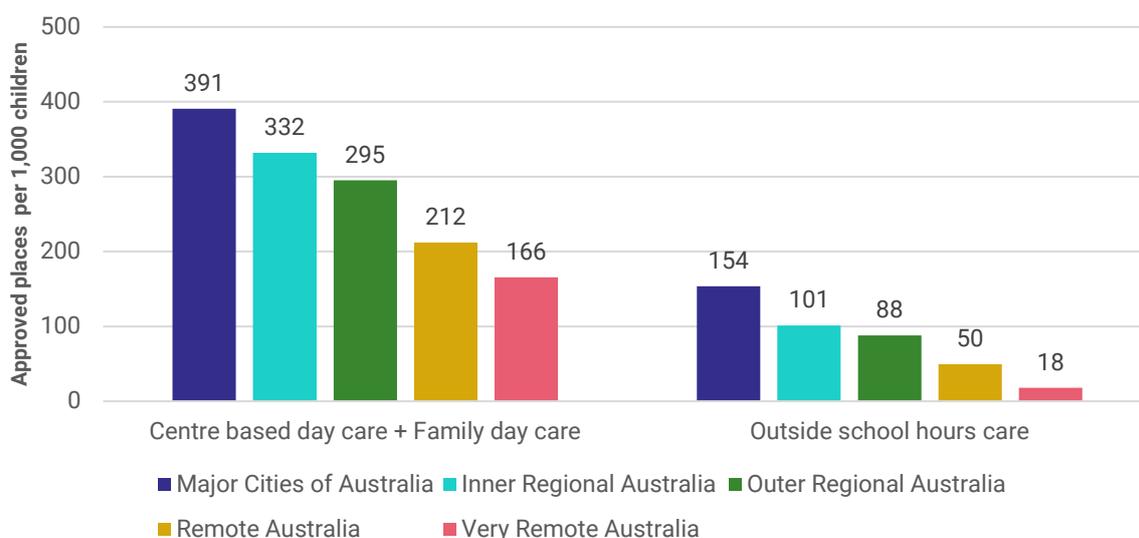
The median distance parents and guardians travel in Remote and Very Remote Australia is shorter, likely reflecting that towns are small and with large distances in between: children either attend a service in town or not at all.

Centre based day care services typically compete within a 2 to 3 kilometre radius, and the median number of centre based day care operators with each 2 to 3 kilometre radius is 5 to 10.

Most outside school hours care services are associated with a primary school, with sessions of care provided on the school premises to children who attend that school.

We also found that there are more childcare places available per child, on average, in Major Cities, with the number of available places reducing the more remote an area (figure 1).

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



Source: ACCC analysis of ACECQA and Department of Education administrative data.

This interim report has also examined the mix of different childcare services by a local area's relative level of socio-economic advantage and disadvantage.

The mix of centre based day care, outside school hours care, family day care and in home care differs by the socio-economic characteristics of an area. The more advantaged an area, the higher the share of outside school hours care; the less advantaged an area, the higher the share of family day care.

Also, as an area's socio-economic advantage increases, the share of children who are enrolled in childcare more generally tends to be higher.

Factors influencing parents and guardians' choice

For many households childcare is a necessity.

Preliminary results from a voluntary survey of parents and guardians undertaken by the ACCC for this inquiry suggest that affordability is the most important first consideration for households when deciding how much formal childcare to use.

Access to the Child Care Subsidy helps many households afford some childcare. However, to be eligible for the Child Care Subsidy, households must be undertaking approved activities including working, studying or volunteering. This requirement may exclude or limit some households from accessing and/or using more childcare services.

Childcare markets appear unlike markets for other essential services, such as electricity, telecommunications and transport, which offer substantially the same product to users and compete on price.

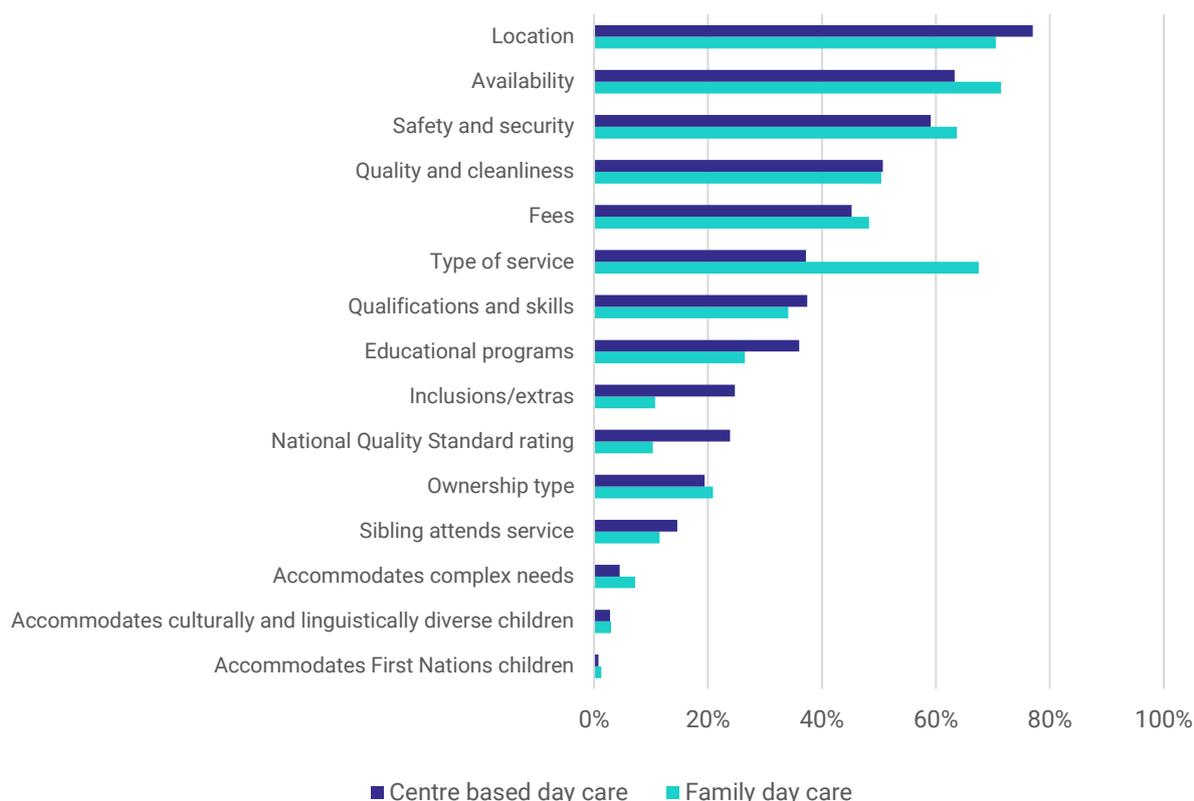
It appears that competition in childcare emerges more substantively through non-price factors and service differentiation than price.

Once households have decided how much childcare they can afford to use, parents and guardians appear to focus on considerations other than price when choosing a specific service.

Parent and guardian choice seems to be focused on location, availability, safety and security and connections with educators. This is understandable – parents and guardians want to know their child is safe and well cared for and they may not necessarily seek the lowest price in the market.

Location is the most common consideration when parents choose formal childcare. Most parents and guardians told us they want a childcare service close to home and the maximum time most were willing to travel was up to 15 minutes. Availability, safety and quality were factors more commonly considered than price for centre based day care. Fees were the 5th or 6th most commonly considered factor, depending on the childcare service in question (figure 2).

Figure 2: Parent and guardian considerations when choosing childcare – preliminary results from ACCC parents and guardians survey



Source: ACCC voluntary parents and guardians survey.

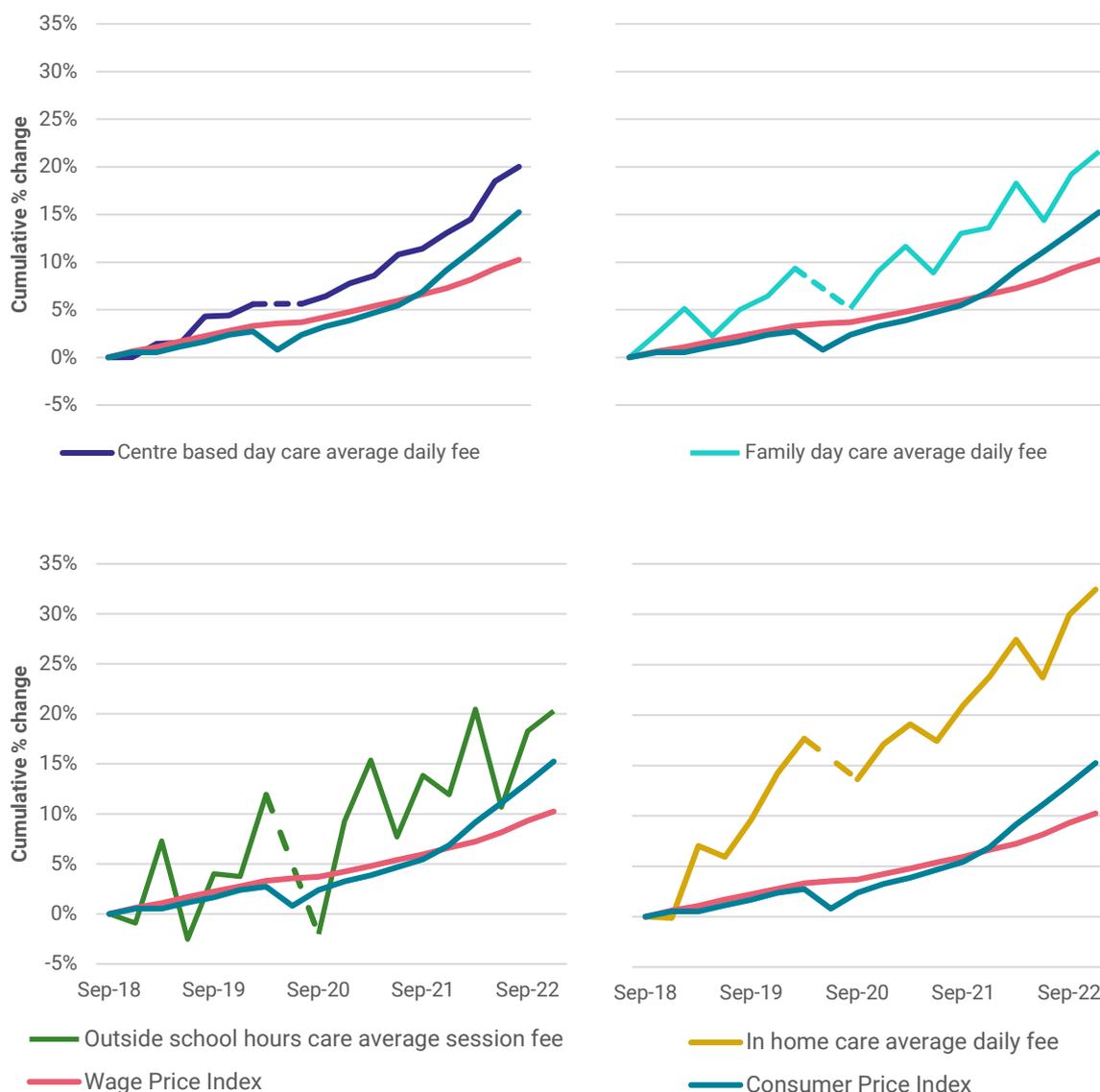
Recent developments in childcare fees

Over the period from 2018 and 2022 childcare fees in Australia increased across all services by between 20% and 32%. When adjusted for inflation, these increases were 4% for centre based and outside school hours care, 6% for family day care and 15% for in home care services (figure 3).

In nominal terms, since 2018 the national average fee for:

- centre based day care increased by about \$21 per day
- family day care increased by about \$16 per day
- outside school hours care increased by about \$5 per session
- in home care increased by about \$74 per day.

Figure 3: Childcare fees are rising – cumulative growth in average daily or session fee, September quarter 2018 to December quarter 2022



Note: Data for average daily fee is not available for June quarter 2020 due to COVID. Non-linear changes reflect the seasonal nature of prices for some services.

Source: ACCC analysis of ABS and Department of Education administrative data.

This interim report has also examined developments with respect to the average daily fees:

- paid by households, according to their estimated income
- by state and territory, and by remoteness
- by the number of childcare service providers in a local area
- by National Quality Standard ratings
- by the size of childcare service providers.

Our early analysis of Department of Education administrative data suggests that while households in Major Cities and Inner Regional and Outer Regional Australia have more childcare places and providers available to them, this may come with higher prices.

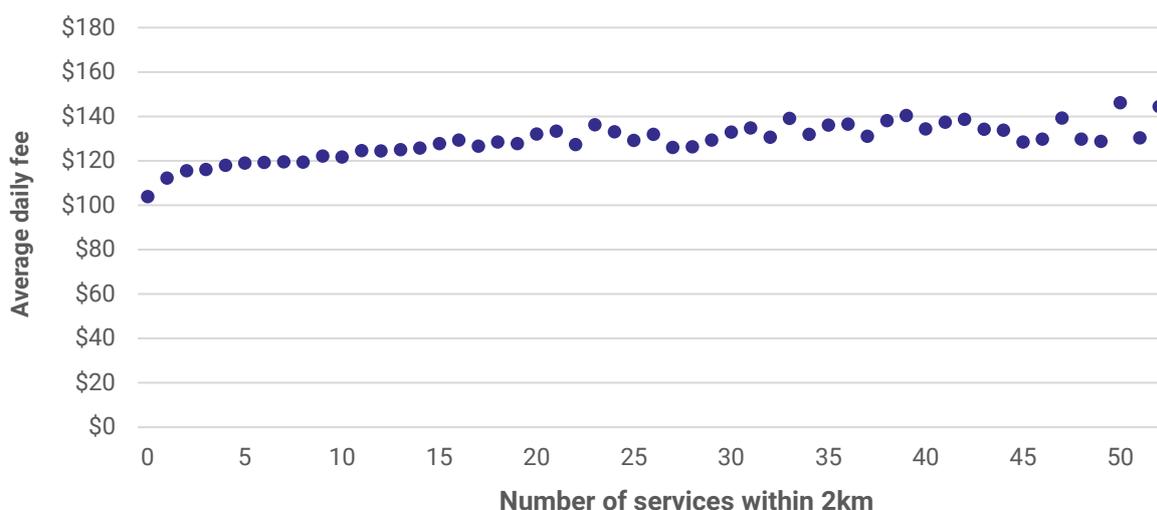
Households with higher estimated income or located in areas of greater socio-economic advantage tend to pay higher average fees for care for children aged 0–5 (that is, centre based day care and family day care). There is less variation in average fees for outside school hours care across different income levels or socio-economic advantage, however.

This trend also plays out to some degree when we examine average prices by relative geographic remoteness (which typically corresponds with income levels and socio-economic advantage), although there are also differences between states and territories and between services. Average fees for centre based day care are highest in Major Cities (where fees are lowest for family day care).

We have also observed that there are higher average fees for centre based day care services where there are more providers of these services (figure 4). This is contrary to conventional economic theory but may reflect a range of factors, for example, that there are more providers in these areas because of relatively higher household income and socio-economic advantage, with a greater capacity to pay high childcare fees.

Fee variations within a small localised market may also be smaller than differences in fees between different localities with different levels of socio-economic advantage. It would also be consistent with competition occurring on the basis of location, quality and other non-price terms and conditions, as suggested by the results of our parents and guardians survey.

Figure 4: Average daily fee for centre based day care services by number of services within 2km, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Our analysis shows that across all geographic and socio-economic areas, for-profit centre based day care service providers charge higher average hourly fees compared to not-for-profit service providers.

We can also see that across all geographic and socio-economic areas, large centre based day care providers charge higher average fees than small and medium sized providers. In centre based day care there is also a general trend for services with higher quality ratings (under the National Quality Standard) to charge a higher fee but the difference is very small. There is little difference in fees between services with different quality ratings for family day care or for outside school hours care services.

Factors considered by providers in setting childcare fees

We have conducted a preliminary scan of the factors childcare providers consider when setting fees, based on the factors they have identified to us as affecting these decisions.

These are broadly consistent with indications that competition in childcare services markets is predominantly on location and perceived quality.

The positive association between areas of socio-economic advantage and price, along with anecdotal information from our outreach activities with childcare providers suggests that prices are often set by providers having regard to the parent and guardian cohort's capacity (or willingness) to pay rather than the level of competition.

How price varies across different factors may also be highly dependent on the underlying costs of providing childcare services in different areas and for varying qualities of service, which could explain the price variations that we have observed. For example, land and rental costs might be higher in more expensive locations within Major Cities. Our analysis of cost information over the rest of the inquiry will be critical to better understanding childcare markets.

Through further analysis of prices and costs, we will also better understand the relationship between prices and both childcare provider size and the profit/not-for-profit status of the childcare provider.

Generally, providers have said they consider the prices of nearby competitors and will match those of a competitor, as well as having regard to:

- location of the service
- operational costs and inflation
- staff wages and superannuation costs, and whether to offer higher wages to attract and retain qualified staff
- demand from parents and sensitivity to price points
- the minimum occupancy levels needed to cover costs and encourage attendance
- prices of competing services in the area and any fee changes.

For-profit providers may also seek to maintain profitability and consider the 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 (for example, 2 to 5 years), and there are some limitations on price increases set under state regulatory arrangements.

Similarly, family day care services typically employ educators as independent subcontractors, and each educator typically sets the fees paid by parents and guardians. Family day care services also typically charge a levy to help meet the operating costs of administering the service.

Out-of-pocket expenses: the impact of rising childcare fees and subsidies on households

Once a parent or guardian determines how much childcare to use (if any) and identifies a childcare service based on location and sense of quality, the price they pay varies across

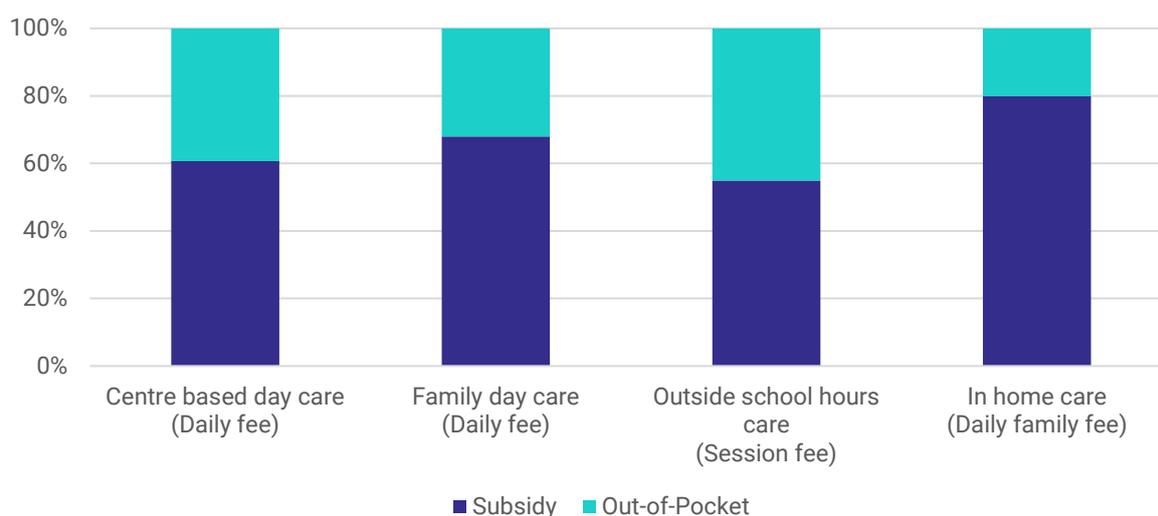
many factors. In turn each household's income, childcare needs and available subsidised hours can affect their out-of-pocket expenses.

The Australian Government subsidises the price of childcare for households through the Child Care Subsidy and the Additional Child Care Subsidy. The total subsidy is paid directly to the childcare service provider, leaving the household with a gap fee to pay. This is referred to as the out-of-pocket expense and represents the 'true' price that households pay for childcare.

Our analysis shows that the subsidy is a higher share of the total fee than the out-of-pocket expense across all services (figure 5). In the December quarter 2022, the national average fees (and estimated out-of-pocket expenses) were:

- \$123.64 per child per day for centre based day care (\$48.60 out-of-pocket)
- \$90.23 per child per day for family day care (\$28.92 out-of-pocket)
- \$30.00 per child per session for outside school hours care (\$13.54 out-of-pocket)
- \$301.42 per family per day for in home care (\$60.69 out-of-pocket).

Figure 5: Average subsidy and out-of-pocket expense as a share of total fee per day or session, December quarter 2022



Note: We have calculated the average subsidy, using data about the Child Care Subsidy and the Additional Child Care Subsidy, excluding the 5% of Child Care Subsidy withheld.

Source: ACCC analysis of Department of Education administrative data.

As noted above, childcare fees have been rising over the 4 years from September 2018 to December 2022. This rate of increase has been faster than inflation and faster again than wage increases.

However, childcare out-of-pocket expenses for households are growing at a slower rate. After subsidies, the out-of-pocket expenses increased 7% for households using centre based day care services and 15.8% for households using family day care. In home care experienced a decrease of 10.5% due to a change in subsidy entitlements in early 2019 but increased 15.7% from September 2019 to December 2022.

For outside school hours care, the average session out-of-pocket expense increased by 12.3%.

Out-of-pocket expenses and affordability

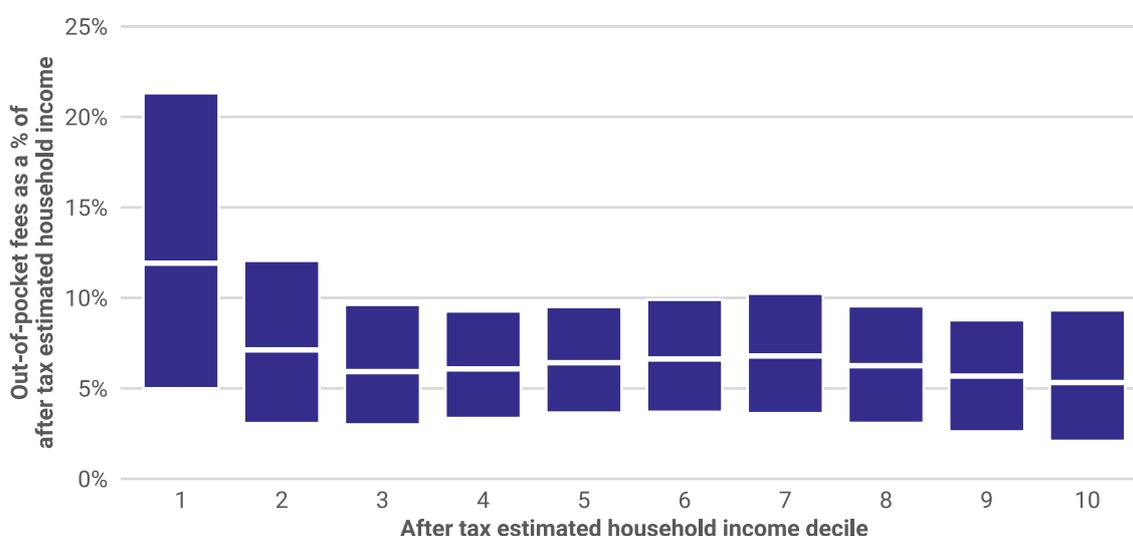
In preparing this analysis the ACCC acknowledges the average fees and expenses presented may mask the significant variation in what different households pay. We find that prices of childcare services vary depending on the location, provider size and for-profit or not-for-profit status.

We also recognise that each household uses childcare differently and that even when 2 households use and pay the same daily fee for a childcare service, they may be entitled to different subsidies, as subsidies are determined by household income. The daily session length, hourly rates and how many subsidised hours a household is eligible for also influence the subsidy amount.

To better understand the impact of childcare fees on different households, we have estimated households' out-of-pocket expenditure on childcare, grouped by income decile.

Critically, our analysis shows that the cost burden is felt most by households that are already facing disadvantage. Using a 'typical' sample fortnight, our analysis shows households with the lowest incomes spent a greater share of their disposable income on childcare than other Australian households (figure 6). And in our voluntary parents and guardians survey, households who face out-of-pocket expenses that they consider burdensome told us they have had to limit their use of childcare. That in turn reduced the amount of time they had for work, study or other activities relevant to their participation in the workforce.

Figure 6: Childcare out-of-pocket expenses as a share of disposable income, by after tax estimated household income decile



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

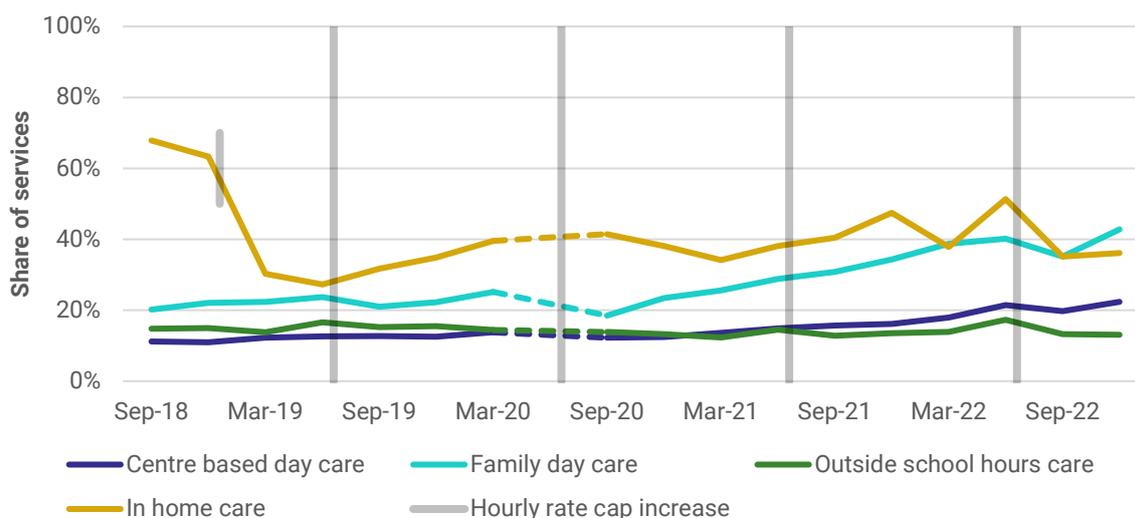
Source: ACCC analysis of Department of Education administrative data.

The hourly rate cap sets the maximum fee at which the Australian Government subsidises childcare. The share of any fee amount charged by a provider which exceeds the rate cap is not subsidised.

We have found that since 2018, the number of family day care and centre based day care services charging above the hourly rate cap has approximately doubled (figure 7).

The share of hours charged over the hourly rate cap has also increased since 2019.

Figure 7: Share of services with an average hourly fee above the hourly rate cap



Note: Vertical lines represent where the hourly rate cap has been increased. The first hourly rate cap increase occurred from January 2019 and only applied to in home care in recognition of the high fees in that sector.

Source: ACCC analysis of Department of Education administrative data.

Session length is also an important influence on a household’s subsidy entitlement. Longer sessions may have a lower hourly rate but this can reduce the number of actual attended hours where the household is eligible for subsidised care.

Our preliminary analysis indicates that on average children attend care for fewer hours than parents are charged for (with the exception of in home care services) and that this is most pronounced for longer sessions of centre based care. For example, a significant number of households are charged for 10–12 hour sessions while the child only attends for 8–9 hours of each session. However, while there has been an increasing number of charged hours per child enrolled in childcare, actual hours attended have remained stable, or fallen.

From 10 July 2023, the maximum subsidy rate will increase from 85% to 90% and the maximum household income to receive the Child Care Subsidy will increase from \$356,756, to \$530,000.

This may change the relative financial burdens of different households and socio-economic groups but will require careful monitoring and reporting to ensure that the benefits of additional subsidy are both passed on and not eroded over time.

Next steps for this inquiry

The ACCC has been working with childcare providers to obtain detailed cost information to better understand the drivers of childcare prices and how the local markets for childcare services operate.

We will continue our detailed analysis of the sector and will publish a consultation paper around the end of September 2023, including potential draft findings and recommendations. This consultation will include a specific call for submissions from all parties.

Key areas for close examination for the remainder of the Childcare Inquiry include:

- Cost analysis and comparison by geographic location, type and size of provider, type of service, age and characteristics of the child, number of providers and by quality.
- Further analysis of childcare fees charged since 2018 and how these have changed following changes in childcare policy settings.
- The effectiveness of existing price regulation mechanisms, including how various parts of the Child Care Subsidy program interact. We will seek to include an initial examination of incoming Child Care Subsidy changes that will commence in July 2023.
- The viability, quality and profits of childcare providers.

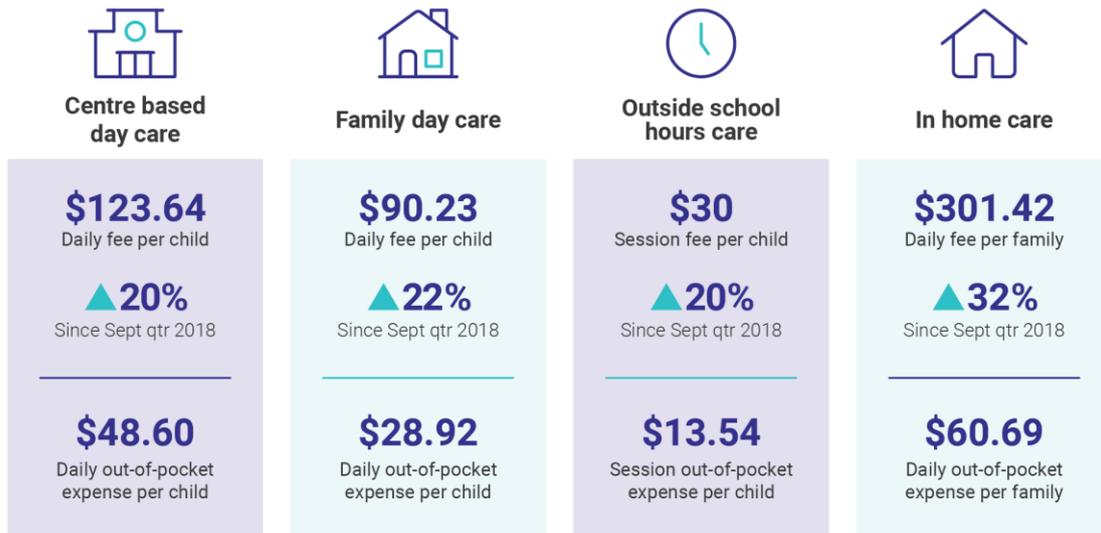
We will also host roundtables throughout August and September 2023 with invited stakeholders representing:

- families, parents and those who care for children
- childcare educators and workforce participants
- First Nations peoples
- people from culturally and linguistically diverse communities
- the in home care sector and people who have children with disability or complex needs.

The feedback we receive from our consultation paper and roundtables will inform the findings and recommendations in our final report, which will be provided to the Australian Government by 31 December 2023.

Key price and availability highlights

NATIONAL AVERAGE FEES AND OUT-OF-POCKET EXPENSES DECEMBER QUARTER 2022



 On average, the daily fee of large providers of centre based day care is

 **9%** higher than medium providers

 **11%** higher than small providers

 On average, the daily fee of for-profit providers of centre based day care is

 **7%** higher than not-for-profit providers



Around 1 in 5 centre based day care services charge above the hourly rate cap

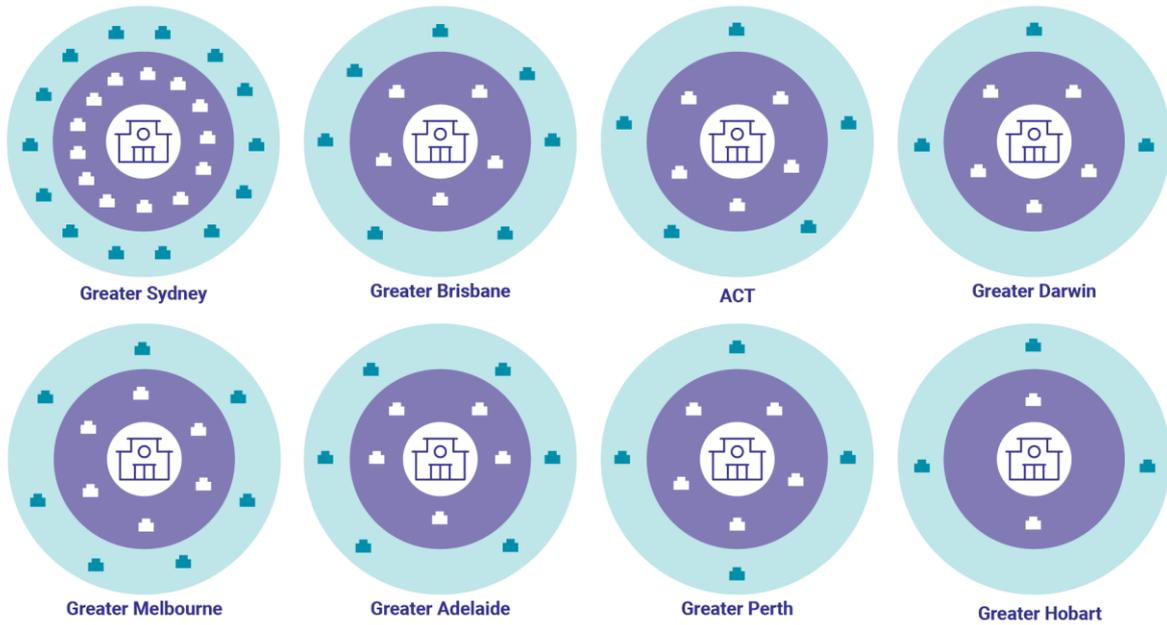


Around 2 in 5 family day care services charge above the hourly rate cap

2x

The number of family day care and centre based day care services charging above the hourly rate cap has doubled since 2018

**MEDIAN POSSIBLE COMPETITORS WITHIN 2 AND 3KM
OF A SERVICE, CENTRE BASED DAY CARE
2022**



1. Introduction

Key points

- Childcare plays a fundamental role in supporting children’s development, while allowing parents and guardians to return to work or do other activities, including training and studying.
- Most households use childcare at some point in their lives.
 - During 2022, about 1.09 million children aged 5 and under and 655,000 children aged 6–13 attended a childcare service. This represented 60% of all 0–5 year old children and 25% of all 6–13 year old children in Australia.
- The ACCC has been asked to examine 4 formal childcare services – centre based day care, family day care, outside school hours care and in home care.
 - Preschool and kindergartens also play an important role in children’s education prior to attending school. Although they can complement, and in some cases be used as a substitute to childcare, they are not in the scope of this inquiry.
- The types of childcare services used can vary depending on the characteristics of the child.
 - Centre based day care and family day care are generally attended by younger children, and outside school hours care by older children.
 - The share of First Nations children in childcare is less than the share of all children across the Australian population attending childcare.
 - Children in a home where a language other than English is primarily spoken are relatively more likely to be represented in family day care than other childcare services, compared to children across the total Australian population.
- ACCC analysis indicates that households are paying for more enrolled hours than they are using. There has been an increasing number of charged hours per child enrolled in childcare, but actual hours attended have remained stable, or fallen.
- There is a dual regulatory framework for childcare service providers.
 - State and territory governments are responsible for ensuring providers meet the national standards for children’s safety, health and wellbeing and educational outcomes.
 - The Australian Government administers the Child Care Subsidy.
- Total Australian Government funding for childcare services was more than \$10 billion in 2021–22, or \$7,715 per child, with most of this associated with the Child Care Subsidy. Other levels of government also provide some funding to support childcare and preschool services.
- The ACCC has been asked to examine the costs and prices of childcare services since 1 January 2018, including by characteristics of children and providers.
 - This interim report focuses on prices, with a consultation paper and final report to include more detailed focus on cost drivers and the effectiveness of price regulation mechanisms.

1.1. What the ACCC has been asked to do

On 28 October 2022 the Treasurer, the Hon. Jim Chalmers MP, directed the ACCC to conduct a price inquiry into the market for the supply of childcare services. This direction (at Appendix A) requires the ACCC to consider the costs incurred and the prices charged by providers, since 1 January 2018. This includes 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.

The ACCC was also asked to examine how these factors affect the market for childcare and providers' profits, quality and viability and the effectiveness of current price regulation mechanisms. These will be examined in detail in a consultation paper in September (see section 1.5).

1.2. The significance of childcare

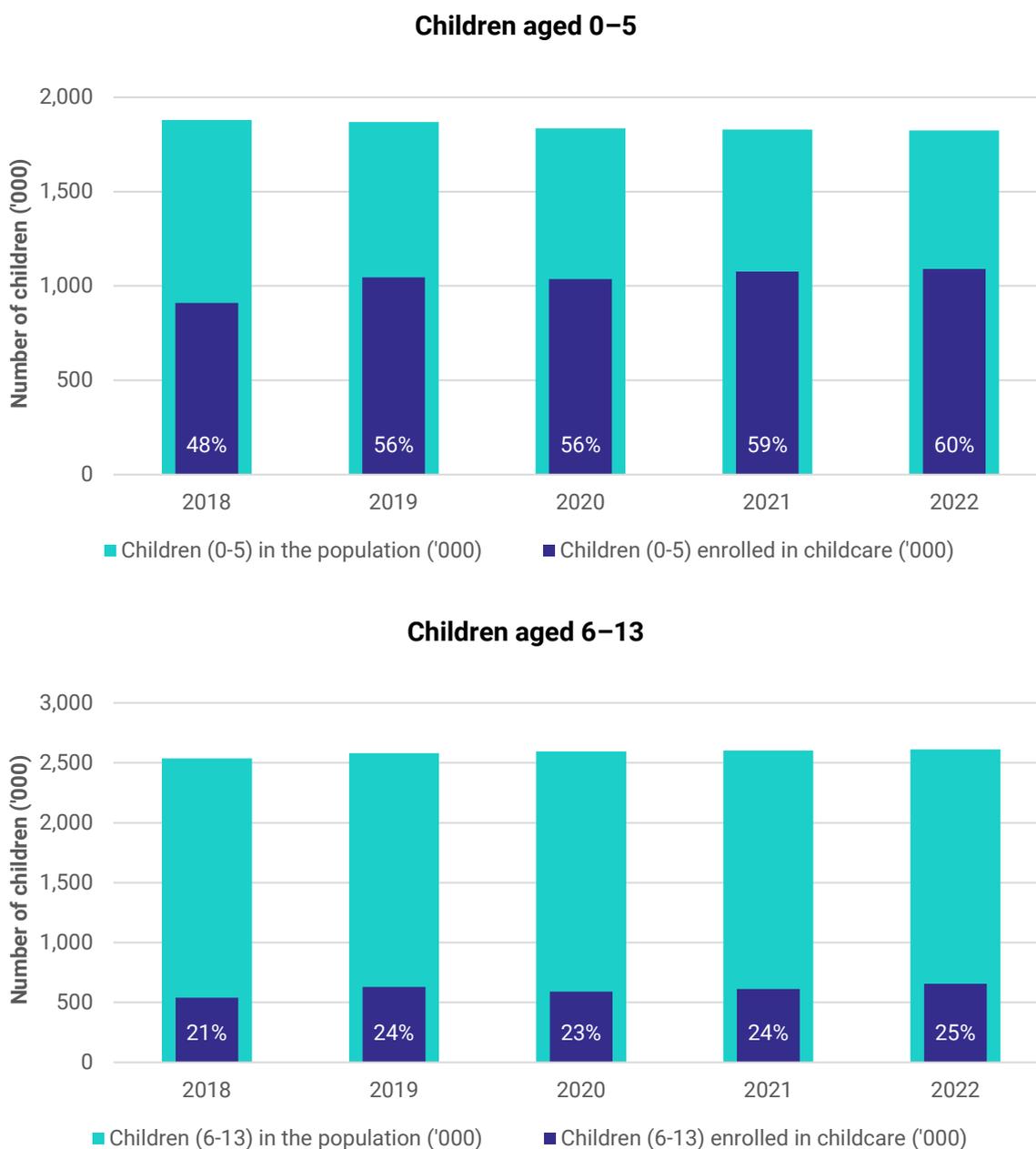
1.2.1. Growth in the use of childcare

Most households use childcare at some point in their lives. Childcare plays an important role in Australian society, by supporting children's development and allowing parents and guardians to work or undertake other activities like volunteering, studying or training.

While Australia's population has grown in recent years, the number of younger persons remained relatively unchanged between 2018 and 2022. In 2022 about 60% of children aged 0–5 and 25% of children aged 6–13 used childcare services at some point during the year (figure 1.1). This represents a slight increase in the share of children attending childcare since 2019.¹ In addition to childcare, many parents and guardians might choose to enrol their children in stand-alone preschools, which are not reported on in the analysis in this report and are out of scope for this inquiry (section 1.3).

¹ Data for 2018 are not comparable to other years – see notes to figure 1.1.

Figure 1.1: Children enrolled in childcare throughout the year – number and share of population

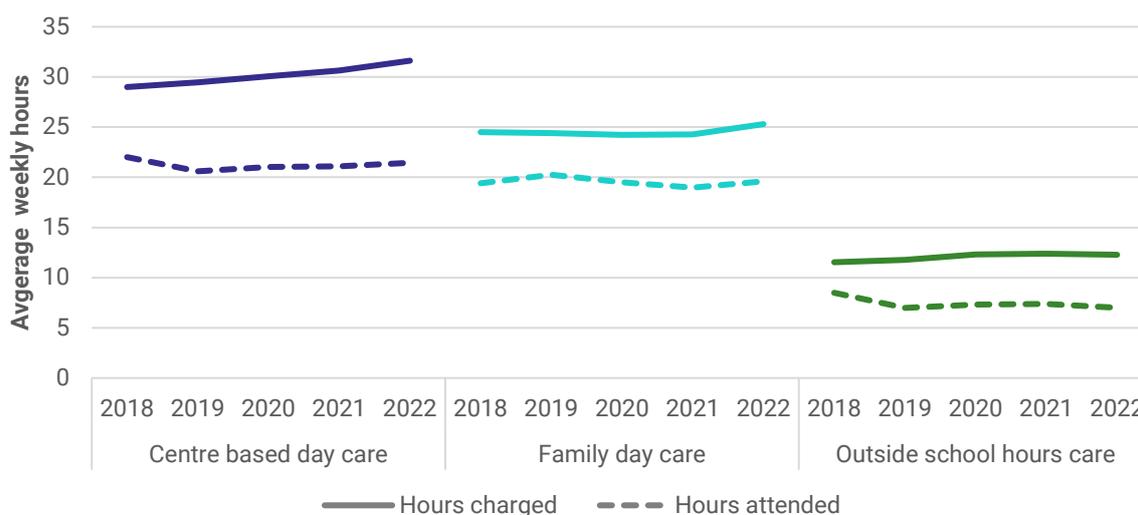


Note: 2018 enrolment data are only available for 6 months (June to December 2018). As such, this annualised figure is not comparable with other years. Population data are based on 3rd quarter 2022.

Source: ACCC analysis of ABS and Department of Education administrative data.

The number of charged hours per child enrolled in childcare, particularly for centre based day care, has been increasing. However, actual hours of attendance (how much of the enrolled time a child spent in care) has remained stable or fallen (for outside school hours care) (figure 1.2). This suggests that households are paying for more enrolled hours, but not always using them. We note that this may reflect the value households place in having the flexibility of being able to use differing amounts of childcare or particular start and finish times within a broad range to suit their needs on a day-to-day basis. The ACCC will investigate this further for our next report.

Figure 1.2: Average weekly hours in childcare – charged hours and attendance



Note: 2018 data is only available for 6 months (June to December 2018) and not comparable with other years. No data is available for June quarter 2022, see Box 1.6 for more information.

Source: ACCC analysis of Department of Education administrative data.

1.3. Types of care examined in this inquiry

Childcare providers must be approved by the Australian Government to administer the Child Care Subsidy. There are 4 childcare services that providers may deliver, which the ACCC is tasked to examine in this inquiry:

- centre based day care
- outside school hours care
- family day care
- in home care.

These have different features, as outlined in box 1.1.

Box 1.1: The different types of childcare services

Centre based day care

Care is usually based in a centre and primarily for children aged between 0 and 6 years. Centres typically have sessions of at least 9 hours per day, but some provide shorter hours of care (section 5.2.1). The most common session length is 10 hours. Centres may also offer integrated preschool programs (but they are not required to).

The maximum number of children allowed to enrol at a centre is dependent on the size of the centre and outdoor play area. Children of similar ages are typically grouped into the same room. There are minimum educator-to-child ratios (see table 1.1), which vary by the age of the children being educated and cared for. Some ratios also vary across jurisdictions.

Table 1.1: Educator to child ratios in centre based day care, by age and jurisdiction

Age of children	Educator-to-child ratio	Where requirement applies
Birth to 24 months	1:4	In all states and territories
Over 24 months and less than 36 months	1:4	Vic
	1:5	NSW, Qld, WA, SA, Tas, ACT, NT
36 months up to and including preschool age	1:10	NSW, WA, Tas (except preschool)
	1:11	Vic, Qld, SA, ACT, NT
	2:25 for children attending a preschool program	Tas
Over preschool age	1:11	ACT
	1:13 (or 1:10 if preschool children are in attendance)	WA
	1:15	NSW, Vic, Qld, SA, Tas, NT

Source: ACECQA, [Educator to child ratios](#), accessed 8 June 2023.

Family day care

Care is provided by an individual educator and is typically provided in the educator's own home. Care is provided for a small number of children, compared to centre based day care. An educator cannot educate and care for more than 7 children at any one time. Furthermore, care may be provided for no more than 4 children who are of preschool age or below.

Generally, individual family day care educators are self-employed. However, they must register with a family day care service provider. The service provider oversees a number of individual educators (there must be at least one service co-ordinator for every 15 educators if the service provider is new, and one service co-ordinator for every 25 educators if the service provider has been established for more than a year).

Outside school hours care

These services offer short sessions of care, immediately before and/or after school hours, and/or longer sessions during school holiday periods. They are focussed on the developmental and supervisory needs of school-aged children.

There are no national educator-to-child ratio requirements for educators caring for school age children. Instead, state and territory specific provisions apply. All jurisdictions adopt a 1:15 ratio, except for Western Australia (1:13) and the ACT (1:11).

In home care

This care is for children for whom other forms of care are not suitable or accessible. This may arise where households have challenging or complex needs or because parental working arrangements are outside of normal childcare hours, or due to geographic isolation including rural and remote areas. Unlike other forms of care, subsidies are not paid on a per hour or per child basis, meaning in home care is not directly comparable to other types of care across these factors.

Source: NSW Government legislation, [Education and Care Services National Regulations \(2011 SI 653\)](#), s 122 to 128, accessed 8 June 2023.

There were more than 14,000 childcare services that provided care in 2022, and informal childcare support is also used by many households. The number of childcare services has grown by more than 10% in the past 4 years (section 2.2.1).

There are many small providers (operating 1 to 5 services), but also some larger providers, some of which manage over 100 services. And some providers operate more than one type of service (for example, both centre based day care and outside school hours care).

Childcare services can be provided by a range of different entities, including for-profit, not-for-profit and government operated entities. State and territory government entities are carved out of the Treasurer's direction for this inquiry, however, some state and territory operated childcare providers have volunteered information to the inquiry to inform our assessment of competition in relevant markets for childcare services.

Most childcare services are centre based day care (about 9,000), followed by outside school hours care (about 5,000). Across all services, most are operated by for-profit providers. Outside school hours care services are comprised mainly of larger providers, whereas other services are mainly provided by smaller providers.

Households can use a variety of childcare services, and other types of care. Childcare usage will depend on both a household's preferences and the availability of care. A household's decision to use different services is also influenced by how substitutable different childcare services are (chapter 2).

Other types of care that households can use (which are out of scope of this inquiry) include:

- Informal care, such as au pairs, baby-sitting, and ad hoc care by relatives and friends.
- Services which may provide short-term, irregular care, but where the parent or guardian is readily available (for example, at a creche attached to a gym).
- Care by providers that primarily deliver other services. For example, a service primarily providing a disability or early intervention service, or a service primarily providing early education in the year before schooling (stand alone² preschools).

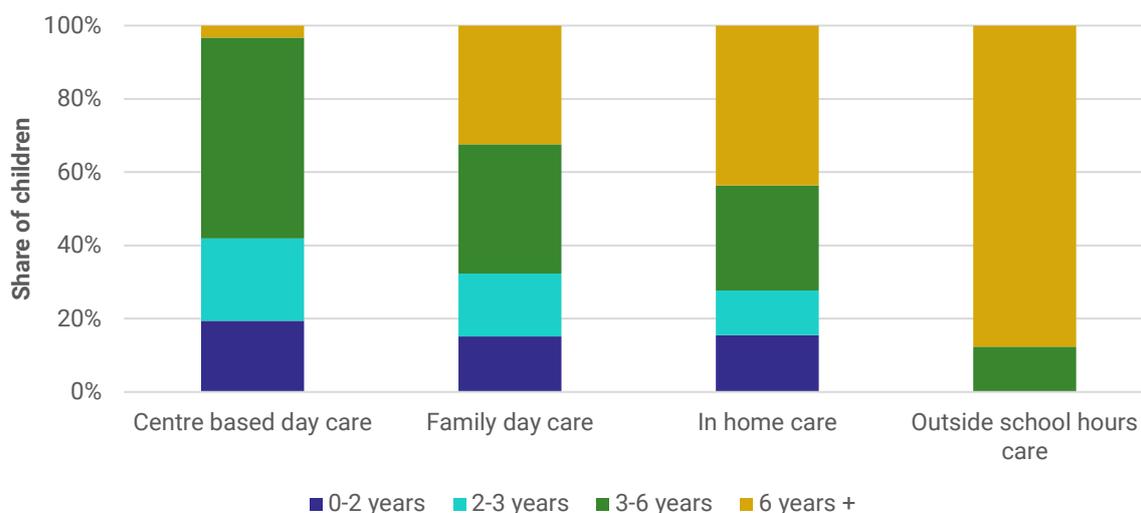
1.4. Childcare attendance and accessibility

1.4.1. Childcare usage by age

Different childcare services tend to cater to different age groups. Centre based day care and family day care services mostly have under school age children enrolled, while outside school hours care services mostly have school age children enrolled (figure 1.3). In home care services have a more even mix of under-school age and school age children. This likely reflects that in home care is used when other appropriate care is not accessible or suitable (box 1.1), which is unlikely to be an age-specific issue.

² The term 'stand alone' preschool is used here to distinguish it from a centre which provides an integrated preschool program.

Figure 1.3: Share of children enrolled, by service type and age group, December quarter 2022

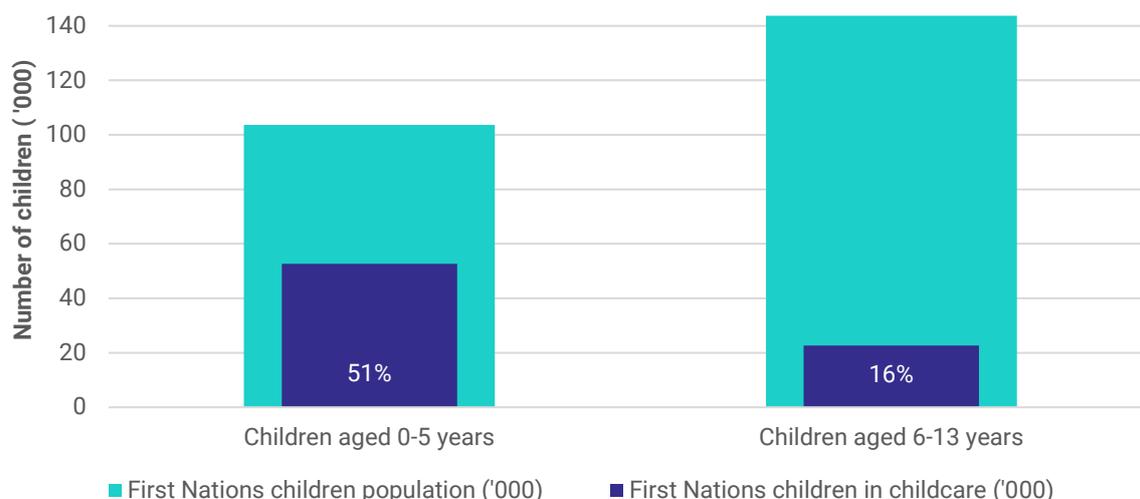


Source: ACCC analysis of Department of Education administrative data.

1.4.2. Childcare enrolment of First Nations children

First Nations children are less likely to be enrolled in childcare than non-First Nations children. About 51% of 0–5 year old and 16% of 6–13 year old First Nations children attended childcare in 2022 (figure 1.4). This was 9 percentage points below the total Australian child population (figure 1.1).

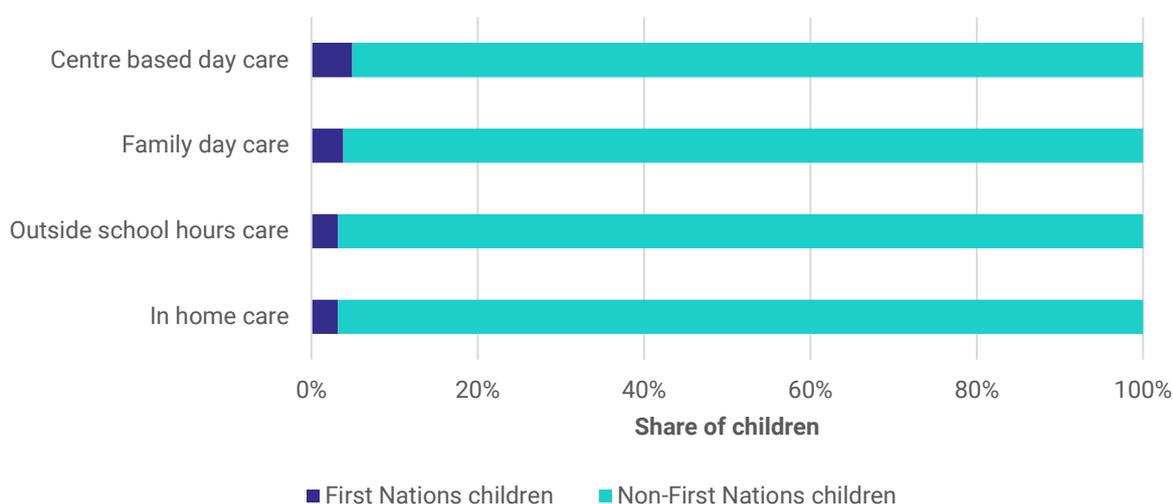
Figure 1.4: First Nations children enrolled in childcare – number and share of population, 2022



Source: ACCC analysis of ABS and Department of Education administrative data.

For those First Nations children who do attend childcare, they were more likely to be in centre based day care than outside school hours care when compared with the total Australian child population (figure 1.5). This likely reflects that the share of First Nations children aged 6–13 in childcare (16%) is much lower than for the total population (25%).³

Figure 1.5: Share of children by service type and for First Nations and non-First Nations children, 2021



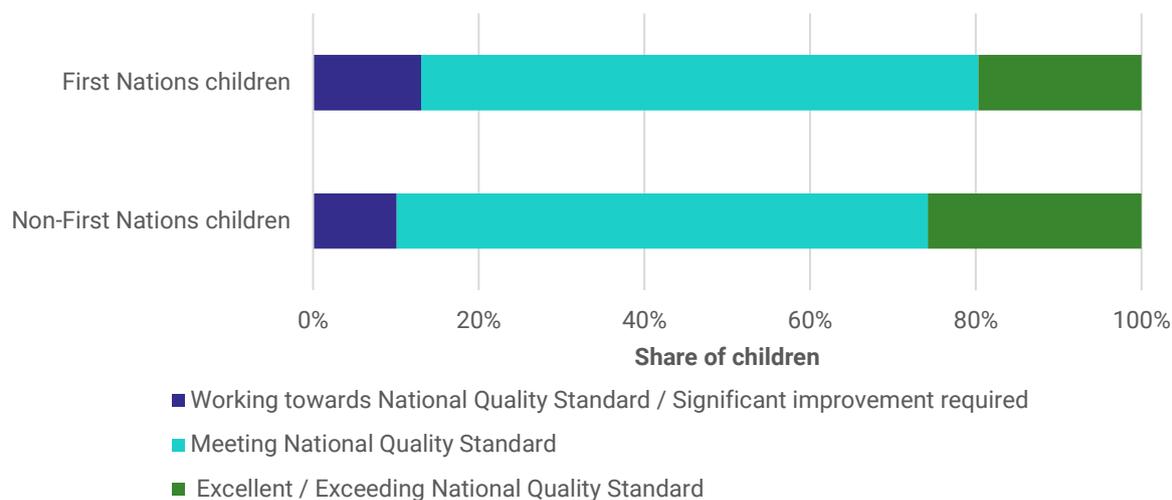
Source: ACCC analysis of Department of Education administrative data.

First Nations children who attend childcare are less likely to be attending a centre based day care that is rated as ‘exceeding’ the National Quality Standard (figure 1.6) than across the general Australian population. More information on the National Quality Standard is in

³ The sample sizes used for the analysis in this section could underrepresent the true number of children who identified as First Nations Australians, because this information is self-reported by parents and guardians on a voluntary basis.

box 1.2. This is consistent with findings in chapter 2 showing that regional and remote areas (which have a higher share of First Nations children) have fewer services rated as exceeding.

Figure 1.6: Service quality rating for First Nations and non-First Nations children attending centre based day care, December quarter 2022



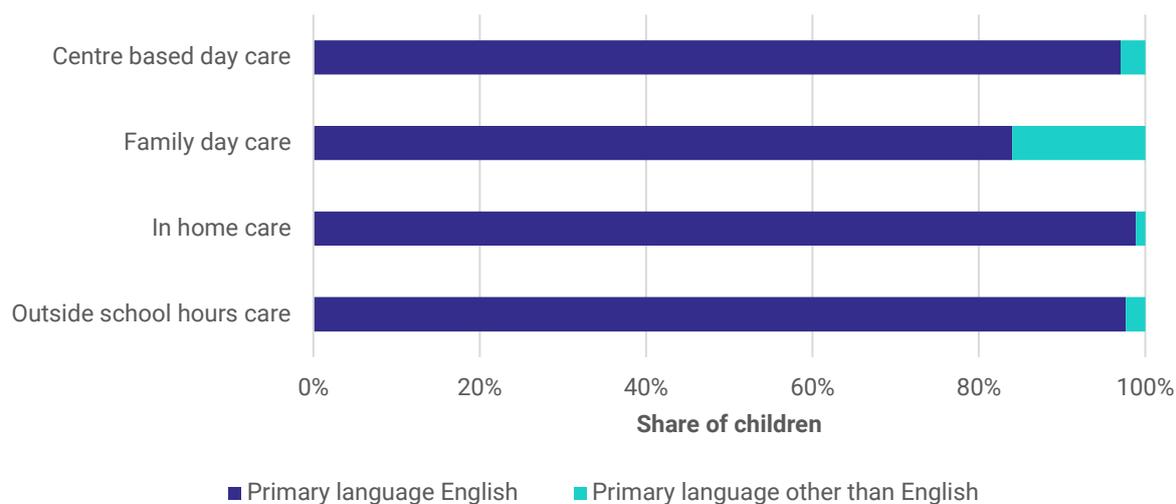
Source: ACCC analysis of Department of Education administrative data.

1.4.3. Childcare usage for children in non-English speaking households

Children who are in a home that primarily speaks a language other than English and attend childcare represent a much greater share of enrolments in family day care, compared to other service types (figure 1.7).⁴ Our early analysis of responses from the voluntary parents and guardians survey suggests that this could reflect a preference for households who speak a language other than English to use educators who speak the same first language. In centre based day cares there are many different educators, each typically looking after children of different ages. Thus it might be difficult to find multiple educators in a centre based day care who all speak the same first language. In contrast, families only require one family day care educator who speaks the same first language, with that person able to provide continued care for the child over many years.

⁴ The sample size of children from a non-English speaking household is likely to be an underrepresentation. Information about English speaking status is derived from parents and guardians' self-reporting, and may also be recorded where a parent or guardian has contacted Services Australia and requested an interpreter.

Figure 1.7: Share of children by service type and language spoken at home, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

1.5. Government involvement in childcare

1.5.1. The regulatory framework

The childcare sector is heavily regulated, reflecting the importance of providing safe care and educational and development outcomes for children.

Approval and registration process

Australia has a dual regulatory system, whereby providers require:

- State or territory government approval, to allow them to operate and charge fees
- Australian Government approval, to administer the Child Care Subsidy and Additional Child Care Subsidy.

These requirements are described below.

State and territory regulatory requirements

The Australian Children’s Education and Care Quality Authority (ACECQA) assists state and territory governments to administer the National Quality Framework (box 1.2). However, it is the relevant state or territory regulatory body which is responsible for ensuring providers meet the National Quality Standards for children’s safety, health and wellbeing and educational outcomes.

Box 1.2: The National Quality Framework

The National Quality Framework was introduced in 2012 and is applicable to centre based day care, family day care, preschool and outside school hours care services. It is administered by the Australian Children's Education and Care Quality Authority. The framework includes:⁵

- Educator-to-child ratios and educator qualification requirements – at a minimum all educators must have, or be actively working towards, a certificate III or higher level education and care qualification. There are additional requirements for some educators to hold a diploma level qualification and/or a bachelor degree.
- National learning frameworks – providers must have an educational program, based on an approved learning framework, designed to consider the developmental needs and individual differences of each child.
- National Quality Standard – the National Quality Standard includes 7 quality areas⁶ which are assessed and rated by the state or territory regulatory authority.⁷ An overall rating based on these results is then given to each service.
 - Quality Area 1 – Educational program and practice: Educational program and practice of educators are child-centred, stimulating and maximise opportunities for enhancing and extending each child's learning and development.
 - Quality Area 2 – Children's health and safety: Children have the right to experience quality education and care in an environment that safeguards and promotes their health, safety and wellbeing.
 - Quality Area 3 – Physical environment: Physical environment is safe, suitable and provides a rich and diverse range of experiences that promote children's learning and development.
 - Quality Area 4 – Staffing arrangements: Qualified and experienced educators, who develop warm, respectful relationships with children, create predictable environments and encourage children's active engagement in the learning program.
 - Quality Area 5 – Relationships with children: Relationships with children are responsive, respectful and promote children's sense of security and belonging.
 - Quality Area 6 – Collaborative partnerships with families and communities: Collaborative relationships with families are fundamental to achieving quality outcomes for children, and community partnerships based on active communication, consultation and collaboration are essential.
 - Quality Area 7 – Governance and leadership: Effective leadership and governance of the service contributes to quality environments for children's learning and development. Effective leaders establish shared values for the service and set clear direction for the service's continuous improvement.
- There are 5 overall ratings which are published and displayed at the service.
 - Excellent: Service promotes exceptional education and care, demonstrates sector leadership and is committed to continually improving.

⁵ ACECQA, [What is the NQF?](#), ACECQA website, n.d., accessed 5 June 2023.

⁶ ACECQA, [National Quality Standard](#), ACECQA website n.d., accessed 5 June 2023.

⁷ A list of state/territory regulatory authorities can be found on the [Contact your regulatory authority](#) page of the ACECQA website.

- Exceeding National Quality Standard: Service goes beyond the requirements of the National Quality Standard in at least 4 of the 7 quality areas, with at least 2 of these being quality areas 1, 5, 6, or 7.
- Meeting National Quality Standard: Service meets the National Quality Standard and provides quality education and care in all 7 quality areas.
- Working Towards National Quality Standard: Service provides a safe education and care program. There are one or more areas identified for improvement.
- Significant Improvement Required: Service does not meet one of the 7 quality areas or a section of the legislation and there is a significant risk to the safety, health and wellbeing of children. The regulatory authority will take immediate action.

In home care is not subject to the National Quality Framework. However, in home care providers may be subject to other state or territory legislation.

All providers are required to conduct a self-assessment of the quality of their current practices against the National Quality Standard. A provider's state or territory regulatory authority then conducts an assessment and provides a National Quality Standard rating. A service which is rated as 'Exceeding' can decide whether to apply to be rated as 'Excellent'. However, this requires the service to complete an application form to explain how it meets 3 criteria, including that it exemplifies and promotes exceptional education and care, demonstrates leadership that contributes to the development of a community and demonstrates commitment to sustained excellent practice.⁸ After applying, ACECQA makes the assessment (not the state/territory regulatory authority).

Australian Government regulatory requirements

A provider must be approved by the Australian Government under Family Assistance Law to administer the Child Care Subsidy. There are a range of provider eligibility rules, including that the persons involved in the day-to-day management of the service are 'fit and proper'. Larger providers (defined under the Family Assistance Law as those operating 25 or more services) must demonstrate they are financially viable. Service providers must hold applicable licences from state and territory authorities (described above).

The requirements to become an approved provider and application process is in the Child Care Provider Handbook.⁹

1.5.2. Funding

The Australian Government provides funding to administer the Child Care Subsidy, which is the main payment to assist households with the cost of childcare. It commenced on 2 July 2018, replacing the 2 previous payments – Child Care Benefit and Child Care Rebate.¹⁰

In addition, the Australian Government introduced the Additional Child Care Subsidy in July 2018. This provides fee assistance to support vulnerable or disadvantaged households and children to access quality childcare (box 1.4).¹¹

⁸ ACECQA, [National Quality Framework Excellent rating application guidelines](#), September 2020, accessed 5 June 2023.

⁹ Australian Government Department of Education, [Childcare Provider Handbook](#), 25 May 2023, accessed 5 June 2023.

¹⁰ M Klapdor, [Impact of the new Child Care Subsidy, Parliament of Australia](#), 12 April 2019, accessed 5 June 2023.

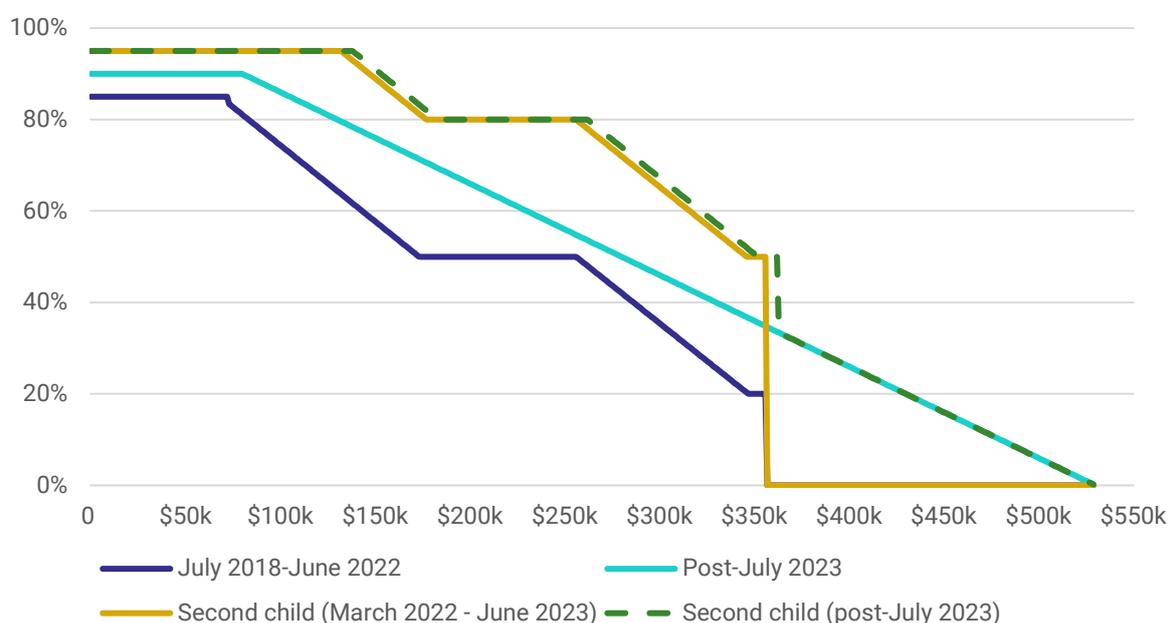
¹¹ More information on how the Child Care Subsidy and Additional Child Care Subsidy operate can be found in Australian Government Department of Education, [Childcare Provider Handbook](#).

A family's Child Care Subsidy entitlement varies according to 4 key factors: household income, the number of children in childcare, activity levels and an hourly rate cap (which varies by service provider type).

Income

Following the passage of the Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022 (Cth), from 10 July 2023 the maximum household income for households to receive a Child Care Subsidy will increase from \$356,756 to \$530,000, and the maximum subsidy rate will increase, from 85% to 90%. The ACCC estimates that the share of households eligible to receive a subsidy will increase from about 95% to 98.4% following this change.¹² The subsidy rate reduces at higher income levels (figure 1.8).

Figure 1.8: Childcare subsidy rates by household income level, pre- and post- July 2023



Source: Department of Education, [Family eligibility and entitlement](#), accessed 8 June 2023.

Households receive a higher subsidy rate if they have a second child, or any other children, aged 5 and under. This higher subsidy rate applies for incomes up to \$362,408.

Activity level

A parent (or both parents in a two-parent home) is required to work, or do other approved activities (these include training, volunteering and looking for work), for at least 8 hours per fortnight, to receive some subsidised childcare. The hours of subsidised care increases with parents' activity levels and is capped at 100 hours per fortnight (table 1.2).¹³

¹² ACCC analysis based on ABS data. Estimates were obtained by examining family income data by those families with children under 15 years of age.

¹³ From 10 July 2023, households with First Nations children can access at least 36 hours of subsidised childcare per fortnight, regardless of their parent/s activity level. See [Activity test for Aboriginal and Torres Strait Islander children](#).

Table 1.2: Activity levels and maximum hours of subsidised childcare

Activity level each fortnight	Hours of subsidised care per fortnight, per child
Less than 8 hours	0 hours if earn above \$72,466; 24 hours if earn less
More than 8 hours, to 16 hours	36 hours
More than 16 hours, to 48 hours	72 hours
More than 48 hours	100 hours

Source: Services Australia, [Activity level and subsidised care](#), accessed 8 June 2023.

Hourly rate cap

An hourly rate cap sets the maximum fee amount at which the Australian Government subsidises childcare. Childcare providers typically set fees on a daily or sessional basis, meaning an hourly rate is a notional concept based on dividing the sessional fee charged by the length of the session.

The hourly rate cap operates like a benchmark price, similar to the Medicare Schedule Fees for medical practitioner consultations against which a set percentage rebate is paid to the patient by the Australian Government.

Childcare providers may set prices above the hourly rate cap. The share of any fee amount charged by a provider which exceeds the rate cap is not subsidised. The hourly rate cap varies by service provider type (table 1.3) and changes each July in line with the change in the Consumer Price Index for the previous calendar year.¹⁴ The hourly rate cap will increase by 7.8% from 10 July 2023.

Table 1.3: Hourly rate caps, by service provider and child age

Service provider	Children below school age		School aged children	
	2022–23	2023–24	2022–23	2023–24
Centre based day care	\$12.74	\$13.73	\$11.15	\$12.02
Outside school hours care	\$12.74	\$13.73	\$11.15	\$12.02
Family day care	\$11.80	\$12.72	\$11.80	\$12.72
In home care (per family)	\$34.64	\$37.34	\$34.64	\$37.34

Source: Department of Education, [Family eligibility and entitlement](#), accessed 10 June 2023.

Household income, the hourly rate cap and the activity level test work together and impact out-of-pocket expenses for households. Box 1.3 illustrates how the Child Care Subsidy works for a household requiring childcare 3 days a week. An initial analysis of the impact of the Child Care Subsidy and how daily fees and session length affects affordability is discussed in chapter 5. Our September 2023 consultation paper will further explore the impact and effectiveness of these measures as price regulation mechanisms, and any impediments to their effective operation

¹⁴ Department of Education, [Child Care Subsidy rates will increase from 11 July](#), accessed 19 May 2023.

Box 1.3: Illustrative example of how the Child Care Subsidy affects out-of-pocket expense for households

Assume that a household needs childcare for 10 hours a day, 3 days a week and is eligible for a subsidy of 85% and 72 hours of care under the activity test per fortnight. The household is considering a service charging \$130 per day.

Understanding the Child Care Subsidy

The childcare provider charges a 10-hour session of care for each day. This means the hourly fee is \$13 (above the hourly rate cap in 2022–23 of \$12.74). The service will charge the family for 60 hours of care over the fortnight.

The Child Care Subsidy will only cover 85% of fees up to the hourly rate cap of \$12.74. The household is not subsidised for fees above the cap (26 cents per hour). This results in the following:

- The childcare service receives a total fee of \$130 per day. ($\13×10 hours).
- The Child Care Subsidy covers \$108.30 per day ($\$12.74 \times 85\% \times 10$ hours).
- The household will have an out-of-pocket expense of \$21.70 per day. (Total fee minus subsidy = $\$130 - \108.30).

A breakdown of costs is provided below. The majority of the out-of-pocket expense for the household is due to the 15% contribution that is required for the fee amount up to the hourly rate cap.

	Fortnightly	Daily	Hourly
Total fee	\$780.00	\$130.00	\$13.00
Child Care Subsidy	\$649.80	\$108.30	\$10.83
<i>85% up to the hourly rate cap</i>			<i>(85% x 12.74)</i>
Total out-of-pocket expense	\$130.20	\$21.70	\$2.17
<i>15% contribution for fee amount up to the hourly rate cap</i>	<i>\$114.60</i>	<i>\$19.10</i>	<i>\$1.91</i>
<i>100% contribution for fee amount exceeding the rate cap</i>	<i>\$15.60</i>	<i>\$2.60</i>	<i>\$0.26</i>

Box 1.4: Additional Child Care Subsidy

There are 4 types of Additional Child Care Subsidy, available under different circumstances:

- Grandparent – For grandparents who have 65% or more care of a child and receive an income support payment.
- Transition to Work – Available to those studying towards a higher qualification, looking for a job, working or undertaking a training program. Eligible recipients must also be in receipt of a range of income support payments, and potentially have an active Job Plan or Participation Plan.
- Temporary Financial Hardship – For families who have a substantially reduced ability to pay childcare fees due to experiencing temporary financial hardship from an event in the previous 6 months that was outside of their control.
- Child Wellbeing – For children who are vulnerable or at risk of harm, abuse or neglect; as well as children in formal foster or kinship care; or in the care of the state, territory or Minister.

Child Wellbeing subsidy payments must be applied for by the service providing care. All other payments are applied for by the child’s family.

Additional Child Care Subsidy (Grandparent, Temporary Financial Hardship and Additional Child Wellbeing) payments provide a 100% subsidy rate, up to 120% of the relevant hourly rate cap. For analysis undertaken at a family level in the interim report, the hourly rate cap is assumed to be 120% for families receiving these forms of Additional Child Care Subsidy. Families who receive these forms of Additional Child Care Subsidy are also exempt from the Activity Test and entitled to 100 hours of subsidised care per fortnight.

Additional Child Care Subsidy (Transition to Work) provides a 95% subsidy of fees up to the hourly rate cap, in a similar manner to the Child Care Subsidy. The Activity Test still applies to families in receipt of the Additional Child Care Subsidy (Transition to Work).

In practice, not much childcare is funded via the Additional Child Care Subsidy (table 1.4). The one care type where there is a higher share of Additional Child Care Subsidy (Child Wellbeing) usage is for in home care, which is a care type for families that cannot access other care types, including where a child has complex or challenging needs.

Table 1.4: Additional Child Care Subsidy enrolled hours as a share of total enrolled childcare hours, December quarter 2022

	Child Wellbeing	Grandparent	Temporary Financial Hardship	Transition to Work	Total ACCS
Centre based day care	3.0%	0.3%	0.1%	0.4%	3.7%
Family day care	1.2%	0.4%	0.1%	0.4%	2.0%
Outside school hours care	1.8%	0.4%	0.1%	0.4%	2.6%
In home care	29.9%	1.7%	0.1%	0.4%	32.1%

Source: ACCC analysis of Department of Education administrative data.

Other government funding

The Australian Government also provides other funding for childcare, although the amount is much smaller than the Child Care Subsidy (see table 1.5).

State and territory governments also contribute funding to childcare services and preschool education. Most funding is for the provision of preschool education in both stand-alone preschools (not in scope of this inquiry) and day care centres that provide an integrated preschool component. As part of the Preschool Reform Funding Agreement, the Australian Government allocates a per child funding contribution to states and territories to support them in the delivery of 600 hours of preschool per year.¹⁵

State and territory governments also provide funding for capital works to expand capacity and build new centres for the provision of preschool education.

Amount of funding

The Australian Government provides the bulk of government funding, spending more than \$10 billion on childcare services in 2021–22, compared to \$382.5 million by state and territory governments.¹⁶ The Australian Government funding represented approximately 1.65% of total Australian Government expenditure in 2021–22.¹⁷

The largest component of Australian Government funding is the Child Care Subsidy (and Child Care Benefit and Child Care Rebate before July 2018). Funding for these subsidy programs was expected to reach \$10.6 billion in 2022–23 (table 1.5). Australian Government funding is expected to increase by \$2.1 billion in 2023–24, which incorporates the expansion of the Child Care Subsidy from 10 July 2023.

Table 1.5: Australian Government funding on childcare programs, 2017–18 to 2021–22 (\$ million)

Program	2017–18	2018–19	2019–20	2020–21	2021–22 (estimated actual)	2022–23 (estimated actual)	2023–24 (budget)
Child Care Subsidy	7,013	7,440	8,049	8,689	9,796	10,626	12,716
Support for the Child Care System	318	268	317	1,264	274	355	348

Notes: Child Care subsidy program is the CCB/CCR (2017–18) and CCS/ACCS (from 2018–19). Support for the Child Care System includes Child Care Services Support and other funding. 2020–21 includes ACCS funding amounts, which were moved to Child Care Subsidy for subsequent years.

Source: Portfolio Additional Estimate Statements, Education, Skills and Employment Portfolio, [2018–19](#), [2019–20](#), [2020–21](#), [2021–22](#), [Budget Related Paper No. 1.5, Education Portfolio, 2022–23](#) and Portfolio Budget Statements [2023–24](#).

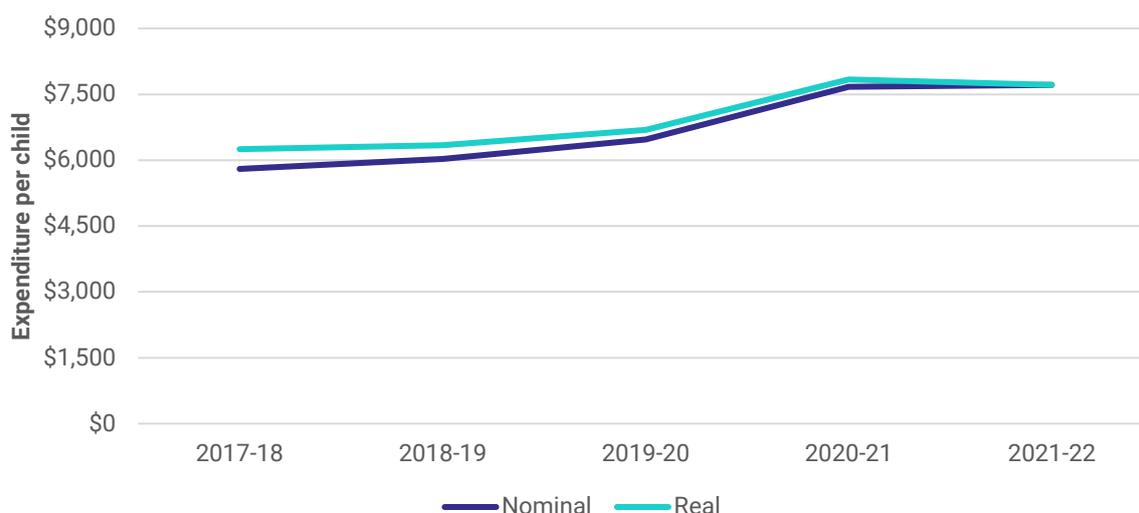
On a per child basis, Australian Government funding also grew rapidly, by 23% in real terms since 2017–18 to reach \$7,715 per child in 2021–22 (figure 1.9).

¹⁵ Australian Government Department of Education, [Preschool Reform Funding Agreement](#), Department of Education website, n.d., accessed 5 June 2023.

¹⁶ Productivity Commission, [Report on Government Services](#), 2023, accessed 5 June 2023.

¹⁷ Australian Government, [Final Budget Outcome 2021–22](#), The Treasury, September 2022, p 4.

Figure 1.9: Australian Government expenditure per child in approved childcare



Note: Real dollars for 2021–22, using chain price deflator.

Source: Productivity Commission, [Report on Government Services 2023](#), Early Childhood Education and Care, Tables 3A.37 and 2A.26.

1.6. The ACCC’s inquiry process

The ACCC has accessed data sets held by the Australian Government in relation to:

- Child Care Subsidy, Additional Child Care Subsidy, Community Child Care Fund and the Inclusion Support Program
- COVID-19 and flood support payments
- National Workforce Census 2021.

The inquiry has also received a large amount of information from childcare service providers, with a significant focus on providers’ costs of providing childcare services

The ACCC issued 33 statutory notices to larger providers (operating 40 or more services), under section 95ZK of the Competition and Consumer Act 2010 (Cth) requiring the provision of information and documents to the ACCC.

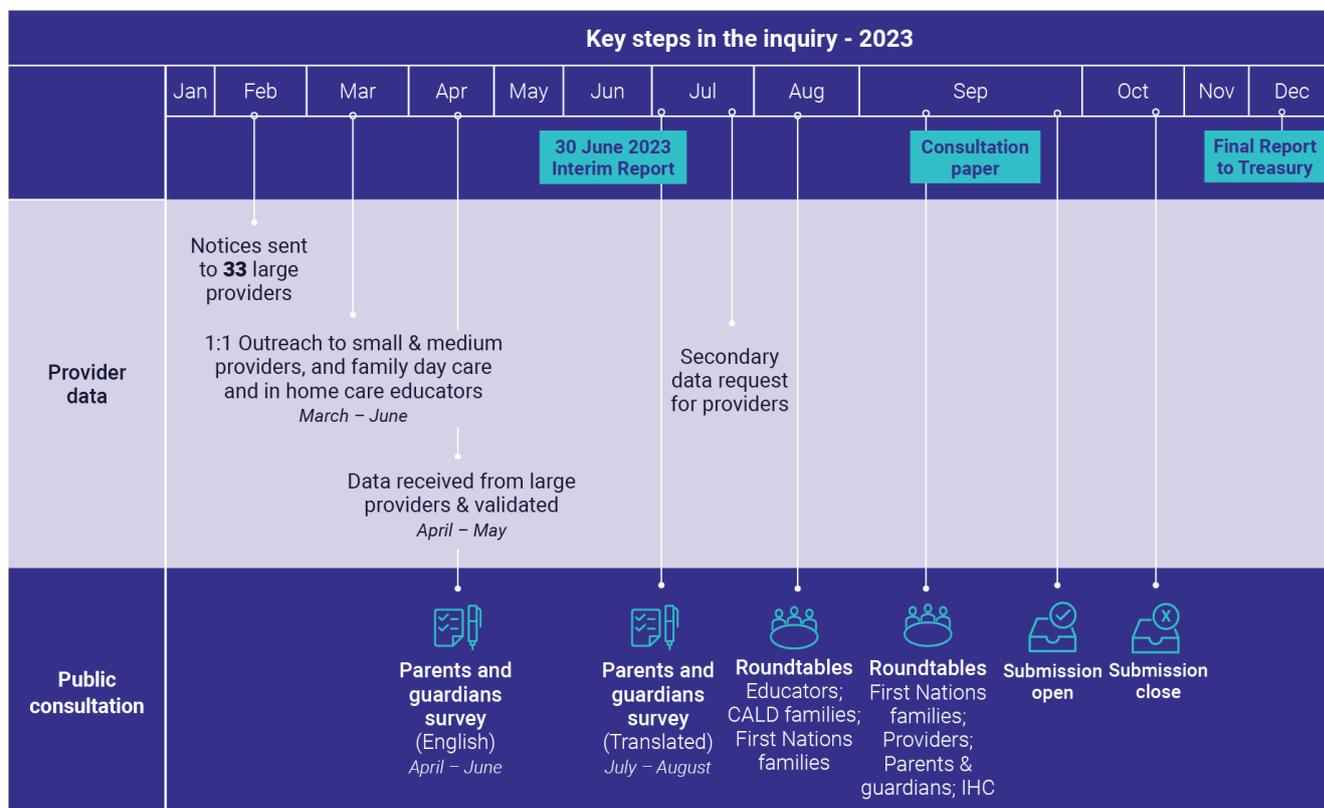
The ACCC also engaged with medium sized providers (those operating 5–39 services) and conducted extensive outreach with over 230 small providers of centre based day care and outside school hours care (operating 1–4 services). We have also collected information from family day care and in home care service providers, support agencies and educators across Australia. These providers and educators are all voluntarily providing cost and price information, and feedback on the drivers of cost changes they have faced.

We also sought views from parents and guardians via a voluntary English language survey conducted between April and June, which had more than 4,100 responses. The survey will be made available in Simple Chinese, Traditional Chinese, Arabic, Korean and Vietnamese languages in July to help gather more views from culturally and linguistically diverse communities.

The ACCC will host roundtable discussions with invited stakeholders and make additional information requests from some providers on their pricing and costs since 1 July 2023.

A consultation paper with potential draft findings and recommendations will be published at the end of September. The ACCC will invite public submissions to respond to that paper, ahead of a final report to be provided to the Australian Government by 31 December 2023. The inquiry process is outlined in figure 1.10.

Figure 1.10: Inquiry process



1.7. Context for the ACCC inquiry

This inquiry comes amid other reviews into childcare and early childhood education. The ACCC is consulting frequently with the organisations below (box 1.5) to coordinate activities, share learnings and minimise the impact of information requests on industry participants as much as possible.

Box 1.5: Other government reviews into childcare

Productivity Commission Inquiry into Early Childhood Education and Care

The Productivity Commission commenced a comprehensive inquiry into early childhood education and care on 1 March 2023. The Productivity Commission has been tasked with making recommendations that support affordable, accessible, equitable and high-quality early childhood education. It was also asked to make recommendations to reduce barriers to workforce participation and consider a universal 90% childcare subsidy rate.

The findings from the ACCC's inquiry will inform and support the Productivity Commission's inquiry. The Productivity Commission will release a draft report in November and provide a final report to the Australian Government in June 2024.¹⁸

Independent Pricing and Regulatory Tribunal (IPART) Review of New South Wales early childhood education and care affordability, accessibility and consumer choice

NSW IPART has been tasked with reporting on factors that drive the supply of services, affordability, accessibility and consumer choice. This will include collecting information on fees, household out-of-pocket costs, provider revenue and provider cost information, consistent with the ACCC's approach to collecting data, where possible. IPART will also estimate benchmark prices and make recommendations for the New South Wales Government. IPART's interim and final reports are due to the New South Wales Government in August and December 2023, respectively.¹⁹

South Australian Royal Commission into Early Childhood Education & Care

The South Australian Royal Commission is inquiring into the extent to which South Australian families are supported in the first 1,000 days of a child's life, how to deliver a universal quality preschool program for 3 and 4-year-olds and outside school hours care access for preschool and primary age students. An interim report was released in April 2023 and a final report will be delivered in August 2023.²⁰

The interim report made some recommendations regarding the Child Care Subsidy, including consideration of differential pricing of the subsidy for younger children, whose care requires higher staff ratios.

1.8. Outline for the rest of the report

The rest of the report is structured as follows:

- Chapter 2 looks at markets for the supply of childcare services, including how those services are supplied by providers, and chosen and used by parents.
- Chapter 3 outlines national average prices of childcare, and how they have changed since 2018. It also examines how fees vary by location.
- Chapter 4 examines the prices of centre based day care, family day care, outside school hours care services and in home care services, including how prices differ by:

¹⁸ Productivity Commission, [Early Childhood Education and Care Terms of Reference](#), 9 February 2023, accessed 5 June 2023.

¹⁹ NSW Independent Pricing and Regulatory Tribunal, [Early childhood education and care affordability, accessibility and consumer choice terms of reference](#), accessed 5 June 2023.

²⁰ South Australian Royal Commission into Early Childhood Education and Care, [What is the Royal Commission?](#), Royal Commission website, 16 October 2022, accessed 5 June 2023.

- provider type (for-profit or not-for-profit) and size (broken down by small, medium and large providers)
 - quality (as measured by services' current National Quality Standard ratings)
 - age and characteristics of the child (for example, First Nations children)
 - the number of services within close proximity.
- Chapter 5 examines out-of-pocket expenses for childcare. It considers the relationship between the Australian Government Child Care Subsidy and the hourly rate cap, including the share of services that charge above the rate cap.

The impact of COVID-19 on how services are supplied, priced and used can be seen in our analysis of changes in these things over time. The temporary suspension of the Child Care Subsidy in response to the COVID-19 pandemic has also meant that some data points are 'missing' from our analysis (box 1.6).

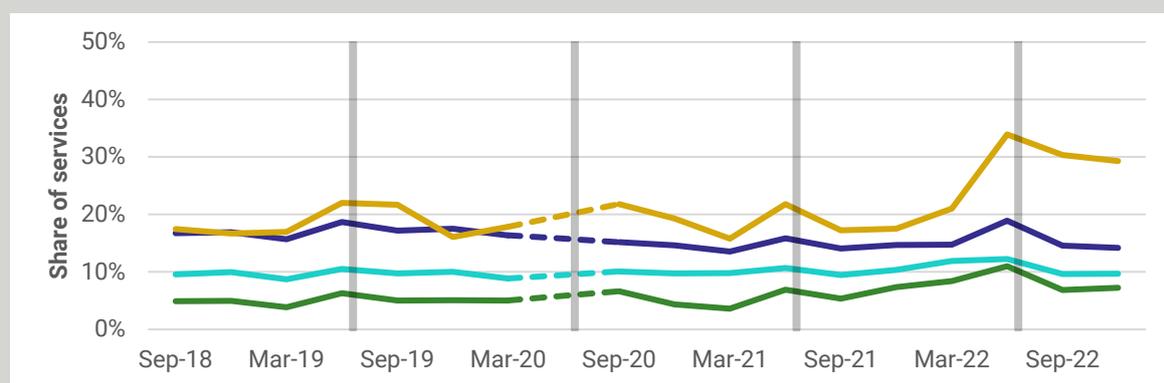
Analysis of costs by the above factors, and how they compare with prices, will be included in our September 2023 consultation paper.

Box 1.6: COVID-19 Economic response – free childcare

On 2 April 2020, the Australian Government announced new funding arrangements in childcare in response to the COVID-19 pandemic.

At this time, many households had unenrolled their children from childcare, which impacted the revenue and financial viability of childcare providers. To prevent widespread closures of childcare services, the Australian Government suspended the Child Care Subsidy and provided childcare services a weekly 'business continuity payment'. Services were also required not to charge parents any out-of-pocket fee.²¹

During this period, no Child Care Subsidy administrative data was collected as Child Care Subsidy payments were not made and childcare fees were not charged. This results in a gap in the Child Care Subsidy administrative data for the June 2020 quarter. In our analysis, we have presented this period as a dotted line as shown below as an indication of what prices and enrolments may have been in absence of the COVID-19 pandemic. However, this is for illustrative purposes only and not representative of actual information.



²¹ M Klapdor, [COVID-19 Economic response – free child care](#), Parliament of Australia, 6 April 2020, accessed 5 June 2023.

2. Markets for childcare services

Key points

- Centre based day care and outside school hours care make up the vast majority (97%) of services, and both have recorded an increase in the number of services since 2018. The number of family day care and in home care services have both declined over the same period.
 - Most centre based day care services are in Major cities and Inner Regional Australia.
- The number of approved childcare places has grown by 17% between 2018 and 2022 but this growth has been primarily in Major Cities and regional areas.
 - Approved places in remote areas have remained flat and the number of places is low, even when accounting for population size.
- The mix of centre based day care, outside school hours care, family day care and in home care in an area differs by its socio-economic characteristics. The more advantaged an area, the higher the share of outside school hours care services. The less advantaged an area, the higher the share of family day care services.
- 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 and is shortest in Sydney and Melbourne. In regional areas, they travel slightly further.
 - The median distance parents and guardians travel in remote Australia is shorter, likely reflecting that towns are geographically small and with large distances in between. Accordingly, children either attend a service in their town, or not at all.
- The national median number of centre based day care services within each 2 and 3 kilometre radius is 5 and 10, although there is significant variation at the regional level.
- Most outside school hours care services are associated with a primary school, with sessions of care provided on the school premises to children who attend that school. The service may be run by the school or a third-party provider. If the latter, providers may compete for the right to the market (that is, the right to run the service) on terms and conditions set out in a licence agreement with the relevant school or educational authority.
- Affordability is an important first consideration for parents when deciding how much formal childcare to use. Once this threshold question is answered, location is the most important consideration for the majority of parents and guardians.
- When choosing between services, prices are less important to parents and guardians than other considerations – especially location, availability and perceived quality. This issue is explored in chapter 3, which shows that on average prices increase with a greater number of services offered in an area.
 - Childcare providers have also told us there are a range of factors affecting how they set childcare fees and it may be factors including the location of the services

and households' expectations and sensitivity to price points that have a greater influence on price.

- Issues with availability, choice and quality appear to be more acute for vulnerable households (for example, those from a culturally and linguistically diverse background, those who are less socio-economically advantaged, and/or those who live in remote areas). We intend to examine these issues further as we progress the inquiry.

2.1. Introduction

This chapter considers the market features of childcare services in Australia, such as the types of services, geography of supply and competition for supply of the services. We examine the supply of, and demand for, childcare services in Australia using information provided by large service providers of centre based day care services and outside school hours care services, data provided by the Department of Education, and responses to the ACCC's voluntary parents and guardians survey.

This chapter explores how childcare services are supplied by providers and used by households, as well as how providers compete. The chapter is structured as follows:

- Section 2.2 looks at the supply of childcare services in Australia, including the composition of services (the number of services and share of services by size, profit and socio-economic advantage) and the upward trend in the number of approved childcare places.
- Section 2.3 considers the geographical features of the supply of childcare services.
- Section 2.4 examines competition for childcare services, including parents' and guardians' considerations when choosing a childcare service and childcare providers' considerations when setting prices.

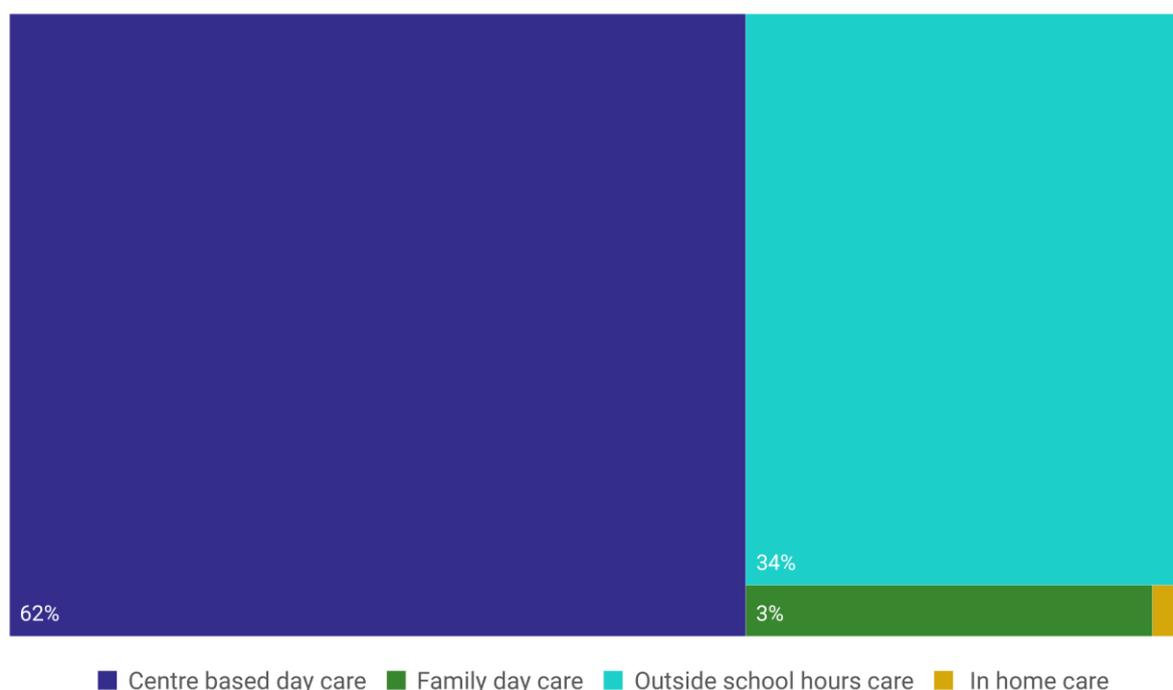
2.2. The supply of childcare services

2.2.1. The composition of childcare services in Australia

Centre based day care and outside school hours care account for most childcare services in Australia

Centre based day care accounts for the largest share of childcare services in Australia, followed by outside school hours care. As shown in figure 2.1, together these 2 service types accounted for approximately 97% of all childcare services in 2022.

Figure 2.1: Share of services by service type, 2022



Source: ACCC analysis of Department of Education administrative data.

Since 2018 the number of both centre based day care and outside school hours care services has steadily increased, while the number of both family day care and in home care services has declined (table 2.1). The decline in family day care and in home care services is likely to impact vulnerable households disproportionately (for example, households from a culturally and linguistically diverse background, those who are less socio-economically advantaged, and/or those who are living in very remote areas) because they rely more on these care types than other households. We intend to examine this issue further as we progress the inquiry.

Table 2.1: Number of services by service type and calendar year

Service type	2018	2019	2020	2021	2022	2022 (%)
Centre based day care	7,919	8,418	8,621	8,992	9,287	62.5%
Family day care	518	496	457	435	420	2.8%
In home care	56	47	44	43	37	0.2%
Outside school hours care	4,594	4,789	4,800	4,890	5,124	34.5%
Total services	13,087	13,750	13,922	14,360	14,868	100.0%

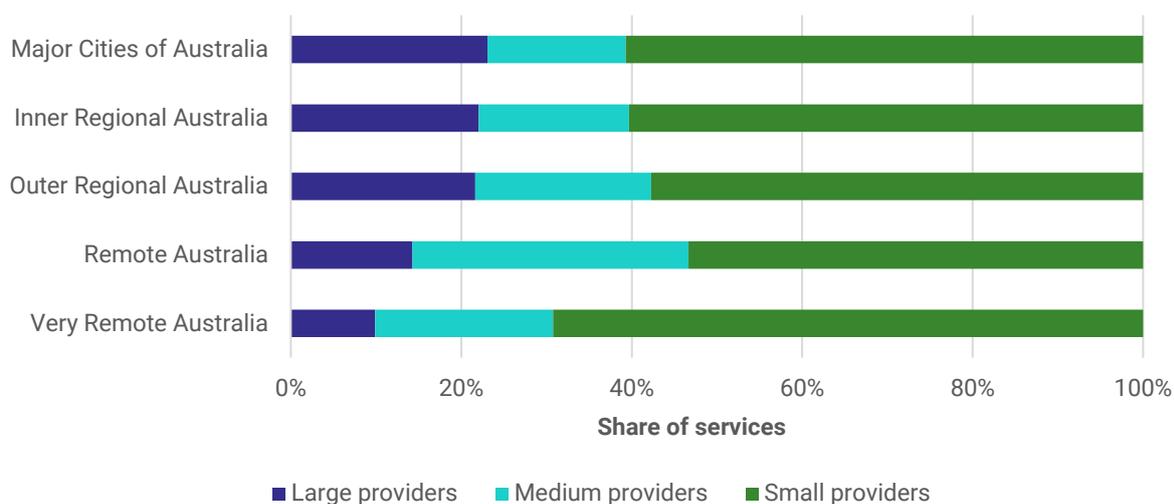
Source: ACCC analysis of Department of Education administrative data.

The size of childcare providers in Australia

We have categorised providers of childcare services as small, medium or large, according to the number of services they operate.²² Small providers operate fewer than 5 services, medium providers operate between 5 and 39 services and large providers operate 40 or more services.

The majority of centre based day care services in Australia are run by small providers. As shown in figure 2.2, this is true for all geographic regions regardless of remoteness. Very Remote Australia has the highest share of centre based day care services run by small providers.

Figure 2.2: Share of centre based day care services run by provider size and remoteness, 2022

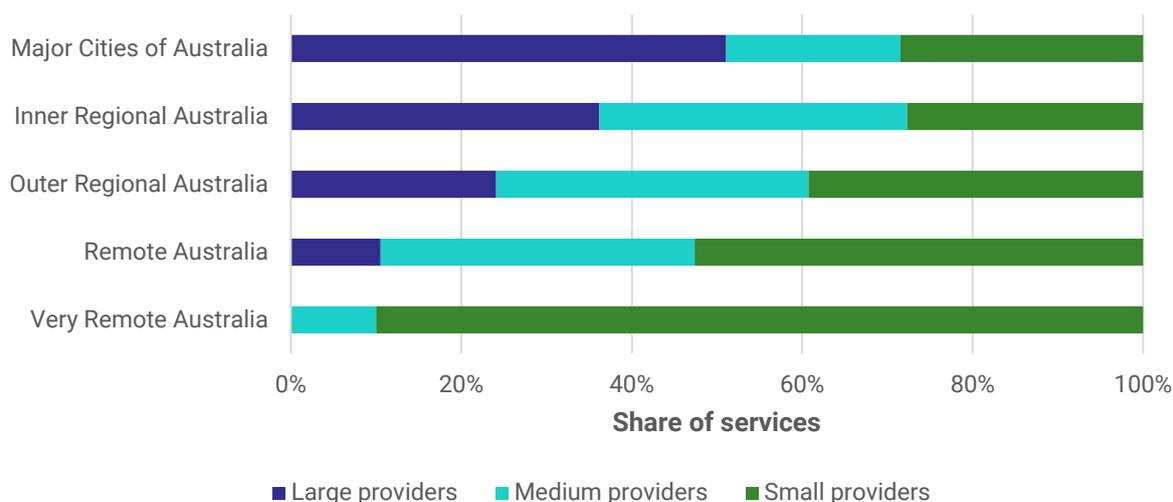


Source: ACCC analysis of Department of Education administrative data and section 95ZK responses.

Relative to centre based day care services, there is considerably greater variation in the share of small, medium and large outside school hours care service providers across geographic regions. As shown in figure 2.3, as remoteness increases, the share of outside school hours care services run by a large provider decreases and the share of services run by a small provider increases. In contrast to centre based day care, more than half of outside school hours care services in Major Cities are operated by a large provider.

²² Due to data limitations, analysis by provider size is not possible for family day care and in home care services.

Figure 2.3: Share of outside school hours services run by provider sizes and remoteness, 2022



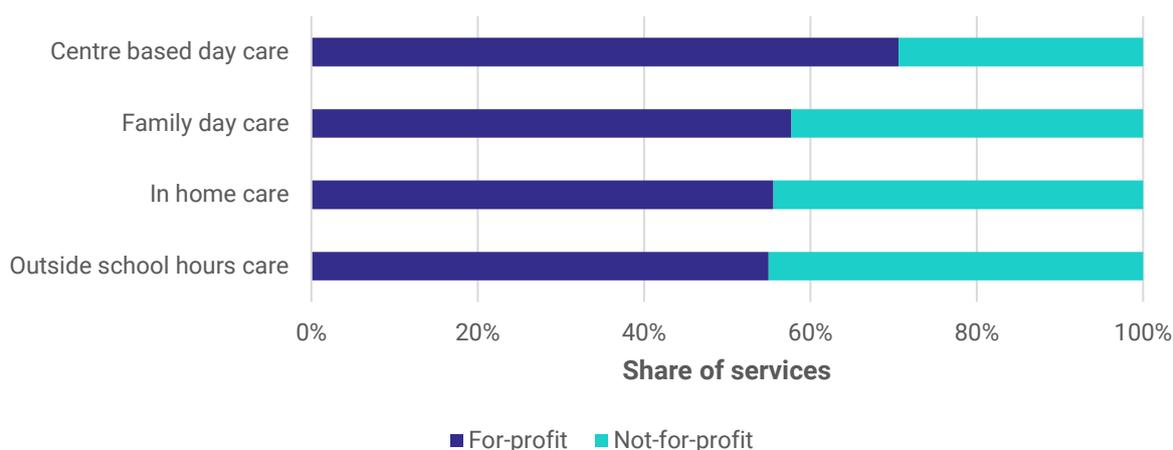
Source: ACCC analysis of Department of Education administrative data and section 95ZK responses.

The size of a provider does not appear to have any impact on the number of approved places in a service or the number of children attending a service. The share of children enrolled in services owned by small, medium and large providers is largely consistent with the share of services by provider size.

There are more for-profit services than not-for-profit services

For all service types, there is a greater share of for-profit services than not-for-profit (figure 2.4). Centre based day care has a significantly higher share of for-profit services (70%) relative to family day care, in home care and outside school hours care services (58%, 57% and 54%, respectively).

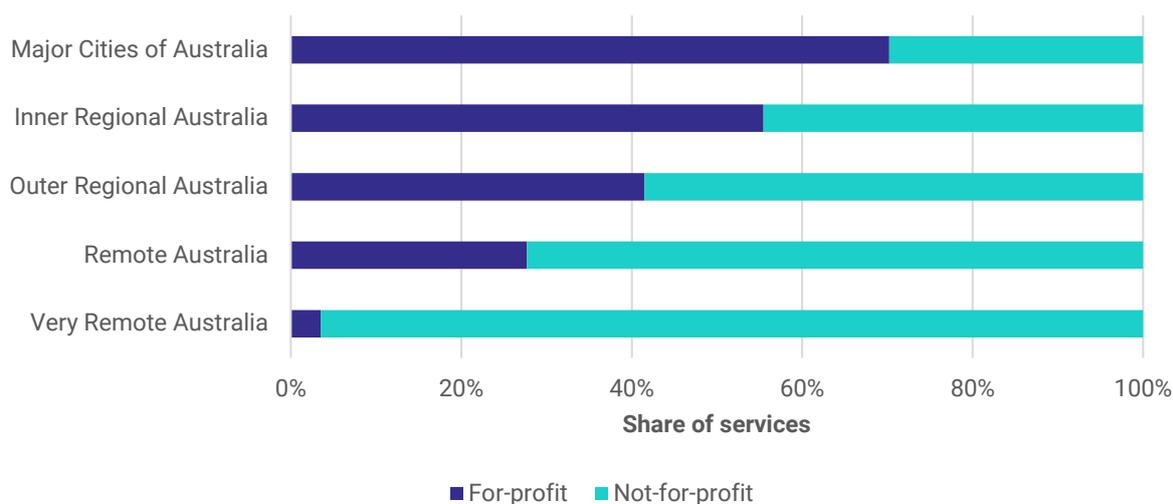
Figure 2.4: Share of services by profit status, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

While there are more for-profit providers than not-for-profit providers of childcare, there is a greater share of not-for-profit providers than for-profit providers in Remote and Very Remote Australia (figure 2.5).

Figure 2.5: Share of services by profit status and remoteness, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

The mix of childcare services available in an area differs by the relative level of socio-economic advantage

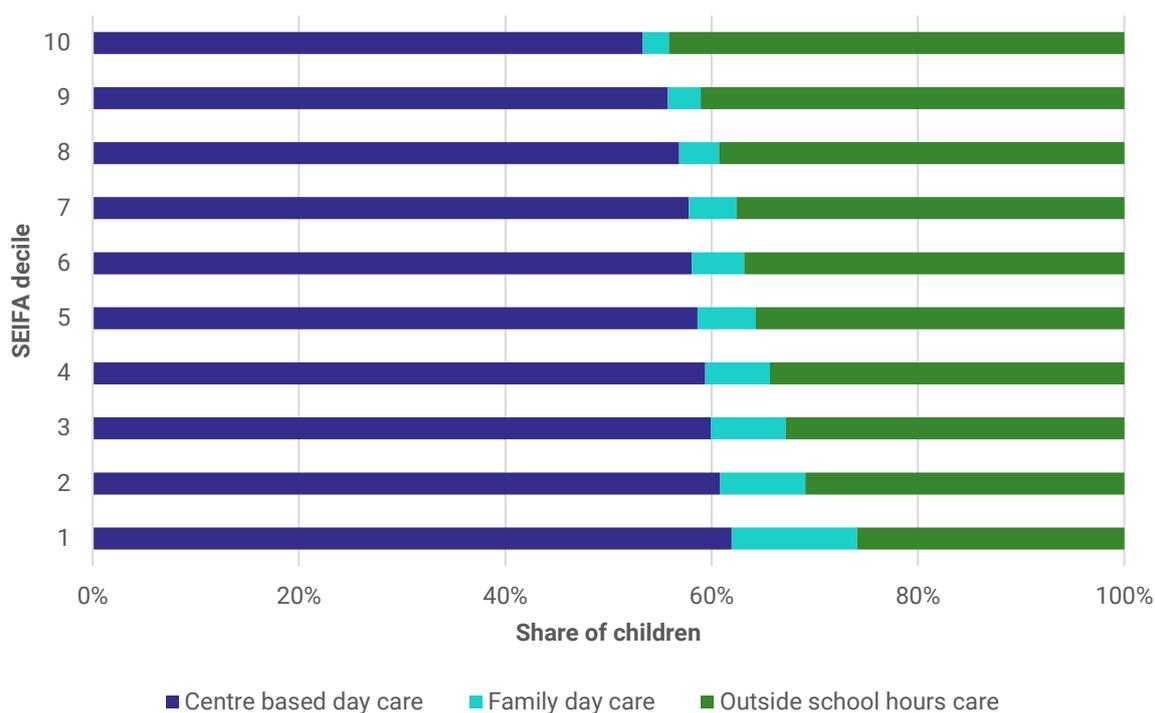
The Australian Bureau of Statistics’ Socio-Economic Indexes for Areas (SEIFA) combines Census data such as income, education, employment, occupation, housing and family structure to summarise the socio-economic characteristics of an area.²³

Figure 2.6 shows the mix of different childcare services by an area’s relative level of socio-economic advantage and disadvantage, with areas of most advantage ranked 10 and areas of least advantage ranked 1.

As an area’s socio-economic advantage increases, the share of outside school hours care services increases while the share of centre based day care and family day care decreases. This relationship is particularly pronounced for family day care, with areas of least advantage having a considerably higher share of family day care services than other areas. As noted above, the number of family day care services has declined since 2018. We will further examine this issue, and any implications for households living in areas of least advantage, as we progress our inquiry.

²³ SEIFA is a product developed by the [Australian Bureau of Statistics](#) that ranks areas in Australia according to relative socio-economic advantage and disadvantage. Our analysis uses the Index of Relative Socio-economic Disadvantage (IRSD). This index summarises a range of information about the economic and social conditions of people and households within an area. IRSD only includes measures of relative disadvantage. A low score indicates relatively greater disadvantage. A high score indicates a relative lack of disadvantage. Where references are made in this report to areas that are more or less advantaged or disadvantaged, this is within the context of the IRSD index – for example where we find that higher prices are higher in areas with more advantage this means areas with a higher IRSD score meaning they are less disadvantaged relative to areas with a lower IRSD score. However, these areas may not necessarily exhibit positive signs of advantage. For more information, see appendix B.

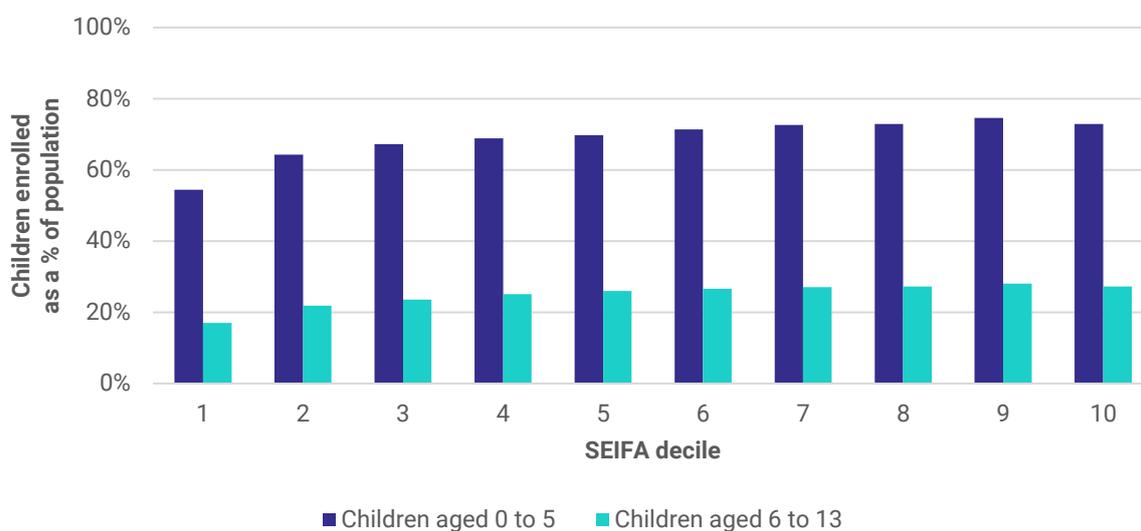
Figure 2.6: Share of children by service type and area SEIFA decile, 2022



Source: ACCC analysis of Department of Education administrative data.

Areas of greater socio-economic advantage also have higher shares of children in that area enrolled in some form of childcare (figure 2.7).

Figure 2.7: Share of children enrolled in childcare services by age and area SEIFA decile, 2020–21



Source: ACCC analysis of ABS and Department of Education administrative data. Based on Census population 2021, and enrolments for July 2021.

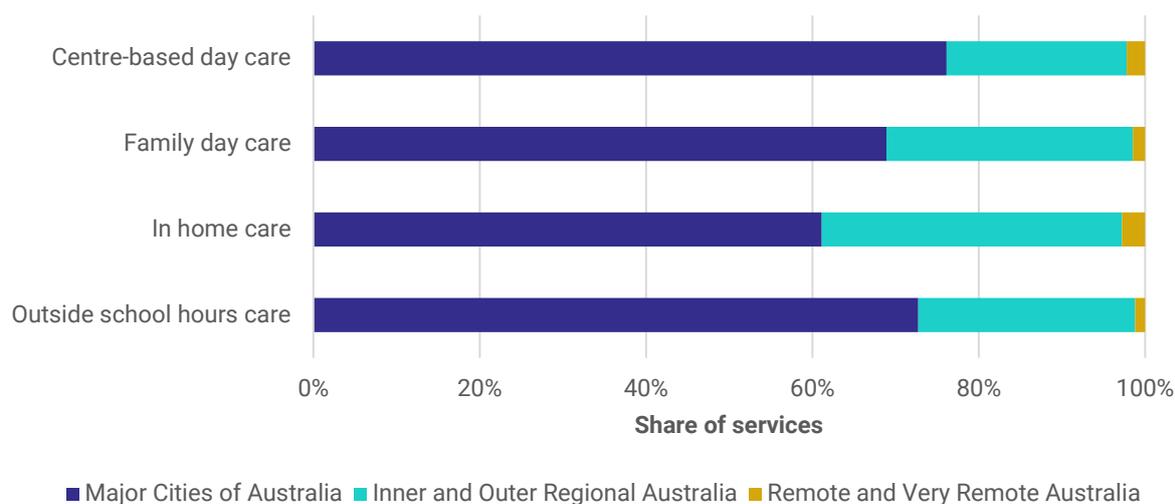
Socio-economic advantage also inversely correlates with the remoteness of geographic location, such that more remote locations are more likely to experience higher levels of socio-economic disadvantage (see Appendix B for more information).

In home care is more common in remote areas

As shown in figure 2.8, most childcare services are located in Major Cities and Inner and Outer Regional Australia. However, relative to other service types, in home care is considerably more common in regional and remote areas (roughly two-thirds of all in home care services are in Inner and Outer Regional Australia or Remote and Very Remote Australia). This is consistent with in home care being used by households where other suitable care types are unavailable.

As noted above, the number of in home care services has declined since 2018. We intend to further examine this issue, and the implications for households living in regional and remote areas, as we progress our inquiry.

Figure 2.8: Share of services by remoteness, 2022



Source: ACCC analysis of Department of Education administrative data.

The quality ratings of childcare services have been improving, but are lower in remote areas and for family day care

The share of childcare services with an ACECQA rating that are meeting or exceeding the National Quality Standard has risen from about 78% in September 2018 to 89% in December 2022.²⁴ On average, National Quality Standard ratings are significantly higher for centre based day care and outside school hours care services than for family day care (table 2.2).

As noted above, areas of least advantage have a considerably higher share of family day care services than other areas, and children from a culturally and linguistically diverse background are more likely to use family day care than children where only English is spoken at home.

We note that the National Quality Standard rating is awarded at the service level. In the context of family day care, this means that the rating applies to the family day care service

²⁴ Based on ACCC analysis of ACECQA data. See ACECQA, [National Quality Framework – NQF Snapshots](#), NQS time series data, accessed 7 June 2023. Note that this data excludes services that receive CCS but do not receive a rating (including in home care and occasional care services) and includes other services that do not receive CCS but do receive a rating (for example, standalone preschools).

rather than the individual educator, and accordingly may be less reliable as an indicator of a particular educator’s quality.

Almost all services are rated as working towards, meeting or exceeding. As at December 2022, there were fewer than 15 services rated as requiring significant improvement. At the other end of the scale, fewer than 27 services had an ‘excellent’ rating (less than 0.2% of all services). One reason why there are not many services with an excellent rating is likely to be the requirement that providers separately apply to ACECQA for an excellent rating, and must re-apply every 3 years to retain it.²⁵ If providers do not re-apply, their rating reverts to ‘exceeding’. Providers might not see sufficient benefit in applying (and then re-applying) for the excellent rating.

Table 2.2: Number of services by National Quality Standard rating and service type, as at 1 April 2023

Service type	Significant improvement required	Working towards NQS	Meeting NQS	Exceeding NQS	Excellent
Centre based day care	5	850	5,150	1,857	17
Family day care	<5	144	199	46	<5
Outside school hours care	<5	570	3,110	470	<5
Total	<15	1,564	8,459	2,373	<27

Source: ACCC analysis of ACECQA and Department of Education administrative data.

Services in Major Cities tend to have better National Quality Standard ratings than other areas in Australia (figure 2.9). This has implications for all children in Outer Regional and remote areas, and particularly for First Nations children’s access to education and care, as the share of children from First Nations households is higher in Outer Regional and remote areas. We intend to explore this further as we progress the inquiry. As mentioned in chapter 1, National Quality Standard ratings are also lower, on average, in areas of relative disadvantage (figure 2.10).²⁶

²⁵ This is changing to 5 years from 1 July 2023. Refer to [ACECQA’s website](#) for more information, accessed 1 June 2023.

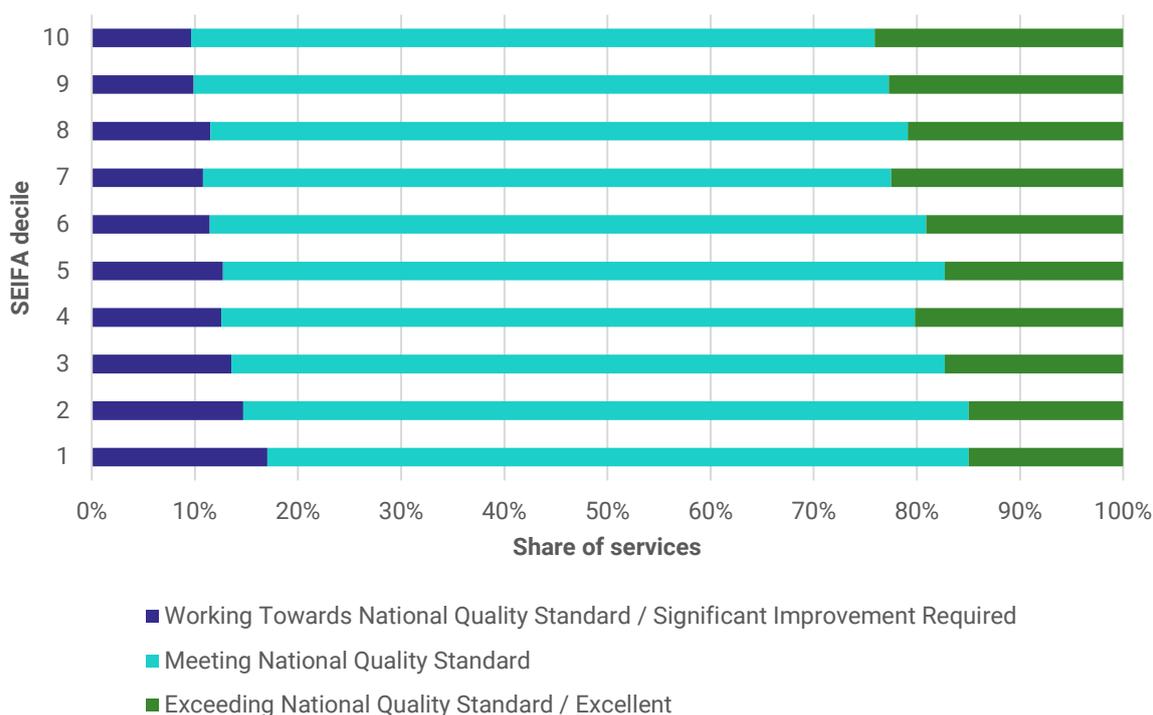
²⁶ See Bray, R. and Gray, M. ANU, Centre for Social Research and Methods, [submission 14 to Productivity Commission Inquiry into Early Childhood Education and Care](#), 29 April 2023, accessed 15 June 2023, p 18.

Figure 2.9: Share of services, by remoteness and National Quality Standard rating, December quarter 2022



Source: ACCC analysis of ACECQA and Department of Education administrative data.

Figure 2.10: Share of services, National Quality Standard rating and area SEIFA decile, December quarter 2022



Source: ACCC analysis of ACECQA and Department of Education administrative data.

The time taken for an initial assessment, and duration of time between quality assessments, can result in a lack of contemporary evidence to measure quality ratings for some services. About 9% of services had not been given a rating at the end of March 2023.²⁷ The ACCC estimates that the average time since a service was last assessed is about 3.3 years. The

²⁷ ACECQA, [National Quality Framework Snapshots Overall ratings](#), accessed 16 May 2023.

South Australian Royal Commission into Early Childhood Education and Care noted that some long day cares in South Australia have not been re-assessed since 2012.²⁸

2.2.2. Approved childcare places have been rising

When a childcare service is approved by their regulatory authority under the National Quality Framework, that approval includes a specified number of children who the service can provide care for (approved places). For centre based day care and family day care, a service's approved places is the maximum number of children the service can care for and is based on the physical size of the premises.²⁹

The ACCC understands that services often offer fewer places than they are approved for. There are many reasons this might occur, including (but not limited to):

- lack of staff availability to meet educator-to-child ratios required to offer approved places
- service preferences (for example, a preference to provide greater free space and/or higher educator ratios than offering approved places would allow for)
- temporary environmental factors (for example, non-operational air-conditioning in an area of the premises making it unusable).

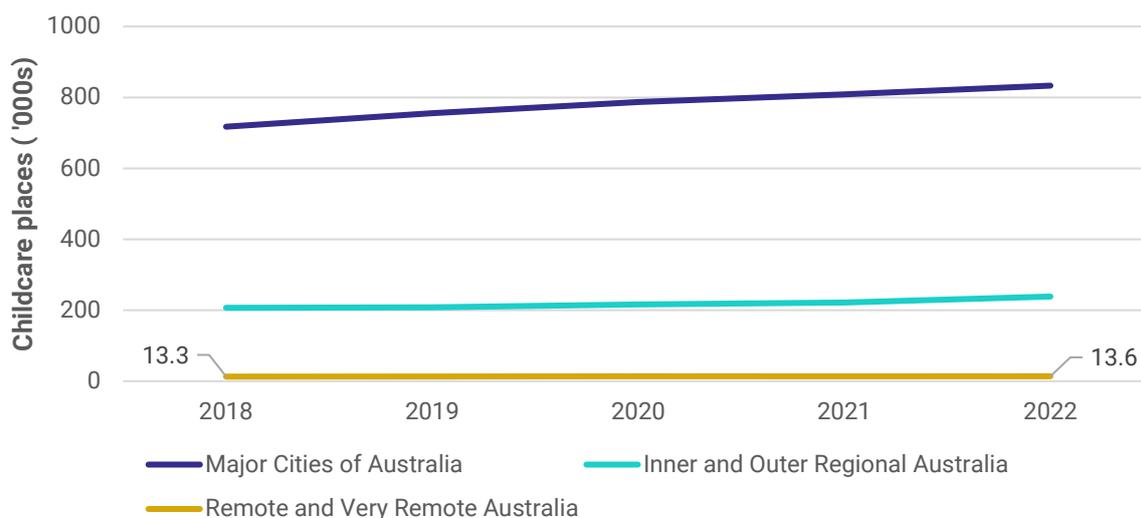
However, while the number of approved places represents a service's maximum capacity rather than actual capacity, it is still a useful metric to consider when looking at the supply of childcare services. The number of approved places has been growing over recent years (increasing by about 17% between 2018 and 2022), which is consistent with the growth in the number of households using childcare services and children enrolled in them, as discussed in chapter 1.

While the number of approved places is growing, this appears to be occurring primarily in more populated areas. As shown in figure 2.11, the increase in approved places between 2018 and 2022 has been driven by approved places in regional areas and Major Cities. The number of approved places in remote Australia has remained stable at about 14,000.

²⁸ SA Royal Commission into Early Childhood Education and Care, [Mapping long day care and non-government preschool in South Australia](#), Deloitte Access Economics, March 2023, p 23, accessed 16 May 2023.

²⁹ National Quality Framework approval considers a range of factors in approving the maximum number of children a service may care for, including Quality Area 3 – Physical Environment, and the amount of indoor and outdoor space available.

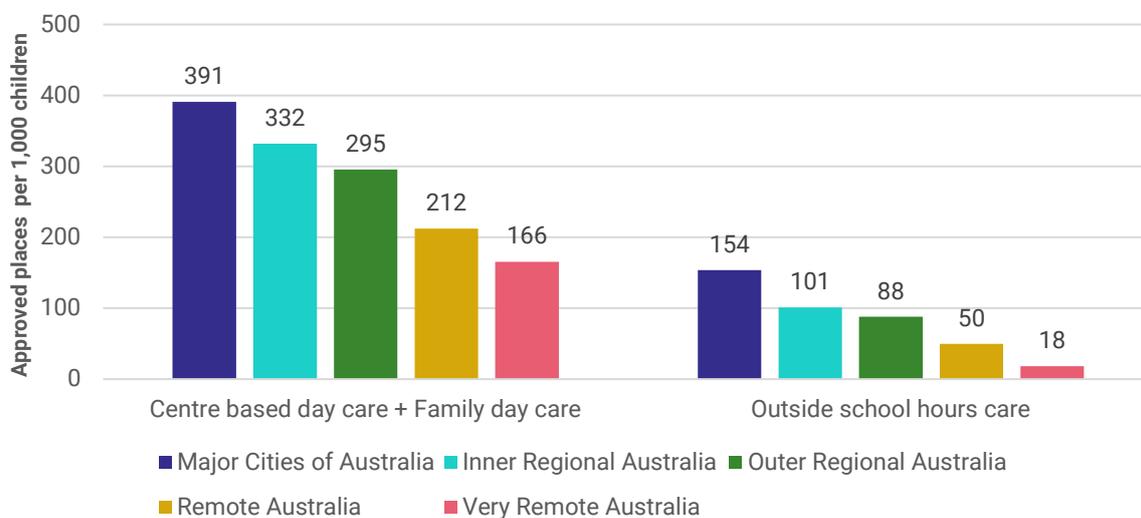
Figure 2.11: Number of approved childcare places, by remoteness



Source: ACCC analysis of ACECQA administrative data.

Even after adjusting for differences in population size, there are a significantly greater number of approved childcare places per child in Major Cities, and a somewhat greater number in Inner Regional and Outer Regional Australian, than in Remote and Very Remote Australia (figure 2.12).

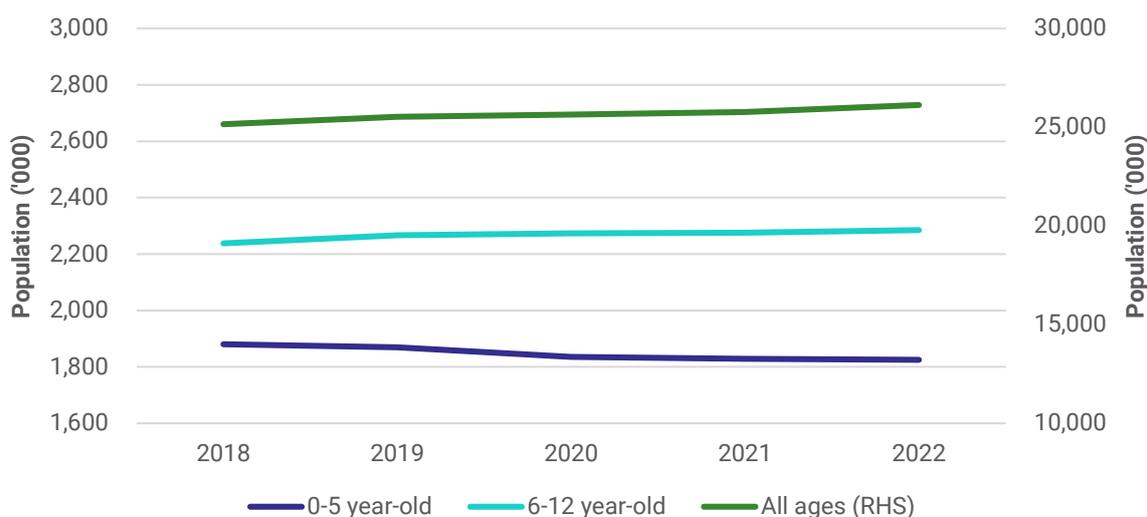
Figure 2.12: Approved childcare places per 1,000 children by remoteness, 2022



Source: ACCC analysis of ACECQA and Department of Education administrative data.

The increase in enrolled hours of childcare and approved places has occurred despite a decline in the population of children aged 0–12. As shown below in figure 2.13, while Australia’s total population grew from 2018 to 2022, the number of children aged 0–5 fell and the number of children aged 6–12 remained relatively stable.

Figure 2.13: Australian population by age group, 2018–2022



Source: ACCC analysis of ABS estimated resident population data.

2.3. Geographic aspects of childcare services

2.3.1. Introduction

To this stage of the inquiry, we have examined how parents and guardians choose childcare services, including how far they are willing to travel. The analysis in this section focuses on these demand-side considerations.

We have also been gathering information from suppliers of childcare services, including providers' internal documents, which will help us understand how suppliers view competition, with whom they consider they compete and how they react to service offerings of competitors. These supply side factors will be considered later in our inquiry.

2.3.2. Parents and guardians choose from centre based day care services that are close by

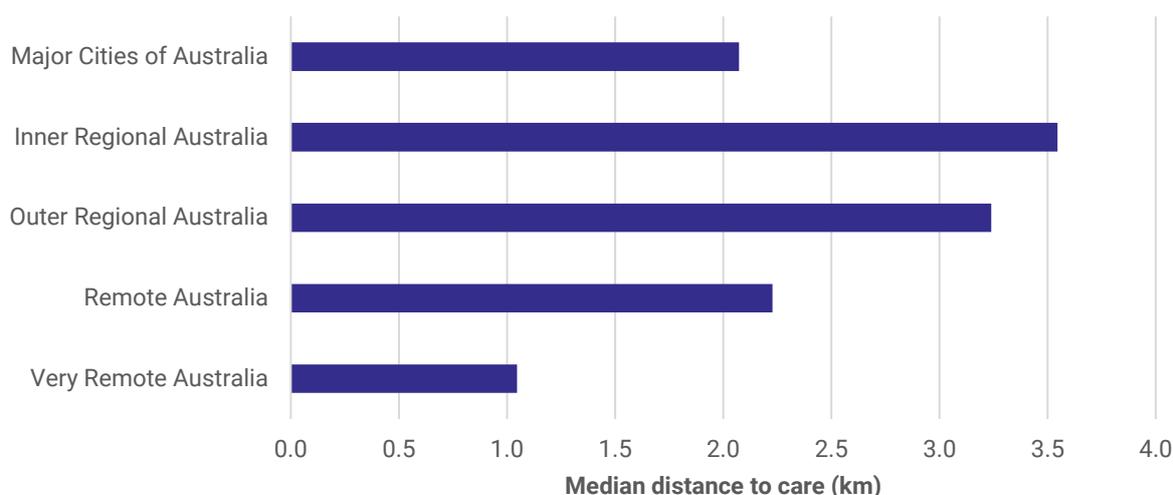
Location is a key consideration for parents and guardians when choosing a childcare service, as discussed in more detail below. This section considers the geographic factors in the supply of childcare services, informed by analysis of how far children travel between home and childcare.

The analysis in this section only considers centre based day care. Outside school hours care is predominantly provided in a child's school, thus parents and guardians have limited choice in a provider, while in home care is provided in a child's home. Due to data limitations around family day care educators' location, we are unable to undertake similar analysis for family day care.

Parents and guardians tend to consider and use centre based day care services close to home

As shown in figure 2.14, the median distance a child travelled to a centre based day care service in Major Cities in 2022 was around 2 kilometres. In Inner Regional and Outer Regional Australia, the median is slightly higher (3.25 to 3.5 kilometres). Interestingly, the median distance travelled in Remote and Very Remote Australia is much shorter. However, this may be explained by towns in these areas being geographically small (where residential houses and service providers are closely co-located) and large distances between towns mean that a child either attends a service close by or not at all.

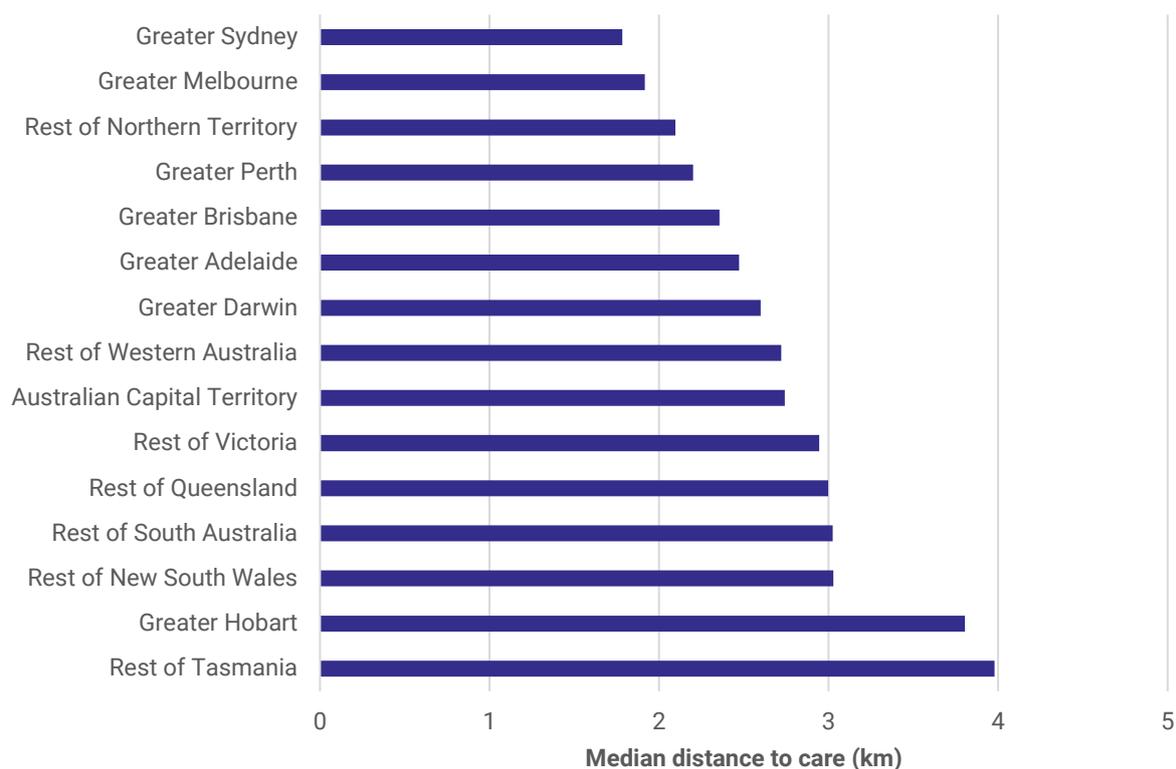
Figure 2.14: Median distance to care for children using childcare by remoteness, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

As shown in figure 2.15, parents and guardians in more densely populated greater capital city areas appear to travel shorter distances to childcare than those outside of greater capital cities. One exception is the rest of Northern Territory area, which is mainly comprised of Remote and Very Remote areas. As noted above, households in these areas appear to travel shorter distances to childcare than in regional areas.

Figure 2.15: Median distance to care for children using childcare by greater capital city statistical area, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

The finding that most parents travel short distances (2 to 3 kilometres) to centre based day care is consistent with the parents and guardians survey results, with about 3 quarters of respondents indicating that they are at most willing to travel 15 minutes for a childcare service. This response was also consistently the most common for respondents in all geographic areas.

These findings may indicate that markets for centre based day care services are relatively small, perhaps 2 to 3 kilometres in radius. However, as noted above, we are also reviewing information about supply-side factors such as how operators of centres view geographic competition. This will inform our analysis as the inquiry progresses.

We also note that precise geographic boundaries of markets will vary depending on the specific features of each local area. The analysis of geographic factors here is general in nature rather than seeking to define precise boundaries of geographic markets.

Concentration levels for centre based day care services differs across regions

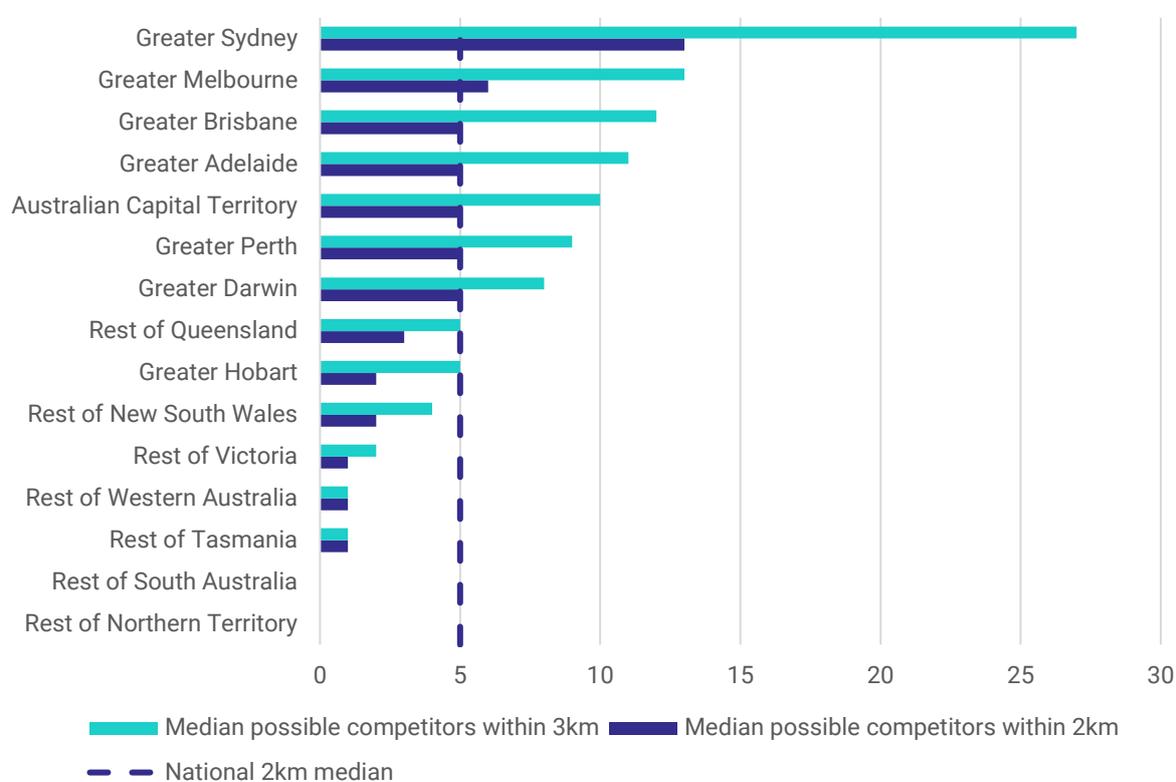
While there is some limited substitutability between service types, parents most commonly choose a service among providers of the same service type. As noted above, parents are also most likely to consider centre based day care services within close proximity to their home.

Given the above analysis on distances actually travelled and responses to the parents and guardians survey in relation to willingness to travel, the ACCC has examined concentration

levels by looking at the number of centres within a geographic area. For this purpose, we have adopted a 2 to 3 kilometre radius around services for centre based day care services. While the specific local factors for a given local market may mean that the relevant geographic area differs from this range, a 2 to 3 kilometre radius is a useful starting point for examining market concentration.

As shown in figure 2.16 below, the national median number of potential competitors within 2 kilometres of a service is 5. This doubles (to 10) when a radius of 3 kilometres is considered.³⁰ However, the national median obscures considerable variation at the regional level, with services in more densely populated areas having a larger number of potential competitors close by. This is most pronounced in Greater Sydney, where the median number of potential competitors is more than double the national median within both 2 kilometres of a service (at 13) and within 3 kilometres of a service (at 27).

Figure 2.16: Median possible competitors within 2 km and 3 km of a service, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

³⁰ When a broader geographic radius of 5 kilometres is considered, the median number of competitors nationally is significantly larger, at 29.

2.3.3. Providers of outside school hours care may compete with other providers for the local school market

As noted in chapter 1, outside school hours care services include before school care, after school care and vacation care. Before and after school care provides care for school-aged children before and after school hours, while vacation care provides care for longer periods of time during school holiday periods. A particular outside school hours care service may provide one, 2 or all 3 of those services. Analysis of data provided to the ACCC shows that during school term periods, after school care is significantly more popular than before school care.

Outside school hours care services may offer care to below-school-aged children in some limited cases (for example, younger children may be permitted to attend vacation care during school holiday periods), however, for the purposes of receiving Child Care Subsidy, an outside school hours care service must primarily provide care to children who attend school.³¹

Most outside school hours care services are associated with a particular primary school, with sessions of care provided on the school premises to children who attend that school. In some cases, outside school hours care services are run by the school itself, or by the school's Parents and Citizens Committee. In other cases, the school may select a third-party provider to operate the service. In these cases, outside school hours care providers may compete with other outside school hours care providers for the right to run a particular service, for example, through a tender process.

Where an outside school hours service is operated by a third party, the relationship between the provider and associated school is often governed by a licence agreement that sets out terms in relation to licence fees paid to the school for the use of their premises, fees charged to parents, the length of the agreement and renewal options.

The way in which an outside school hours care provider is selected to run a service and the nature of the agreement with the school is dependent on the type of school, and the jurisdiction. For example:

- If a government school wishes to engage a third party outside school hours care service provider, it must follow the relevant procurement policy set by the state or territory government. In most jurisdictions, this requires interested providers to provide an open market expression of interest.
 - Across all jurisdictions, most contracts with government schools and third-party outside school hours care providers are for a period of 2 to 5 years. In most cases, contracts have the option to be extended for another 2 to 3 years, subject to the service's performance.
 - While there is variation across jurisdictions, schools are usually required to go out to tender after the contract period and any extension period have passed (often between 5 and 9 years), or more frequently as required.
- In non-government schools, there is greater variability in how third-party providers are selected. In some cases, a school may have complete discretion in how they select a provider. In other cases, schools may be required to follow a particular policy or procedure. For example, some Catholic schools are required to follow procurement policies set by the relevant dioceses.

³¹ [Child Care Subsidy Minister's Rules 2017](#), s 45(3)(b).

- Just as there is greater variability in how a third-party outside school hours care provider may be selected in a non-government school, there is also wide variability in the contractual terms that govern these relationships. Among contracts of this nature that the ACCC has seen as part of this inquiry, a contract length of around 3 years, with an option to extend, is common.

As a result of the above features of outside school hours care services and how they are defined, the geography of outside school hours care markets is more difficult to generalise. In the case of government schools, it may be possible to approximate geographic boundaries as the catchment areas of each school. Here each market would have a single supplier of outside school hours care services being the provider at each school. In the case of non-government schools, where parents and guardians are not bound by catchment areas, geography of the associated outside school hours care markets may not be able to be defined.

2.4. Childcare markets – demand and supply side considerations

2.4.1. How do parents and guardians choose a childcare service?

Parents and guardians consider a range of factors when choosing a provider, but location is critical

Centre based day care and family day care

The considerations that are most important to parents and guardians when choosing a centre based day care or family day care service are location, availability, quality and affordability.

Affordability is the most important consideration for parents and guardians when deciding how much formal childcare to use.³² About 60% of respondents to the ACCC's parents and guardians survey said fees are somewhat financially burdensome and a further 14% said they struggle to pay fees.³³ Many parents and guardians reported on the challenges created by expensive fees:

"The cost meant we determined it wasn't worth my wife returning to work."

"It's too expensive. We can barely afford to pay."

"It's expensive!!!! \$145 a day ... how!!!! This isn't even in the city, it's in the outer suburbs."

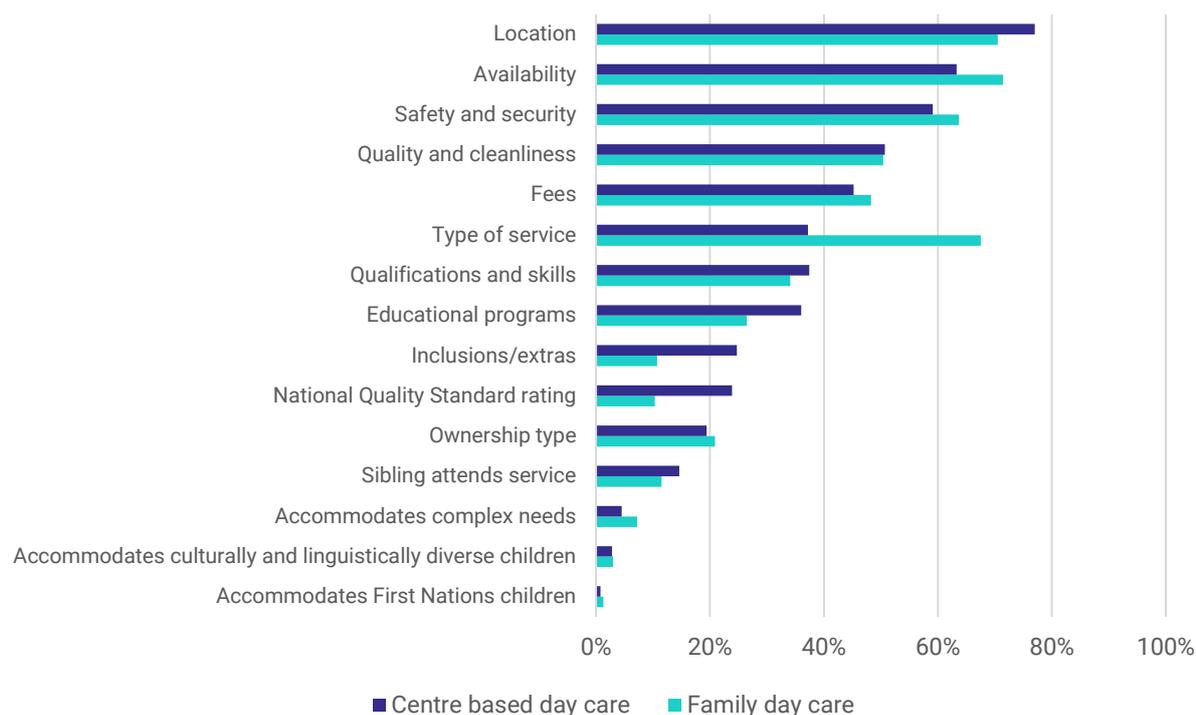
³² Preliminary results from the ACCC's voluntary parents and guardians survey show that, of parents who use a mix of formal and informal childcare, 48% use informal care for financial reasons, making it the main reason these parents use informal childcare. (45% use informal care to maintain or promote family or cultural connection.) The results also show that 45% of parents and guardians limit their use of formal childcare due to fees, making it the main reason parents limit their use of formal childcare. See also Grattan Institute, [Cheaper childcare: A practical plan to boost female workforce participation](#), 2020, pp 22–32 [for a discussion of the impact childcare affordability has on parents' and guardians' choices about how much to work](#).

³³ These percentages may be under reported, as responses to our voluntary parents and guardians survey from households who reported having income between \$0-\$73,000 was lower than what would be expected from a sample representative of the whole population, whereas the sample size in other income brackets was similar to the broader population.

However, once parents and guardians have set their budget and decided how much childcare they can afford to use, parents appear to focus on other considerations when choosing the specific service (figure 2.17).³⁴ For example, one parent noted:

“Pricing was a concern when we started the process but most places were priced similarly so in the end it didn’t really influence our final decision. We mostly went with the location, feel and inclusion of the centre.”

Figure 2.17: Five most important factors when choosing childcare, centre based day care and family day care users



Source: ACCC voluntary parents and guardians survey.

Research indicates that parents and guardians first tend to create a list of services located close to their home.³⁵ Preliminary results from the ACCC’s voluntary parents and guardians survey show that over three-quarters of respondents using centre based day care said the location of the service was among their top 5 most important decision-making factors, making it the highest ranked factor.³⁶ About 71% of parents and guardians using family day care said location was among their top 5 most important factors, making it the equal most important factor along with availability.

³⁴ This is consistent with previous studies’ findings: ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, accessed 7 June 2023, p 49; The Front Project, [Work and play: Understanding how Australian families experience early childhood education and care](#), 2021, accessed 7 June 2023, p 19; Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, accessed 7 June 2023, p 417.

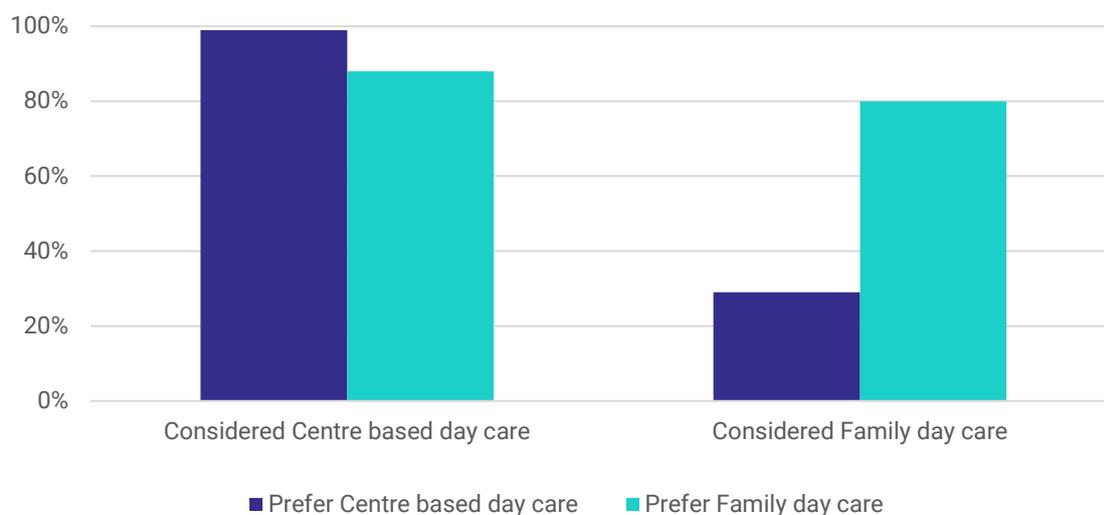
³⁵ Hall and Partners (prepared for ACECQA), [Families qualitative research project - Stage 2: Final report](#), 2018, accessed 15 June 2023, p 29.

³⁶ This is consistent with previous studies’ findings about the importance of location being close to home: ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, p 49; Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, p 417.

Parents and guardians then shortlist services based on provider type, quality and availability considerations.³⁷ Word of mouth (including recommendations from family and friends, and online reviews) plays an important role in the shortlisting process.³⁸

Preliminary results from the ACCC’s parents and guardians survey show that parents and guardians with children in family day care see the type of service as a more important consideration when choosing a service, relative to parents and guardians of children in centre based day care (figure 2.18). However, the survey also shows that, if parents and guardians prefer family day care, they consider centre based day care services as well (figure 2.18). In contrast, if parents and guardians prefer centre based day care, they generally only consider centre based day care.

Figure 2.18: Provider type considered, by preferred provider type



Source: ACCC voluntary parents and guardians survey.

Research has shown that some parents and guardians believe some qualities of centre based day care are not available in family day care (for example, perceptions about greater oversight and accountability, more opportunities to socialise and better facilitation of preparedness for school).³⁹ Similarly, some parents and guardians perceive family day care to have qualities that centre based day care does not have, such as reduced likelihood of illness due to their child mixing with a smaller number of other children and a ‘home like’ environment.⁴⁰ The research found that parents and guardians prefer environments they perceive as more home like and nurturing when children are very young (for example, under 12 months old) and as the children get older, they are more focussed on opportunities for their children to prepare for school, develop social skills and expand their range of experiences. This suggests that family day care might be more likely to be considered and preferred by some parents and guardians when their children are very young, and that as the

³⁷ This assumes parents have multiple options to choose from. In remote locations, parents sometimes do not have a choice of service. Hall and Partners, [Families qualitative research project](#), 2018, p 29.

³⁸ Preliminary results from the ACCC’s parents and guardians survey show 54% of parents get information from friends/family, and 44% from online reviews, the 2 most popular mechanisms after in person visits. Hall and Partners, [Families qualitative research project](#), 2018, p 29.

³⁹ The Front Project, [Work and play](#), 2021, pp 23 & 27; Hall and Partners, [Families qualitative research project](#), 2018, p 29.

⁴⁰ The Front Project, [Work and play](#), 2021, p 23; Hall and Partners, [Families qualitative research project](#), 2018, p 29; Productivity Commission, [Childcare and Early Childhood Learning, Volume 1](#), 2014, p 92.

children get older, centre based day care becomes a more appealing option.⁴¹ Views about the perceived differences between the qualities of centre based day care and family day care were expressed by some respondents to the parents and guardians survey. For example, one respondent noted:

“I wanted Family Day Care because the environment is home based and relaxed. Centre Day Cares were too over stimulating for my child. Staff turnover there was also a concern. Centres felt impersonal and transactional. Not good value for money and not particularly nurturing.”

Parents and guardians typically visit their short-listed services. At the visits, parents and guardians take in a range of information to make a quality assessment.⁴² Several things are important to parents and guardians when considering quality:⁴³

- Health, safety, security and cleanliness.
- Whether the service has sufficient staff and continuity of staff.
- The nature of relationships with, and between, educators and children (such as how friendly the educators are).
- Whether the service has highly skilled / qualified educators.
- The educational programming and activities offered.
- The general ‘feel’ of the service (for example, how happy and comfortable the children appear to be, the level of organisation or chaos).
- The level of cultural awareness and sensitivity, and connections to the broader community.
- The service’s ability to accommodate complex needs.

Of these, studies consistently find that health and safety is one of the most important, if not the most important factor.⁴⁴ Findings are mixed about which of the other dimensions parents and guardians value more highly than others, particularly when it comes to the relative importance of educational programming and educators’ qualifications and skills.⁴⁵ In addition, priorities vary for parents and guardians depending on their characteristics (and the characteristics of their children) and the type of care they use or prefer.⁴⁶ A number of respondents to our parents and guardians survey referred to the importance of cultural and religious considerations:

“We also chose based on religion, we go to a Jewish centre.”

⁴¹ The Front Project, [Work and play](#), 2021, p 23; Hall and Partners, [Families qualitative research project](#), 2018, pp 3, 16 & 43–44; Productivity Commission, [Childcare and Early Childhood Learning, Volume 1](#), 2014, pp 66–67.

⁴² Hall and Partners, [Families qualitative research project](#), 2018, p 29.

⁴³ ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, p 49; AIFS, [Child Care Package Evaluation: Final report](#), 2021, p 37; The Front Project, [Work and play](#), 2021, p 19; Hall and Partners, [Families qualitative research project](#), 2018, p 19; Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, p 417.

⁴⁴ AIFS, [Child Care Package Evaluation: Final report](#), 2021, p 37; The Front Project, [Work and play](#), 2021, p 19.

⁴⁵ Preliminary results from the ACCC’s parents and guardians survey find the importance of these factors to be lower than some other studies. See for example: ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, p 49 and AIFS, [Child Care Package Evaluation: Final report](#), 2021, p 37.

⁴⁶ For example, priorities have been found to vary by household income, cultural background and the parents’ values (e.g. some value developing life skills like cooking, while others focus on academic skills). ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, p 49; The Front Project, [Work and play](#), 2021, p 23; Hall and Partners, [Families qualitative research project](#), 2018, pp 44; 73; Productivity Commission, [Childcare and Early Childhood Learning, Volume 1](#), 2014, pp 66–67.

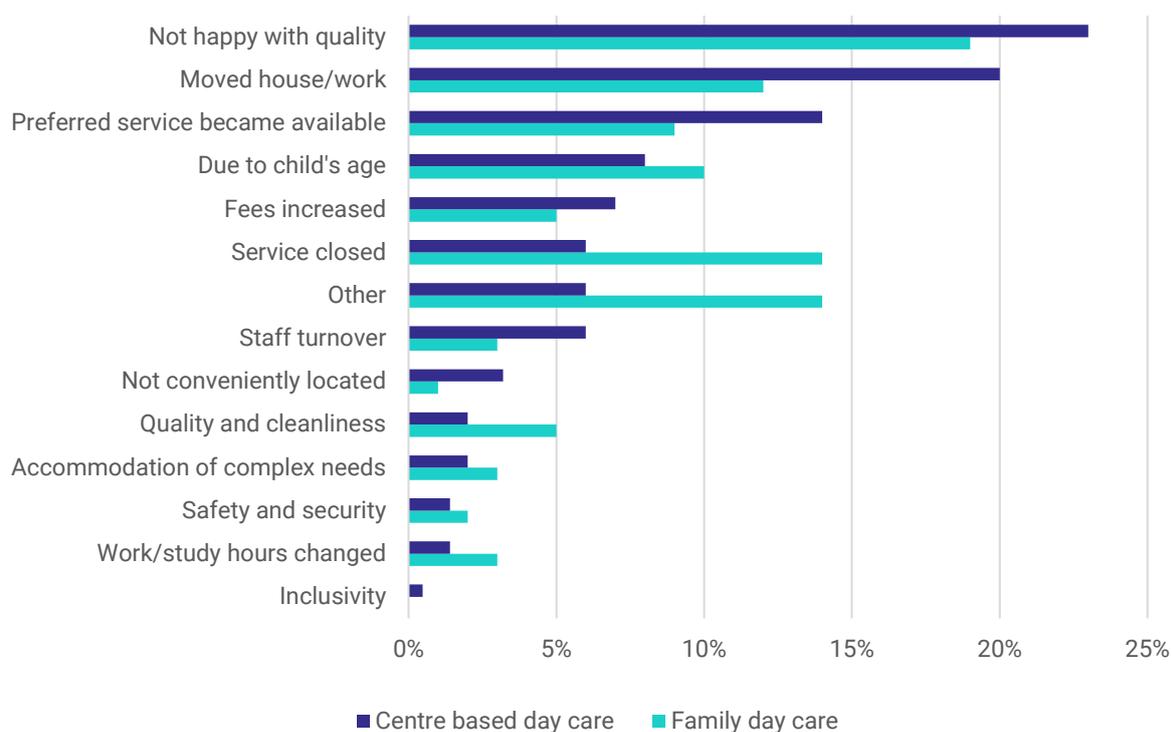
“My main concern was the diversity and inclusion of the ECEC provider. I only wanted to pick a childcare where my child was not the only south American.”

“Finally, as a parent who is raising their children bilingual, there is surprisingly pretty much little to no bilingual daycares. Given Australia is so multicultural, I think it would seriously benefit the next generation if there is more funding or focus on providing more bilingual daycares. Or at the very least, to make it easier to search for daycares with a particular language in mind.”

“I wanted a centre that incorporated Auslan (sign language).”

Perception of quality is also a key factor in parents and guardians choosing to switch providers. Preliminary results of the ACCC’s voluntary parents and guardians survey show that the most common reason parents and guardians switched centre based day care and family day care services was because they were not happy with the quality (figure 2.19). The price of a service (specifically an increase in price) was a less common reason given for switching providers. This is consistent with responses in relation to the initial decision about which service to use, discussed above, where price was also a less important consideration than other factors.

Figure 2.19: Reasons for switching, centre based day care and family day care users



Source: ACCC voluntary parents and guardians survey.

However, the importance parents and guardians place on quality – and particularly on having established relationships with the service and between their child and educators – can also create a high cost of changing services.⁴⁷ Switching services would mean the child needs to settle into a new environment and build new relationships, which some parents and guardians may wish to avoid. This presents a barrier to switching that limits competition between providers and its associated benefits (for example, lower prices, higher quality).

⁴⁷ Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, p 369.

According to preliminary results of the ACCC's voluntary parents and guardians survey, of the 65% of parents and guardians who had not switched services since 2020, about one in 5 said this was because they did not want to disrupt their children. 58% said it was because they were happy with the service.⁴⁸

"My familiarity with staff also helped my decision to keep sending children to the centre."

"Quality of educators was key, quality of relationship with my family was important, high retention rate of staff also very important."

While parents and guardians clearly care about quality, many do not place high importance specifically on the National Quality Standards ratings, when choosing a service.⁴⁹ This is consistent with previous research that finds awareness of the National Quality Framework and National Quality Standards ratings is low.⁵⁰

Parents' and guardians' awareness of these ratings is important because the more information available to assist them choose a service, the more competitive a market is likely to be. Parents and guardians face challenges when assessing the quality of alternative services because many aspects of quality are unobservable.⁵¹ This means it can be difficult for providers to communicate aspects of quality to parents and guardians and hard for parents and guardians to judge service quality when choosing a service. This in turn limits the extent to which competition can act to constrain pricing and raise quality. The challenges associated with comparing services were highlighted by a number of respondents to the parents and guardians survey. For example:

"There is not enough information out there for parents to make an informed decision about finding and choosing a childcare service. In my parents' group, I was the only one who knew about StartingBlocks, quality ratings, and had researched quality services in my local area..."

"It was confusing starting out looking at options – all different websites, policies (inclusions, paying for public holidays etc), different hours. It would have been helpful to have a website comparator for all centres in the area (even if fees were or were not available on it)."

If parents and guardians are comfortable with the quality of the service – and it is open for the days and hours they need – a large share (84%) then put their child on a waiting list, or several waiting lists.⁵² If they need a place immediately and one is not available, or they need a place within a timeframe shorter than waitlists permit, they make difficult trade-offs between quality, location and affordability, or rely on informal care.⁵³ A number of respondents to the ACCC's parents and guardians survey highlighted the importance of availability in their decision-making. For example:

"It's not so much about a 'choice' but what's available. My son has been on 5 waitlists since I found out I was pregnant and he just turned 6 months. We are yet to receive any offers..."

⁴⁸ 14% said it was because they didn't have any other services available to them.

⁴⁹ ACECQA also finds that parents rank the quality rating as their least important consideration when choosing a service. ACECQA, [National Quality Framework Annual Performance Report 2021](#), January 2022, p 49.

⁵⁰ Hall and Partners, [Families qualitative research project](#), 2018, p 4.

⁵¹ Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, p 379.

⁵² Assuming they do not need a place immediately. Hall and Partners, [Families qualitative research project](#), 2018, pp 44, 73.

⁵³ Preliminary results from the ACCC's voluntary parents and guardians survey showed that, of parents using informal care, the most common reason for not using formal care was that they were still waiting for a place.

“We had to settle for child care services due to lack of availability at preferred care providers. We are still on the waitlist at 2 other centres where we would prefer to be enrolled. A lot of the centres we toured advised that the waitlists were years long and parents put their names down before the child is born and, in some cases, before they are even pregnant...”

“It all comes down to availability. In an ideal world you can compare the various factors – including price – but many of them are irrelevant when all you need is a place.”

Notwithstanding recent growth in approved places in Major Cities and regional areas, the challenges parents and guardians continue to face when it comes to availability, suggests that the barriers (for example, providers unable to expand capacity) identified in the 2015 Productivity Commission have yet to be overcome by providers.⁵⁴ If the number of realistic alternatives for parents and guardians is low or they are otherwise prevented from taking advantage of other services due to waitlists or the lack of existence of multiple services in a local area, competition can only play a very limited, if any, role in lowering prices and improving quality.⁵⁵

Availability also affects parents and guardians’ ability to switch services. According to preliminary results of the ACCC’s parents and guardians survey, of the 65% of parents and guardians who had not switched services since 2020, just under one in 5 said this was either because they did not have any other services available to them or they were waiting for a place at a different service.

Outside school hours care

Previous research has found that parents’ and guardians’ decisions about which outside school hours care service to use differ from parents and guardians of young children in the following ways:⁵⁶

- There are fewer choices available, and they are primarily limited to school-based programs – many parents and guardians simply use the service provided at their child’s school because it is the most convenient and safest option – and often the only option.
- Parents and guardians focus on whether the service is going to be fun, flexible, enjoyable and relaxing for their child. If parents and guardians determine the school-based service available to them would not be enjoyable (for example, through word of mouth), this can lead them to consider non-school based options (where these exist).
- Children’s preferences and their friends’ attendance play an important role in the decision.
- While there is less choice, outside school hours care places are more available for younger children, and sometimes there is no waitlist.
- Parents and guardians who get frustrated or disappointed by the options available to them sometimes re-evaluate whether to send their children to care at all, given the relative independence of primary school aged children and the shorter period of care needed.

Preliminary results of the ACCC’s voluntary parents and guardians survey show that the relative importance of different factors to parents and guardians when choosing an outside

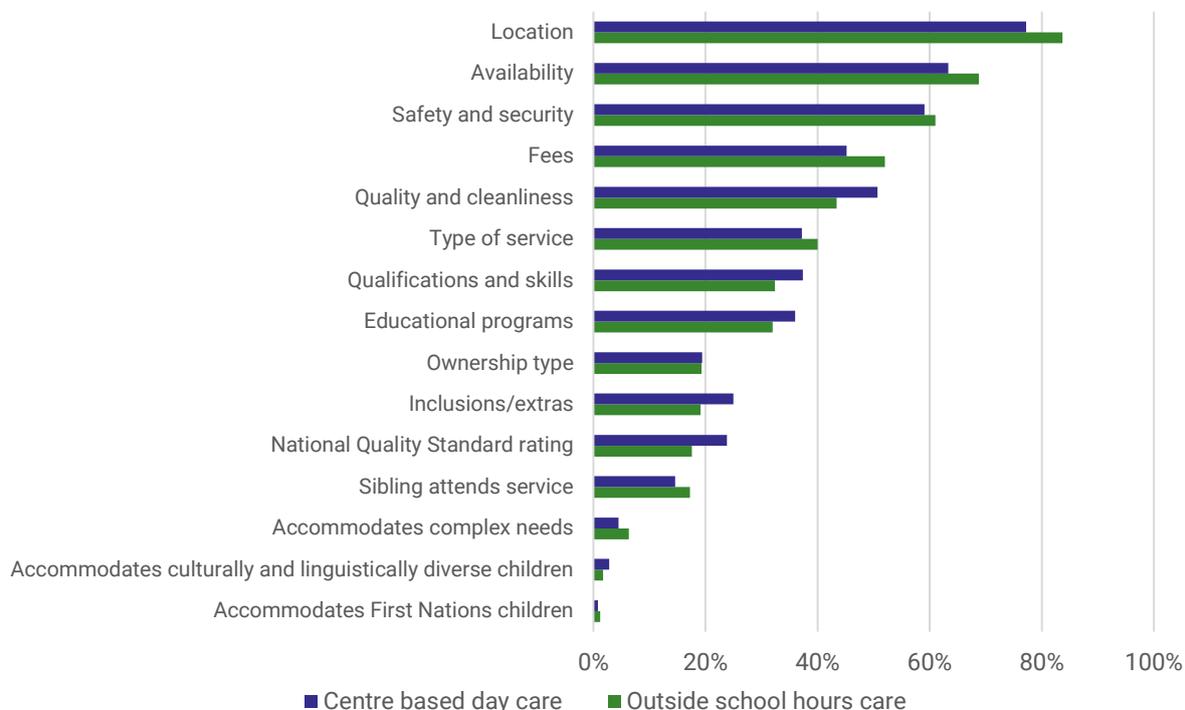
⁵⁴ Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, pp 358–359.

⁵⁵ Productivity Commission, [Childcare and Early Childhood Learning, Volume 2](#), 2014, p 369.

⁵⁶ Hall and Partners, [Families qualitative research project](#), 2018, pp 32-25; Productivity Commission, [Childcare and Early Childhood Learning, Volumes 1 and 2](#), 2014, p 66, 369, 371.

school hours care service is broadly the same as for centre based day care. Location is even more important to parents and guardians of children in outside school hours care than it is to parents and guardians of children in centre based day care, as are fees (figure 2.20).

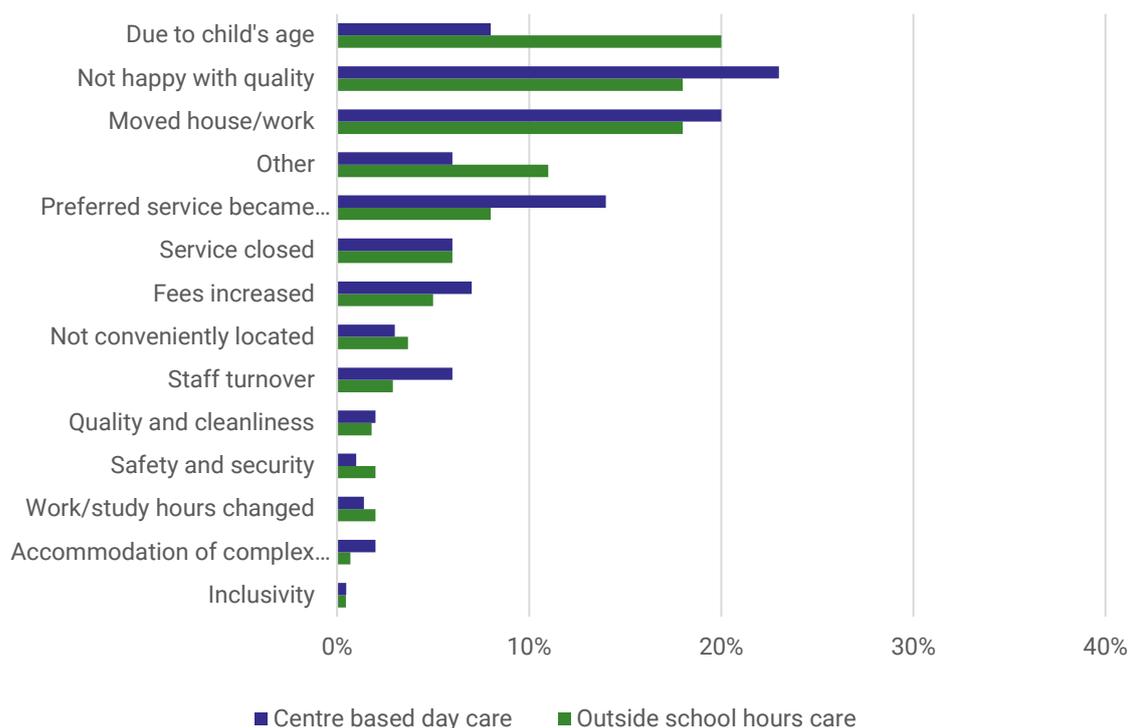
Figure 2.20: Five most important factors when choosing childcare, outside school hours care and centre based day care users



Source: ACCC voluntary parents and guardians survey.

Parents and guardians of children in outside school hours care place somewhat less importance on quality when choosing a service compared to those with children in centre based day care, and quality was somewhat less of a driver of their decisions to switch outside school hours care services (figure 2.21).

Figure 2.21: Reasons for switching, outside school hours care and centre based day care users



Source: ACCC voluntary parents and guardians survey.

In home care

For in home care, households are matched with educators based on needs via a process managed by in home care support agencies.⁵⁷ The preliminary sample size of in home care respondents to the ACCC’s parents and guardians survey was not large enough to draw inferences about the preferences of these people, but previous research suggests that availability and affordability are acute issues.⁵⁸ A number of respondents to the ACCC’s parents and guardians survey noted the difficulties associated with qualifying for and using in home care. For example:

“It seems ridiculously hard to get in home childcare educators at the moment. We tried unsuccessfully with one agency for 4 months, and despite widespread advertising, they were unable to find anyone for us.”

“We did use in home care program but then they changed the program so it had to have a qualified educator which basically meant we could no longer get the in home care so went from getting a subsidy to having to pay someone full pay no subsidy to care for our children so I could work.”

“We looked into in-home care but the process was complex, and once we received NDIS approval we weren't eligible for it anyway.”

“My oldest child attends centre based care. Due to medical complexities, my youngest is unable to attend this centre. We looked at in home care for her but the

⁵⁷ AIFS, [In Home Care Evaluation Report](#), 2022, accessed 15 June 2023, p 7.

⁵⁸ AIFS, [Child Care Package Evaluation: Final report](#), 2021, pp iv–ix.

cost was prohibitive- double the out of pocket cost compared to centre based care. We can't afford to pay this so I haven't been able to return to work."

As noted above, the number of in home care services has been declining since 2018.

2.4.2. Preliminary review of provider considerations when setting prices

Based on our inquiry to date, childcare providers appear to use a mix of pricing approaches for their services and different service types may consider different factors when setting the prices for their services, as discussed below.

We will further investigate pricing strategies (including the extent to which costs impact pricing decisions) and how providers respond to existing government funding arrangements throughout the course of our inquiry.

Across most service types, providers say they consider the prices of nearby competitors to some degree when setting or changing their fees.

Independently changing prices to respond to a competitor is part of a competitive market. However, it is illegal for competitors to make formal or informal agreements about pricing instead of competing against each other. This includes agreeing to increase prices by a certain amount at a similar time.

Centre based day care

Large providers of centre based day care services appear to consider some common factors when setting prices for each of their services. For example, providers may consider:

- location of the service
- operational costs and inflation
- staff wages and superannuation costs, and whether to offer higher wages to attract and retain qualified staff
- demand from parents and sensitivity to price points
- the minimum occupancy levels needed to cover costs and encourage attendance
- prices of competing services in the area and any fee changes.

Large for-profit providers may also seek to maintain profitability and consider the profit level when setting fees.

For most providers, prices vary for different age groups to reflect the different staff costs based on mandated educator-to-child ratio requirements.

Some large providers, but not all, appear to consider the Child Care Subsidy hourly rate cap when setting fees and the level of co-contribution from parents and guardians.

One large for-profit provider models the impact of any price increase for each individual family to understand the individual change in out-of-pocket. Another large not-for-profit provider monitors the number of children who fall under the hourly rate cap.

Several large providers note they increase standard fees on an annual basis to keep pace with inflation, wage growth and any other increases in operational costs. Services appear to review their fees regularly but may not always increase prices. Providers may increase fees

differently across their services, depending on location, occupancy level and family expectations. One large not-for-profit provider noted it seeks to ensure price increases will be lower than average sector price increases and limited to once a year unless there are exceptional circumstances.

We understand many large providers share costs across all their services to enable cost recovery at a provider-group level. This approach also seeks to support any services making a loss at a point in time. Some providers note they operate at a loss in vulnerable areas to encourage participation in early childhood education and where they know parents and guardians cannot afford higher fees. Conversely, another large provider considers the ability of households to absorb higher fees.

While many services charge households for a public holiday (while the centre is closed), one large not-for-profit provider decided to stop charging for public holidays and offset this by a small increase in the daily fee. However, the provider noted that it was difficult for households to accurately compare fees when competitors continue to charge for public holidays.

Outside school hours care

The ACCC has received information from several large providers of outside school hours care services about factors they consider when setting fees.

Similar to centre based day care services, the standard fees typically differ across the different services of the provider. Many providers consider the size, anticipated demand and occupancy of a service, the location and demographic characteristics of an area (including average family incomes), the proximity to other services and fees of nearby services, wages of staff and other operating costs. There is also a mix of providers who consider the hourly rate cap and family co-contribution payment when setting fees, and those who do not. Providers also typically charge the same fee across all age groups.

For many providers, a key consideration that is unique to outside school hours care services is the licence or agreement with a particular school to offer services, which includes a licence fee paid to the school, as discussed above.

The extent to which these agreements influence fees differs across jurisdictions. For example, New South Wales Public School Agreements lock in fee increases for each year of the contracted term (normally 5 years) based on long term inflation estimates, and changes must be approved by the Department for Education. Whereas in Victoria, the fees need to be approved by the school council, which can impact the provider's ability to adjust fees.

An agreement may also include requirements about how and when fee adjustments can be made, such as that it must be approved by the school. One large provider noted there are expectations from the school about the fee level and pressure to limit fee increases, which the provider must account for, to protect their relationship with the school.

Another large provider noted that the length of the contract with a school was a consideration when setting fees. For example, a short-term contract would result in higher fees because it was harder to recruit staff for a short period, and this attracted more costs.

One provider notes it may decrease fees to win a school contract. In some cases, if a provider takes over a contract, it may inherit existing fees and cannot change the fees for a year.

Family day care

Family day care services typically employ educators as independent subcontractors, and each educator typically sets the fees paid by parents and guardians.

Family day care services also typically charge a levy to help meet the operating costs of administering the service. This can be called a family levy, a service levy, or an administrative levy. The value of the levy differs between services, for example we have seen recent levies advertised online range between \$1 to \$2.45 per hour.⁵⁹

In setting fees, family day care educators will consider these levies in addition to other costs they incur in providing services. Family day care educators will also incur additional costs, such as rent or mortgage repayments and utilities. Family day care educators also appear to be influenced by market pricing (including prices set by centre based day care services) when setting prices.

Some family day care educators will include meals in the session fee, while others may charge this as an additional fee or others may not provide meals at all.

We will continue to consider how services and educators set prices over the course of this inquiry, including the relationship between prices and costs.

2.5. Further analysis for our inquiry

Over the course of this inquiry we will further examine how markets for childcare services operate, including by considering:

- the declining trend in the number of family day care and in home care services and the implications for households living in areas of least advantage and regional and remote areas, respectively
- the implications of lower National Quality Standard ratings of providers outside Major Cities and in areas of relative disadvantage, including the extent to which this may disproportionately affect First Nations children's access to education and care
- supply side factors of the market structure, including with whom providers consider they compete and how they react to service offerings of competitors
- providers' pricing strategies and the relationship between prices and costs.

⁵⁹ See for example, [Wingecarribee Family Daycare](#); [Open Arms Care Inc Family Day Care](#); [Collective Family Day Care](#); [Moreland Family Day Care](#); [Greater Dandenong Family Day Care](#); [Murrindindi Family Day Care](#); [Bramble Bay Family Day Care](#); [South Australia Department of Education Family Day Care](#); [Foundations Family Day Care](#); [Robert Jull Family Day Care](#); [Wanslea Family Day Care](#); [Adventure Patch Family Day Care](#), all accessed 6 June 2023.

3. Price of childcare services

Key points

- In the December quarter 2022, the national average fee was:
 - \$123.64 per child per day for centre based day care
 - \$90.23 per child per day for family day care
 - \$30.00 per child per session for outside school hours care
 - \$301.42 per family per day for in home care.
- The average fee for each type of childcare service has increased faster than inflation and wage growth since the introduction of the new Child Care Subsidy policy in July 2018.
- Since July 2018, the national average fee rose by:
 - \$21 per child per day for centre based day care services
 - \$16 per child per day for family day care services
 - \$5 per child per session for outside school hours care
 - \$74 per day per family for in home care services.
- When accounting for inflation (real terms), the national average fee rose by:
 - 4% for centre based day care services and outside school hours care
 - 6% for family day care services
 - 15% for in home care services.
- Centre based day care services have the highest average daily fee in Major Cities of Australia, while family day care services have the highest average daily fee in Remote Australia.
- Average fees are higher in more advantaged socio-economic areas, however, the average fee for centre based day care has increased more in the least advantaged areas compared to the more advantaged areas since July 2018.

In the following chapters, we examine the fees charged to households for approved childcare services using Department of Education administrative data.⁶⁰ We have also received information about fees from several large service providers of centre based day care services and outside school hours care services.

This chapter outlines the national average fees for childcare services and how the fees have changed since July 2018. We also examine how fees vary by geographic region.

- Section 3.1 provides an overview of the national fees for childcare services.
- Section 3.2 outlines price changes since July 2018.
- Section 3.3 discusses how prices vary by geographic region.
- Section 3.4 outlines areas for further analysis in our inquiry.

⁶⁰ 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](#).

In chapter 4 we examine how the price of childcare may differ according to different characteristics of the service or the child in care, including the number of nearby services, the type and size of the service provider, the National Quality Standard rating, and the age and characteristics of the child in care.

In chapter 5 we discuss the out-of-pocket expense for households along with the Child Care Subsidy and hourly rate cap. As outlined in chapter 1, the Australian Government subsidises the price of childcare for households through the Child Care Subsidy and the Additional Child Care Subsidy. The subsidy is paid directly to the childcare service provider and covers a part of the childcare fee up to the hourly rate cap, leaving households with a gap fee to pay.⁶¹ This is referred to as the out-of-pocket expense and represents the 'true' price that households pay for childcare. Services can charge fees for childcare that exceed the hourly rate cap. In these instances, parents and guardians pay the total cost of the fee above the hourly rate cap.

3.1. Fees for childcare services

In the following chapters, we consider average childcare fees on a daily, session, and/or hourly basis depending on the type of service to reflect the different charging practices (see box 3.1).⁶² We look at daily fees for centre based day care, family day care and in home care, and the average session fee for outside school hours care as this is typically how parents are charged for those services. However, we acknowledge the average fees and expenses presented in these chapters may mask the significant variation in what households pay.

In some cases, we use a derived hourly fee for each service type to compare fees across the different service types and to compare to the hourly rate cap (see chapter 5). We also look at the hourly fee to account for different session lengths when comparing prices of services.

Where relevant, we examine the fees for centre based day care and family day care together as there may be some limited substitutability between these services in some circumstances for some households, as discussed in chapter 2.

⁶¹ In some circumstances, the Additional Child Care Subsidy will subsidise 100% of the fee charged where it is equal to or below the hourly rate cap, or up to 120% of the hourly rate cap where the fee charged is above the hourly rate cap.

⁶² 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, and the average hourly fee is the total fees for the quarter divided by the total hours charged for the quarter.

Box 3.1: Charging practices of childcare services

Centre based day care services most commonly charge a daily fee for a full day session of care (such as for 10 or 12 hours). Services may also offer shorter or part-day sessions of care (such as for 4 or 6 hours), however these are much less commonly used. These sessions may attract different fees. While it seems uncommon for these services to offer an hourly fee, some services may offer occasional care, which is typically charged by the hour. Services may also differentiate their charging practices, such as by charging or not charging for public holidays. Services may also offer discounts on fees, such as for holidays or other long-term absences, or fee discounts for staff members.

Family day care services may charge a daily fee or an hourly fee. Each individual educator will set their own individual fee schedule and operating hours. Family day care services may operate for fewer hours a day compared to centre based day care.

Outside school hours care services typically offer a before and/or after school care session. The fees are charged by session and the length of the session may differ between services, with before school care typically being a shorter session than after school care. These services may also offer vacation care during school holidays, which typically attract a daily fee for a full day of care.

In home care services tend to charge for an agreed period of time with the fee covering the entire family, which can include multiple children. These services are directed at households in geographically isolated areas, working non-standard or variable hours, and for those children with complex or challenging needs. As such, the charging practices may differ on a case-by-case basis.

3.1.1. National average fees for childcare services in 2022

In the December quarter 2022, the national average fee was:

- \$123.64 per child per day for centre based day care
- \$90.23 per child per day for family day care
- \$30.00 per child per session for outside school hours care, and
- \$301.42 per family per day for in home care.

We find there is a sizeable variation in the average fees across all service types in the December quarter 2022, as the middle 50% (interquartile range) of services range from:

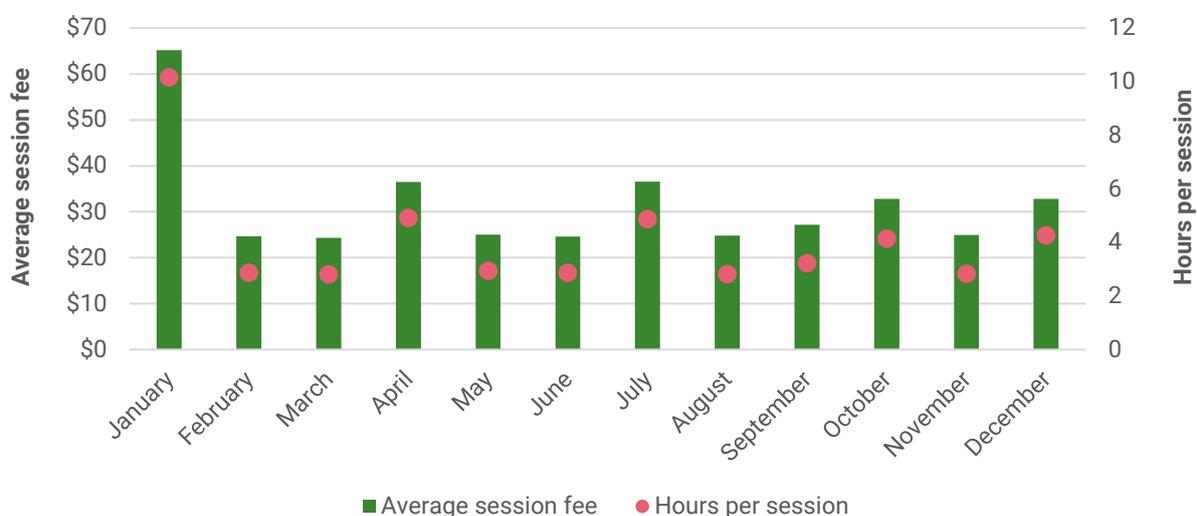
- \$108 to \$134 per child per day for centre based day care
- \$82 to \$100 per child per day for family day care
- \$25 to \$36 per child per session for outside school hours care, and
- \$255 to \$319 per family per day for in home care.

There is significant seasonality for some childcare services, where the session and daily fees are higher due to longer hours of care in the school holiday periods. When we consider the hourly fee for these services, it is slightly lower during these periods due to the longer session lengths. We note this seasonality may inflate the average fee for quarters that contain school holiday periods, where discussed in this report.

For outside school hours services (figure 3.1), the seasonality is most evident in January, when children are likely in vacation care for most of the month and attend a much longer

session. For example, in January 2022, the average session fee was about \$65 compared to about \$25 per session in February 2022.

Figure 3.1: Average session fee and hours per session for outside school hours care services, 2022



Source: ACCC analysis of Department of Education administrative data.

The trend is similar for family day care services and in home care services but less pronounced than outside school hours care services. For example, for family day care services, the average daily fee in January 2022 was about \$100 per day compared to \$82 per day in February 2022.

For centre based day care, the sessions are only slightly longer in January and December and consistent across the rest of the year. The price of childcare services over time is discussed further in section 3.2.

3.2. Average fees increased by more than inflation and wages since 2018

All types of childcare services experienced an increase in the average fees since the introduction of the Child Care Subsidy in July 2018.

This reflects a similar finding to the Australian Institute of Family Studies evaluation of the Child Care Package, which compared Australian Bureau of Statistics childcare Consumer Price Index to overall Consumer Price Index.⁶³

The evaluation report notes the Australian Bureau of Statistics reported that the introduction of the Child Care Subsidy resulted in an 11.8% decline in the cost of childcare to households in September 2018. However, it suggests that childcare prices adjusted continuously (rather than there being a large jump at the start of the year) and rose at a faster rate than the overall Consumer Price Index.⁶⁴

⁶³ The Australian Bureau of Statistics methodology involves collecting gross childcare prices and the subtracting government childcare payments. The methodology takes into account payments that are made to households to reduce childcare costs, but not when this assistance was provided through the tax system.

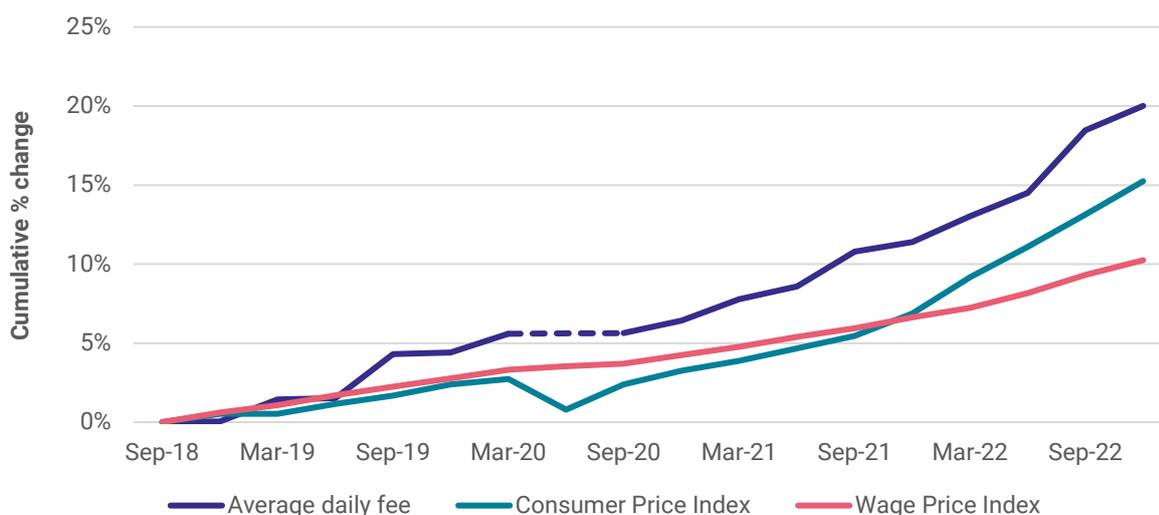
⁶⁴ Over the period September 2018 to September 2019 the childcare CPI increased by 7% and the overall CPI increased by 1.7%.

By March 2020 almost three-quarters of the reduction in childcare Consumer Price Index due to the Child Care Subsidy had been lost.⁶⁵ We discuss the out-of-pocket expense to households and the Child Care Subsidy further in chapter 5.

3.2.1. Centre based day care and family day care services

The average daily fee for centre based day care increased 20% (\$20.61 per day) (figure 3.2) and 22% for family day care services (\$16.03 per day) (figure 3.3), between the September quarter 2018 and the December quarter 2022.

Figure 3.2: Cumulative growth in average daily fee for centre based day care, consumer price and wage indices, September quarter 2018 to December quarter 2022



Note: Data for average daily fee is not available for June quarter 2020, see Box 1.6 for more information.

Source: ACCC analysis of ABS and Department of Education administrative data.

These increases were more than inflation, and greater still than growth in the wage price index. Once adjusted for inflation, the average daily fee for centre based day care increased by 4% (\$4.91 per day) and for family day care, the average daily fee increased by 6% (\$4.72 per day) over this period.

For family day care services, the increase in average daily fee over time is non-linear and subject to some seasonality due to school holidays and different use patterns of care at these times.

⁶⁵ 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](#), Australian Institute of Family Studies, August 2021, p 95.

Figure 3.3: Cumulative growth in average daily fee for family day care, consumer price and wage indices, September quarter 2018 to December quarter 2022



Note: Data for average daily fee is not available for June quarter 2020, see Box 1.6 for more information.

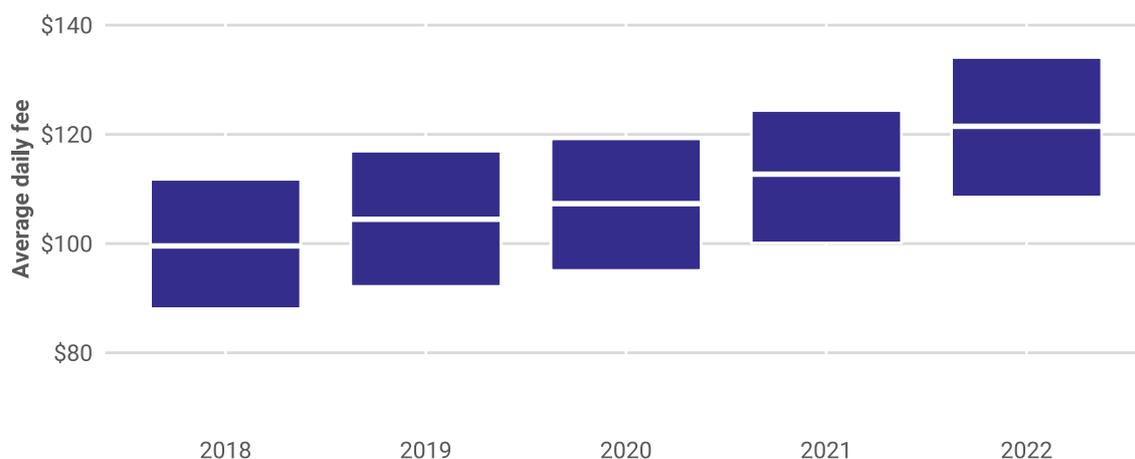
Source: ACCC analysis of ABS and Department of Education administrative data.

Centre based day care services appear to introduce the largest fee increases in the September quarter of each year, which is likely to coincide with the start of the new financial year and indexation of the hourly rate cap.

The average daily fee increased by 3% in the September quarter 2019, 2% in the September quarter 2021 and 3% in the September quarter 2022. While family day care services showed similar patterns of price increases, these appear to be less consistent than centre based day care.

The increase in average daily fee over time is evident across the distribution of fees for each service type. The overall range of fees appears to be similar since 2018 for centre based day care (figure 3.4) and family day care (figure 3.5), however, there is a notable increase in fees between 2021 and 2022 for both services, which may reflect rising inflation.

Figure 3.4: Distribution of average daily fee for centre based day care, September quarter 2018 to December quarter 2022



Note: Each box represents the interquartile range (the middle 50% of services) in each calendar year. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. Data for 2018 excludes fees prior to the introduction of the Child Care Subsidy.

Source: ACCC analysis of Department of Education administrative data.

Figure 3.5: Distribution of average daily fee for family day care, September quarter 2018 to December quarter 2022



Note: Each box represents the interquartile range (the middle 50% of services) in each calendar year. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. Data for 2018 excludes fees prior to the introduction of the Child Care Subsidy.

Source: ACCC analysis of Department of Education administrative data.

3.2.2. Outside school hours care services

The average session fee for outside school hours care services increased 20% (\$5.06 per day) between the September quarter 2018 and the December quarter 2022 (figure 3.6). Like centre based day care and family day care services, this increase was more than inflation

and wage growth over the same period. Once adjusted for inflation, the average session fee for outside school hours care increased by 4% (\$1.26 per day).

Like family day care services, the increase in average session fee over time is non-linear, and reflects the seasonal nature of these services, including that some services provide vacation care during school holiday periods with longer sessions than before and after school care.

Figure 3.6: Cumulative growth in average session fee for outside school hours care, consumer price and wage indices, September quarter 2018 to December quarter 2022

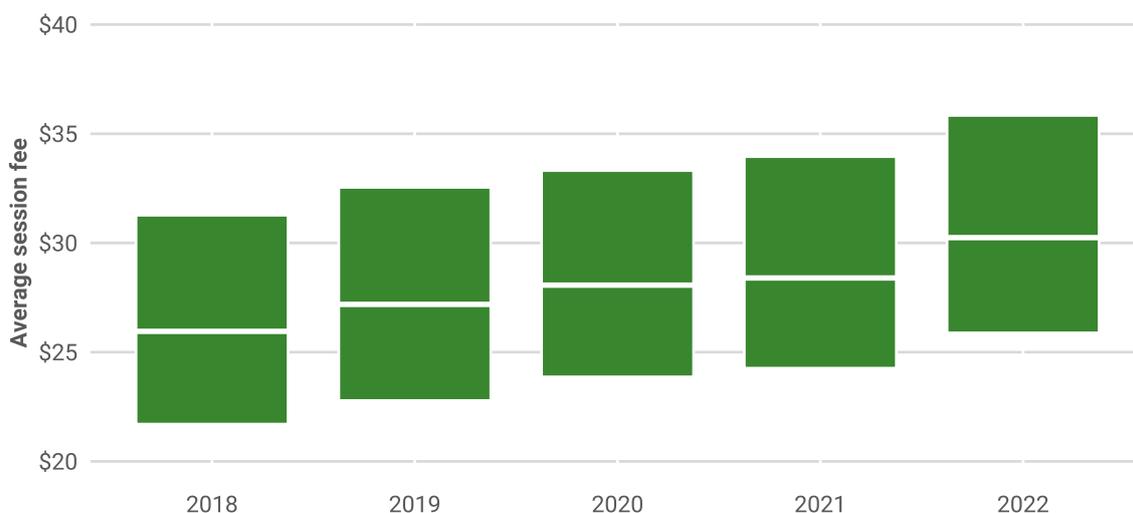


Note: Data for average daily fee is not available for June quarter 2020, see Box 1.6 for more information.

Source: ACCC analysis of ABS and Department of Education administrative data.

In contrast to centre based day care and family day care services, the increase in fees for outside school hours care services was relatively flat between the September quarter 2018 and the December quarter 2022 (figure 3.7). This trend may, in part, be due to long-term contracts with schools that set out fees in advance, and/or the need for providers to seek approval for fee increases from the school, as discussed in chapter 2. We also see the range of fees was similar across the years.

Figure 3.7: Distribution of average session fee for outside school hours care, September quarter 2018 to December quarter 2022



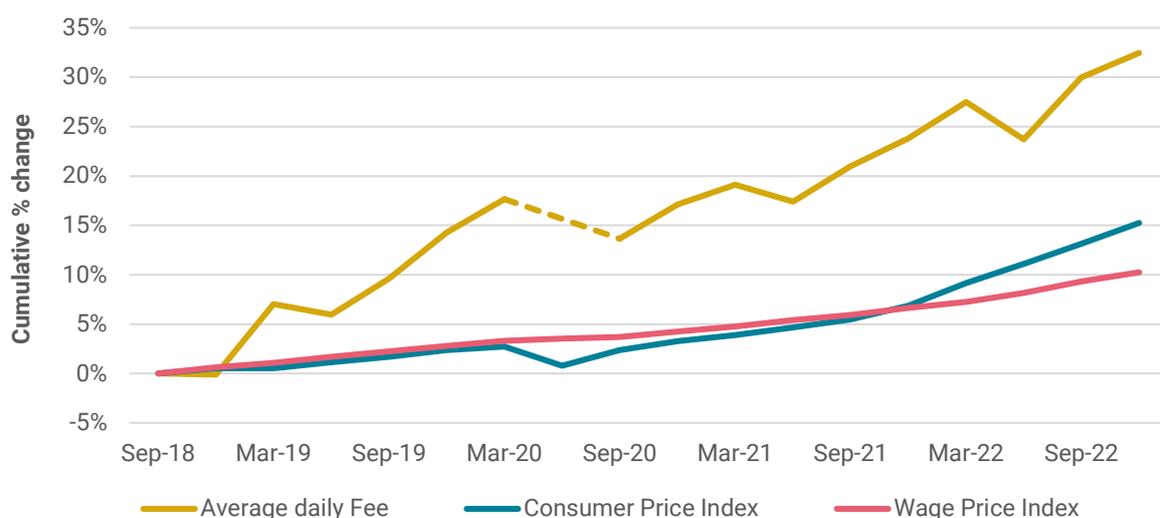
Note: Each box represents the interquartile range (the middle 50% of services) in each calendar year. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. Data for 2018 excludes fees prior to the introduction of the Child Care Subsidy.

Source: ACCC analysis of Department of Education administrative data.

3.2.3. In home care services

The average daily fee for in home care services rose by 32% (\$73.86 per day) between the September quarter 2018 and the December quarter 2022 (figure 3.8). This increase was significantly more than inflation and wage growth over the same period. Once adjusted for inflation, the average daily fee for in home care increased by 15% (\$39.17 per family per day).

Figure 3.8: Cumulative growth in average daily fee for in home care, consumer price and wage indices, September quarter 2018 to December quarter 2022

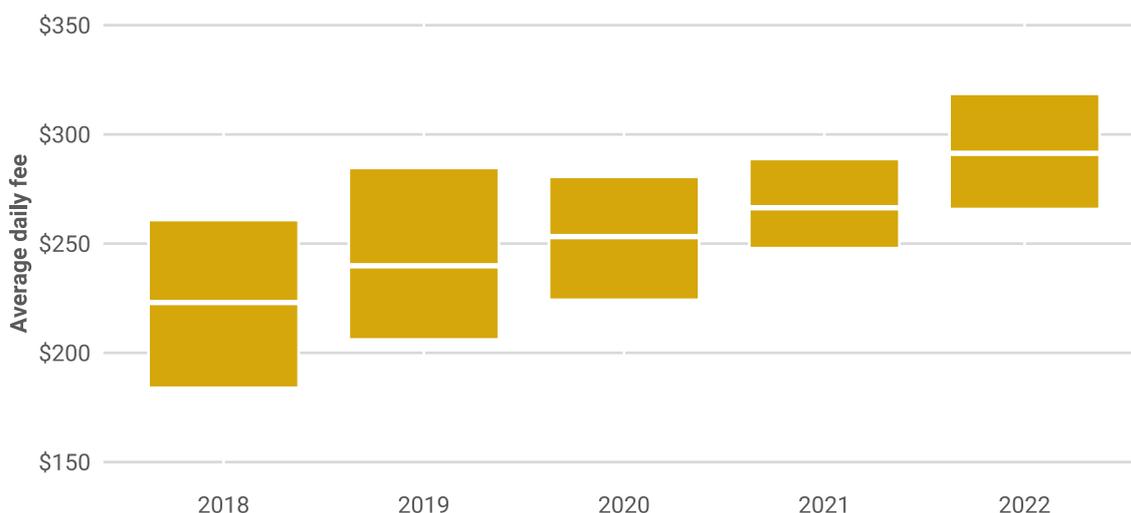


Note: Data for average daily fee is not available for June quarter 2020, see Box 1.6 for more information.

Source: ACCC analysis of ABS and Department of Education administrative data.

We observe the distribution of the average daily fee for in home care services over this period varied significantly (figure 3.9). We expect the large range of fees in 2018 and 2019 is likely due to the lower hourly rate cap in 2018 and the need to balance necessary costs. In January 2019, the rate cap was increased to better align with the average fee. We expect the notable increase in fees between 2021 and 2022 is likely due to rising inflation costs during this period.

Figure 3.9: Distribution of average daily fee for in home care, December quarter 2018 to December quarter 2022



Note: Each box represents the interquartile range (the middle 50% of services) in each calendar year. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. Data for 2018 excludes fees prior to the introduction of the Child Care Subsidy.

Source: ACCC analysis of Department of Education administrative data.

We note the Department of Education has commissioned a review into the in home care program to examine the access to, affordability of and quality of in home care services. Among other things, the review will recommend options that can deliver accessible, high quality and affordable in home care services. The review is due to be completed by 30 June 2023.⁶⁶

3.3. Childcare fees vary by geographic region

This section examines the price of centre based day care, family day care and outside school hours care services in different parts of Australia. We note, for family day care services, the location information relates to the location of the service head office rather than the location of individual educators.

This analysis does not include in home care services due to a low sample size in many areas and given places for in home care services are allocated across jurisdictions by the Department of Education.

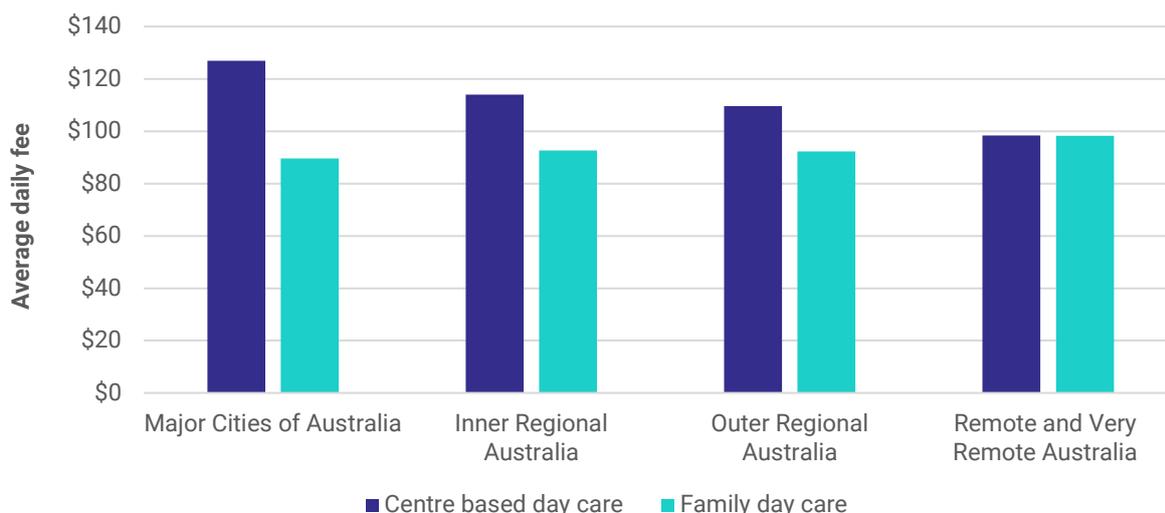
The price of childcare services varies between states and territories, as well as between city and regional areas. The price of childcare services also varies across different Socio-Economic Indexes for Areas (SEIFA). For more information on SEIFA see Appendix B.

⁶⁶ Australian Government Department of Education, [In Home Care review](#), last modified on 26 May 2023, accessed 2 June 2023.

3.3.1. Average fees in Major Cities are highest for centre based day care, but lowest for family day care

For centre based day care, the average daily fees are highest in Major Cities, whereas the opposite is true for family day care services, where the lowest fees are in Major Cities (figure 3.10). These services follow contrasting trends, with averages fees for centre based day care declining as remoteness increases, and family day care services increasing in price as remoteness increases.

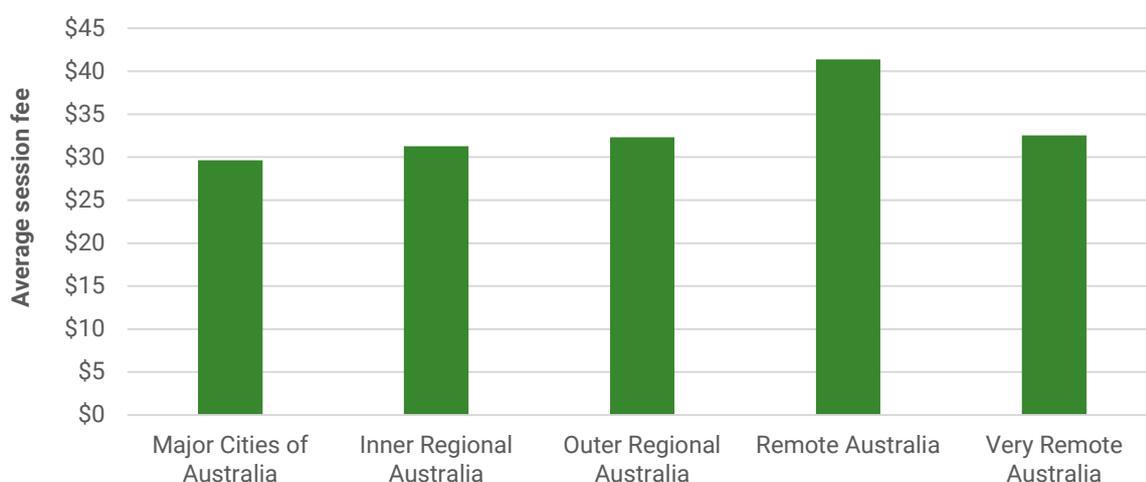
Figure 3.10: Average daily fee for centre based day care and family day care, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

For outside school hours care services, we observe the highest average session fee is in Remote Australia, in contrast to centre based day care and family day care services (figure 3.11). Apart from this, the average session fee appears to be similar across other areas.

Figure 3.11: Average session fee for outside school hours care, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

3.3.2. Average fees are higher in more advantaged socio-economic areas

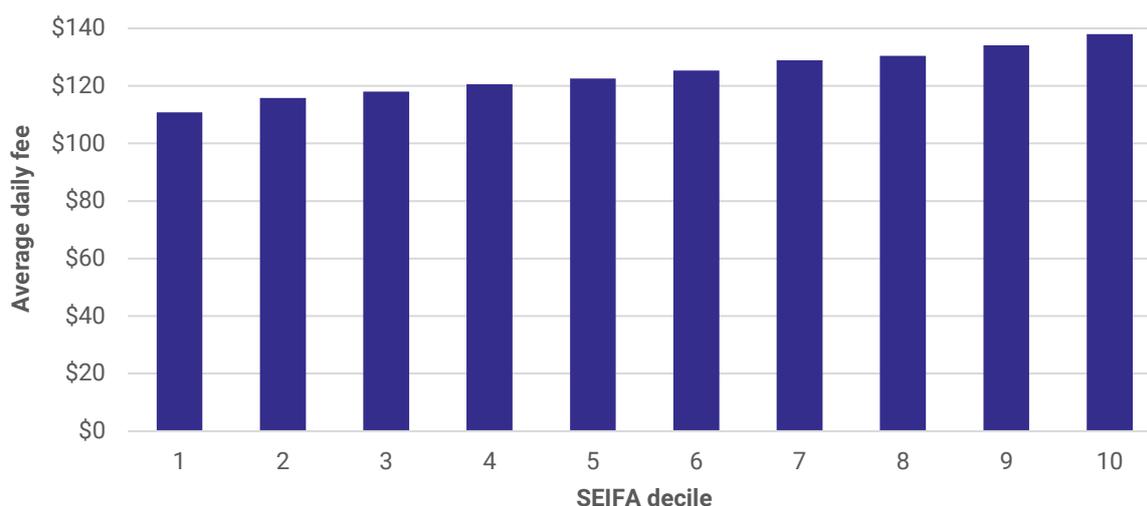
There are higher average daily fees for centre based day care and family day care services in socio-economic areas of most advantage (figure 3.12 and figure 3.13).

In the most advantaged area, the average daily fee for centre based day care was \$137.99 and \$109.92 for family day care, compared to the most disadvantaged area, where the average daily fee was \$110.79 and \$87.36, respectively, in the December quarter 2022.

This is consistent with information from providers, as discussed in chapter 2, where several large providers note they may consider the ability of households to absorb higher fees when setting prices.

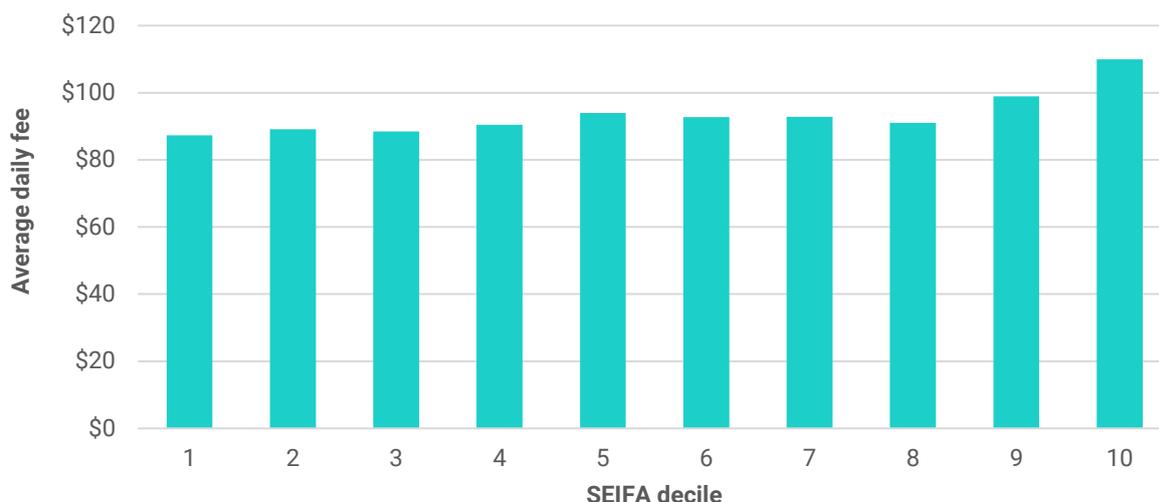
Since the introduction of the Child Care Subsidy (in July 2018), there have been price increases across all socio-economic areas. However, the average fee for centre based day care has increased more in the lower socio-economic areas compared to the more advantaged socio-economic areas (22% and 17%, respectively), between the September quarter 2018 to the December quarter 2022.

Figure 3.12: Average daily fee for centre based day care by area SEIFA decile, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

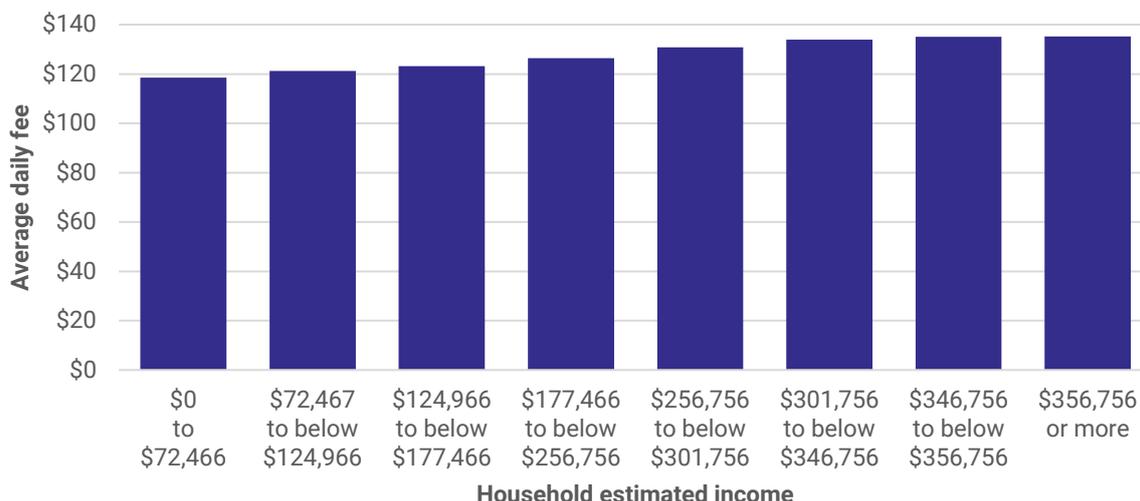
Figure 3.13: Average daily fee for family day care by area SEIFA decile, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

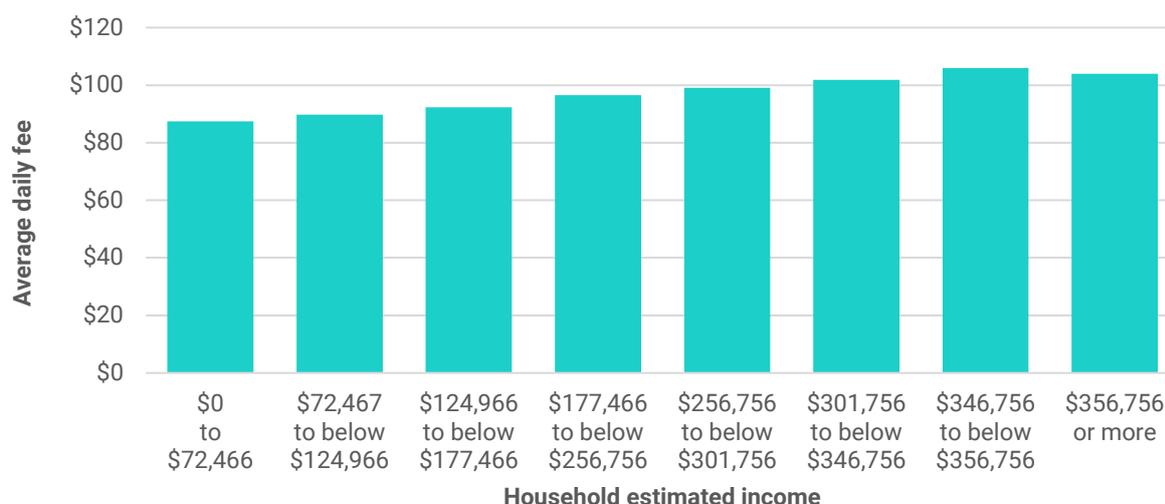
Households with higher incomes also have higher average fees for both centre based day care (figure 3.14) and family day care services (figure 3.15), although we note this does not account for the effect of the Child Care Subsidy. This could be explained in part by the observation in chapter 2 that many households use childcare services near their home, and households with higher incomes are more likely to live in more advantaged socio-economic areas.

Figure 3.14: Average daily fee for centre based day care by household estimated income, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Figure 3.15: Average daily fee for family day care by household estimated income, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

For outside school hours care services, we observe the average session fee is similar across all socio-economic areas but is slightly higher in the most disadvantaged areas (figure 3.16).

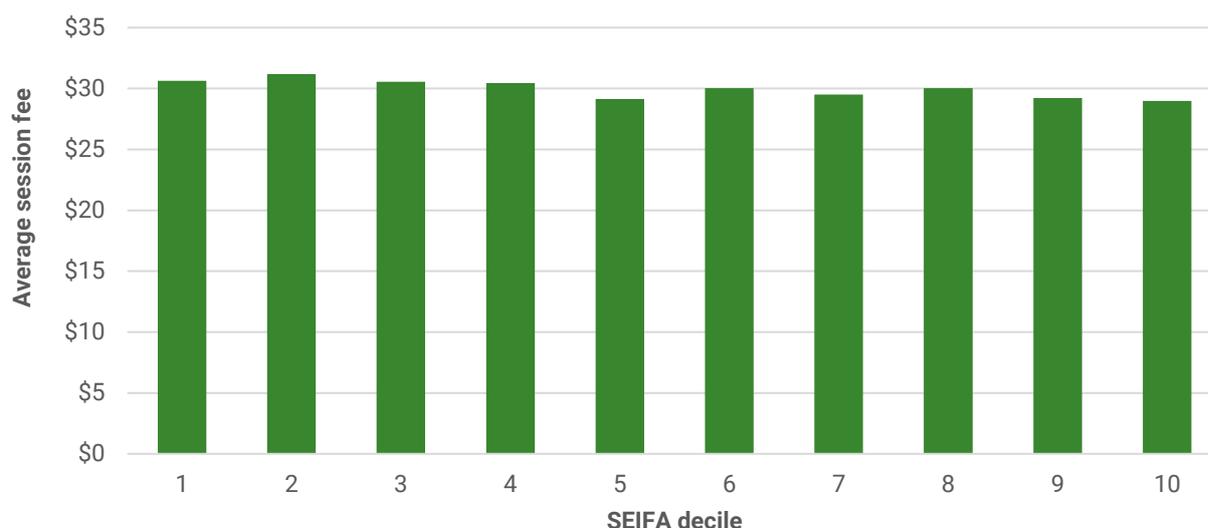
However, when we look at the average hourly fee (which accounts for differences in the length of a session), we find the fee is lowest in the most disadvantaged areas. Our analysis indicates that the length of a session, on average, is slightly longer in disadvantaged areas.

When considering only the school months during the quarter, we see the average fees and length of session are similar across all areas. This suggests that these areas may have a higher use of vacation care during the quarter, which contributes to a slightly higher average fee.

The average session fee by household estimated income (figure 3.17) is also slightly higher for the lowest income bracket, but there is not a consistent trend across the income brackets.

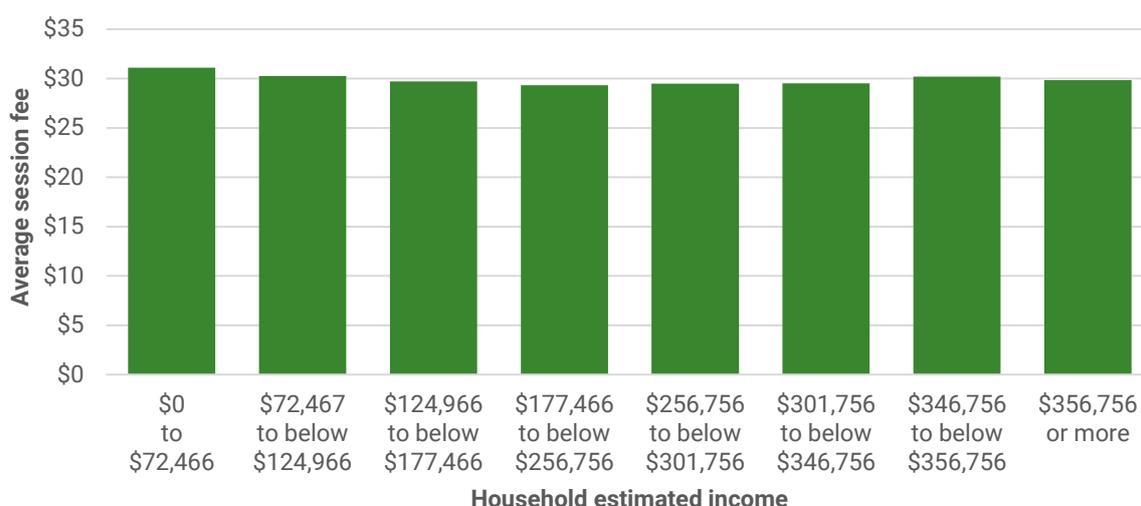
This suggests the fees for outside school hours care do not change much based on the income of households.

Figure 3.16: Average session fee for outside school care by SEIFA decile, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Figure 3.17: Average session fee for outside school care by household estimated income, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

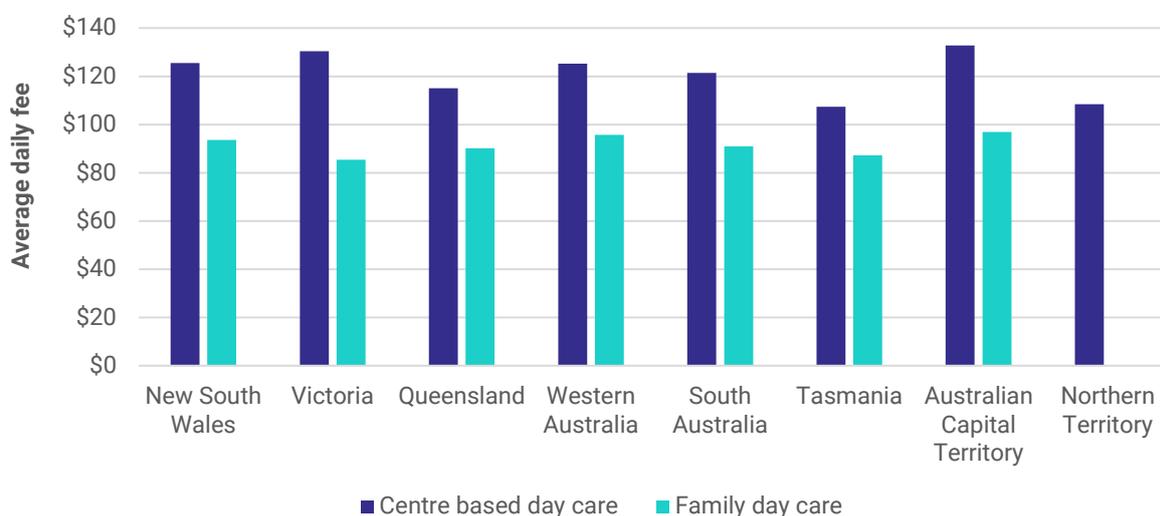
3.3.3. Average daily fee highest in the Australian Capital Territory for centre based day care and family day care

The highest average daily fee for centre based day care is in the Australian Capital Territory (\$132.72 per day), followed by Victoria (\$130.39). The lowest average daily fee is in Tasmania (\$107.37) (figure 3.18).

For family day care services, the highest average daily fee is in the Australian Capital Territory (\$96.89 per day) (figure 3.18). We note the Northern Territory was excluded from the analysis for family day care services due to a low sample size.

Since the September quarter 2018, the average fee for centre based day care grew across all states and territories at a similar rate, with Queensland experiencing the highest increase (25%). The average fee for family day care services increased in all states and territories, by between 15% (Australian Capital Territory) and 36% (South Australia).

Figure 3.18: Average daily fee for centre based day care and family day care, December quarter 2022

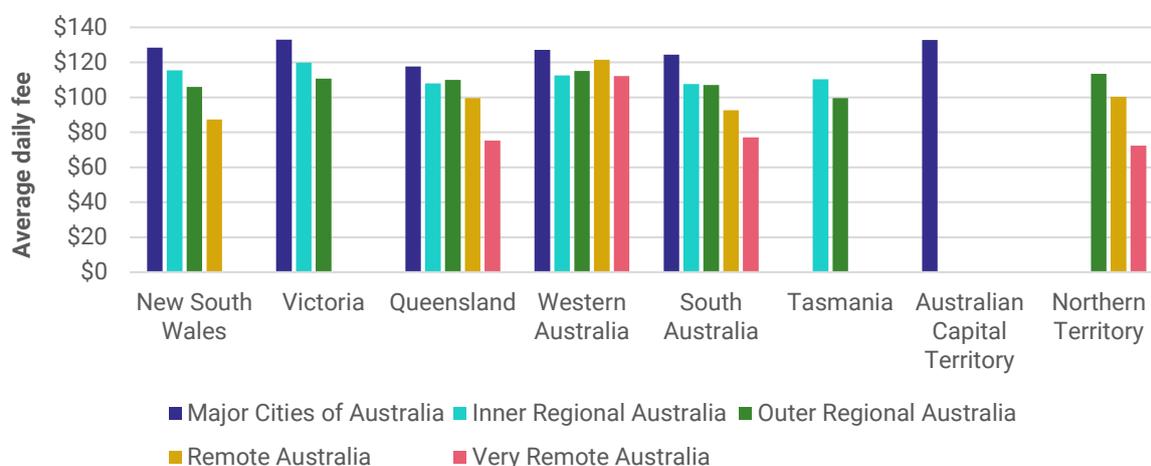


Note: Data for family day care services in the Northern Territory is not published due to small sample size.

Source: ACCC analysis of Department of Education administrative data.

For centre based day care services, in all states and territories except Western Australia, we observe a similar trend of higher fees in Major Cities of Australia and lower fees in more regional and remote areas of Australia. In Western Australia, fees are similar across remoteness areas, with higher fees in Remote and Very Remote areas compared to other states and territories (figure 3.19). This may reflect higher costs to supply childcare in regional and remote areas of Western Australia, compared to other states and territories. However, we will explore this finding further over the course of our inquiry.

Figure 3.19: Average daily fee for centre based day care by state and territory and remoteness, December quarter 2022



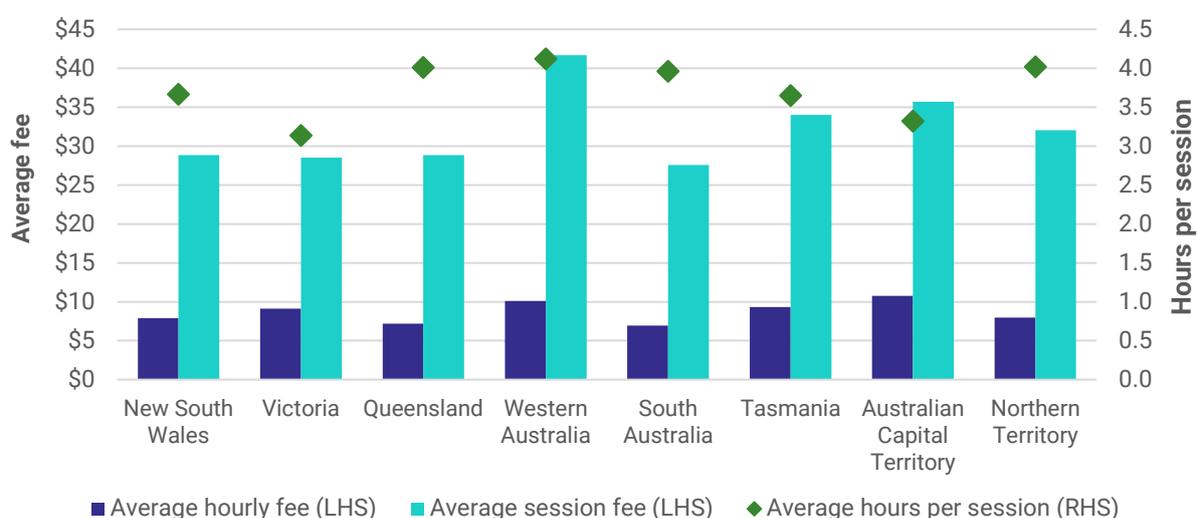
Source: ACCC analysis of Department of Education administrative data.

3.3.4. Outside school hours care services have highest average fees in Western Australia and the Australian Capital Territory

For outside school hours care services, the highest average session fee was in Western Australia (\$41.66), followed by the Australian Capital Territory (\$35.68). Across the rest of Australia, fees are relatively similar (see figure 3.20).

If we look at the average hourly fee for outside school hours care services, which accounts for differences in session length, we observe the Australian Capital Territory (\$10.75) is slightly higher than Western Australia (\$10.11). This suggests the average session of care is longer in Western Australia than the Australian Capital Territory.

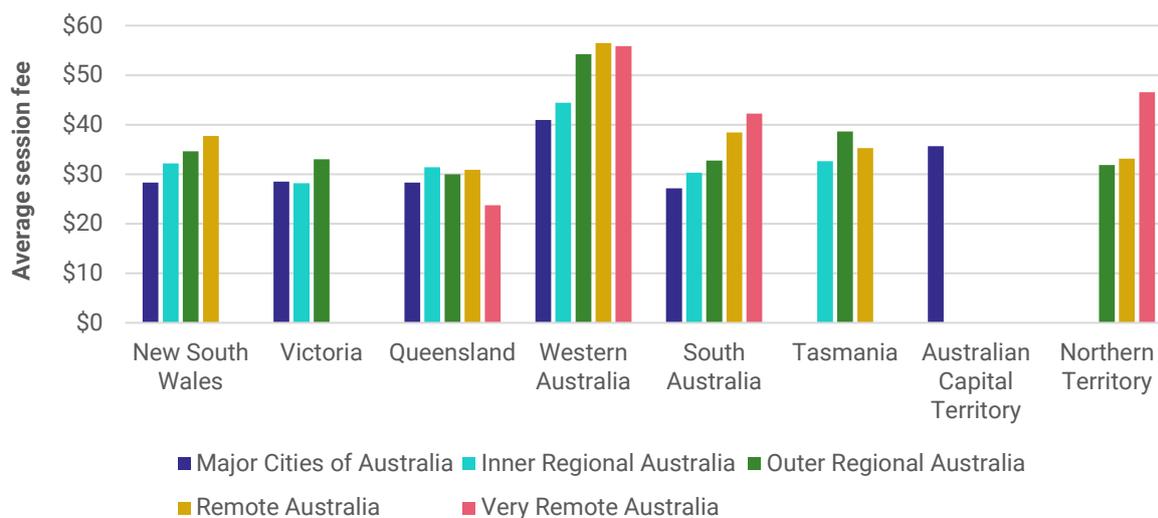
Figure 3.20: Average hourly and session fee for outside school hours care by state and territory, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

However, we observe that across all areas by remoteness, the average session fee is much higher in Western Australia than in other states and territories (figure 3.21). Higher average fees in regional and remote areas of Western Australia could be partly explained by the large number of mining towns in this state, however, we will continue to explore this finding over the course of our inquiry. In particular, we will examine the cost structures for these services, including whether there are higher costs in these areas and/or less ability to share costs across services.

Figure 3.21: Average session fee for outside school hours care by state and territory and remoteness, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

3.3.5. There is considerable variability in average fees across states and territories

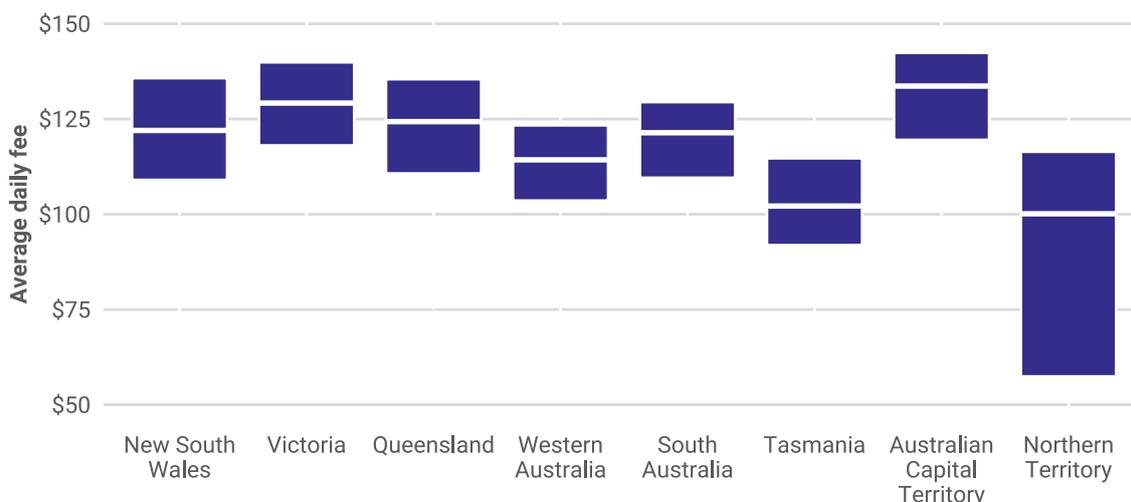
Across the states and territories, the middle 50% (interquartile range) of services’ average daily fees for centre based day care is relatively similar except for the Northern Territory which has a larger range (about \$57 to \$116 per day) (figure 3.22).

The average daily fee is most similar across services in Queensland and South Australia, where the difference between the lower and upper quartile is about \$20.

The median average daily fee ranges from \$100 per day in the Northern Territory to \$133 per day in the Australian Capital Territory.

We note some of the fees may reflect grant funding or other subsidies that reduce the fee of the service (before taking into account the Child Care Subsidy).

Figure 3.22: Distribution of average daily fee for centre based day care, December quarter 2022



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line.

Source: ACCC analysis of Department of Education administrative data.

For family day care services, there is more variability in average fees across different states (figure 3.23). New South Wales and Western Australia have the widest spread of fees.

In New South Wales, the middle 50% (interquartile range) of services' average fee ranges from about \$84 to \$101 per day, while in Western Australia the average fee ranges from about \$91 to \$108 per day. The least variability in fees is in the Australian Capital Territory and South Australia.

The median average fee ranges from about \$83 per day in Victoria to \$96 per day in Western Australia.

Figure 3.23: Distribution of average daily fee for family day care, December quarter 2022



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. The Northern Territory is excluded due to a low sample size.

Source: ACCC analysis of Department of Education administrative data.

3.4. Further analysis for our inquiry

Over the course of our inquiry we will continue to explore the prices of childcare services, including by considering:

- the relationship between fees for childcares services and the costs incurred by providers
- whether the costs of providing childcare services have increased at the same rate as fees
- how the costs of providing childcare services differ between states and territories, remoteness, and socio-economic areas and the impact this has on fees in these areas.

4. Price of childcare services by different characteristics

Key points

- Average fees for centre based day care are higher in areas with more services, but these areas may also be more socio-economically advantaged and have a higher population.
- Across all service types, except family day care, the national average fee is higher for for-profit services compared to not-for-profit services. This has been consistent since 2018.
- Large providers of centre based day care (40 or more services) have higher average fees compared to medium and small providers across all geographic regions and socio-economic areas.
- Centre based day care services with a higher National Quality Standard rating charge a higher daily fee, however, the difference across different ratings is small.
- Centre based day care services charge higher fees for younger children, but prices are similar across other demographic characteristics.

This chapter discusses how fees for childcare services may differ according to different characteristics of the service or the child in care, including the number of nearby services, the type and size of the provider, the National Quality Standard rating, and the age and characteristics of children in care.

- Section 4.1 examines the relationship between prices and the number of services within 2 kilometres for centre based day care services.
- Section 4.2 discusses prices for for-profit and not-for-profit childcare services.
- Section 4.3 discusses prices for centre based day care providers of different sizes.
- Section 4.4 discusses childcare prices and the National Quality Standard rating.
- Section 4.5 discusses childcare prices and child characteristics.
- Section 4.6 outlines areas for further analysis in our inquiry.

4.1. Average fees for centre based day care services are higher in areas with more services

At a national level, our analysis shows the average daily fee for centre based day care services is higher in areas with more services within a 2 kilometre radius of the service (figure 4.1).

This trend is particularly notable in New South Wales (figure 4.2) and Victoria (figure 4.3), which may be driving the results at a national level. When considering other states and

territories we did not find any trend where the average fee is lower as the number of services increases.

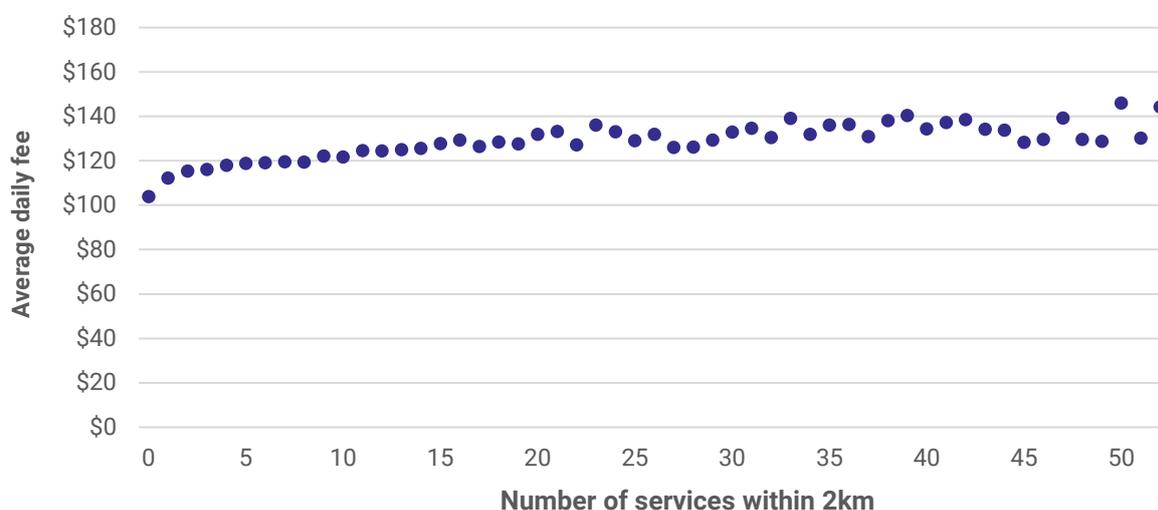
This observation initially appears contrary to conventional economic theory, as we would typically expect prices to fall as the number of competitors increases. However, there is also a connection between the number of services and the level of socio-economic advantage of an area.

Our analysis shows that there are more services in more advantaged areas, and, as set out in chapter 3, our analysis shows that centre based day care services in more advantaged areas have higher average fees.

This preliminary analysis suggests that providers may be more likely to operate in more advantaged areas and charge higher fees, as they expect households have a higher willingness or capacity to pay. These higher fees may also reflect higher costs of operating in some areas, which we will explore further over the course of our inquiry. It is also likely these areas have a higher population and demand for childcare services, which would influence the number of services in operation. The availability of educators to be employed in providing services in these areas may also be a factor.

We note this analysis supports the observations of the Mitchell Institute that the areas with the greatest supply of childcare are also areas where providers charge higher fees and are often also areas of greater advantage. The Mitchell Institute suggests there is an incentive for providers to operate in advantaged areas where they can charge higher fees, even if there is greater competition.⁶⁷ We will explore this further over the course of our inquiry.

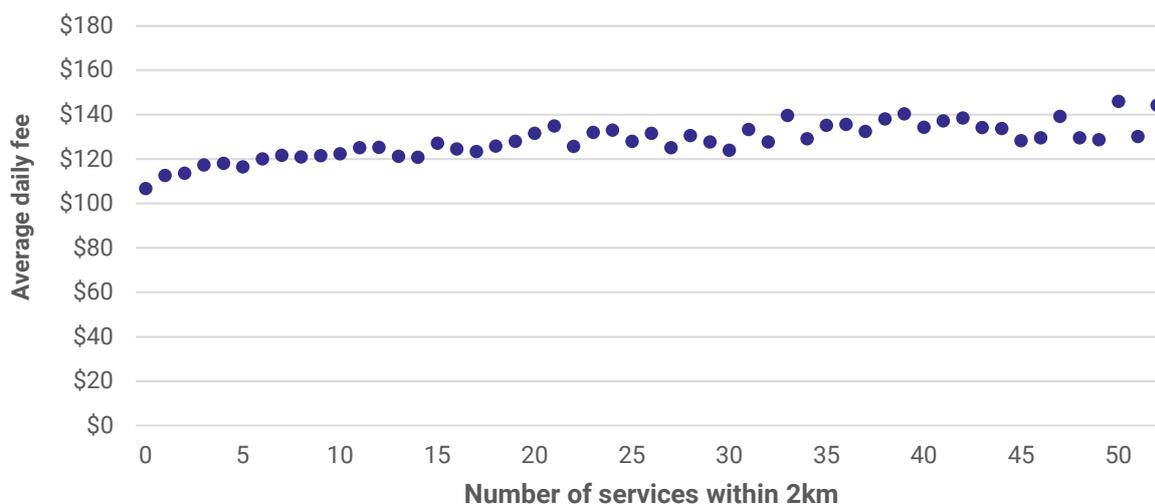
Figure 4.1: Average daily fee for centre based day care by number of services within 2km, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

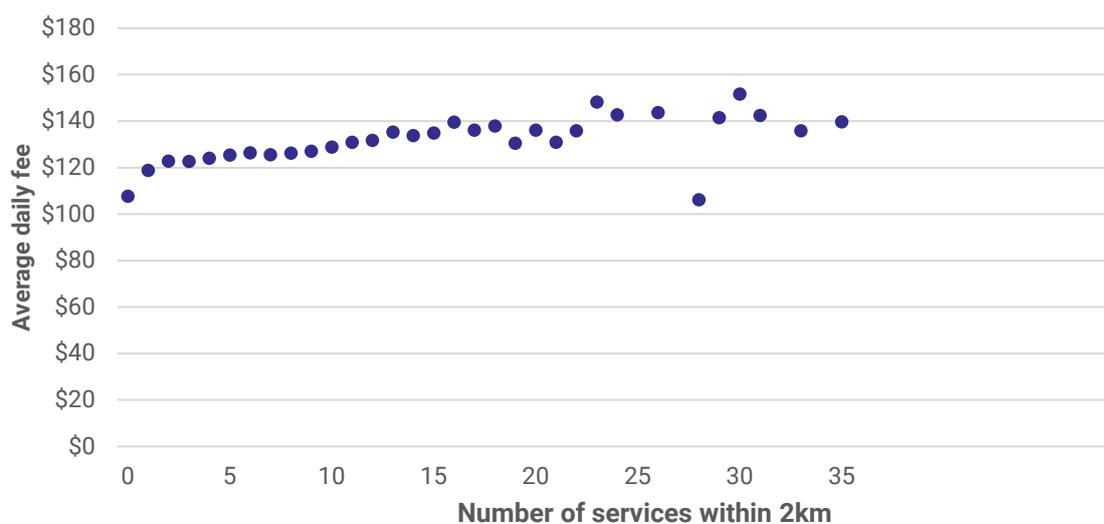
⁶⁷ P Hurley, H Matthews and S Pennicuik, [Deserts and oases: How accessible is childcare in Australia?](#), Mitchell Institute, Victoria University, 22 March 2022, p 35.

Figure 4.2: Average daily fee for centre based day care in New South Wales by number of services within 2km, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Figure 4.3: Average daily fee for centre based day care in Victoria by number of services within 2km, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

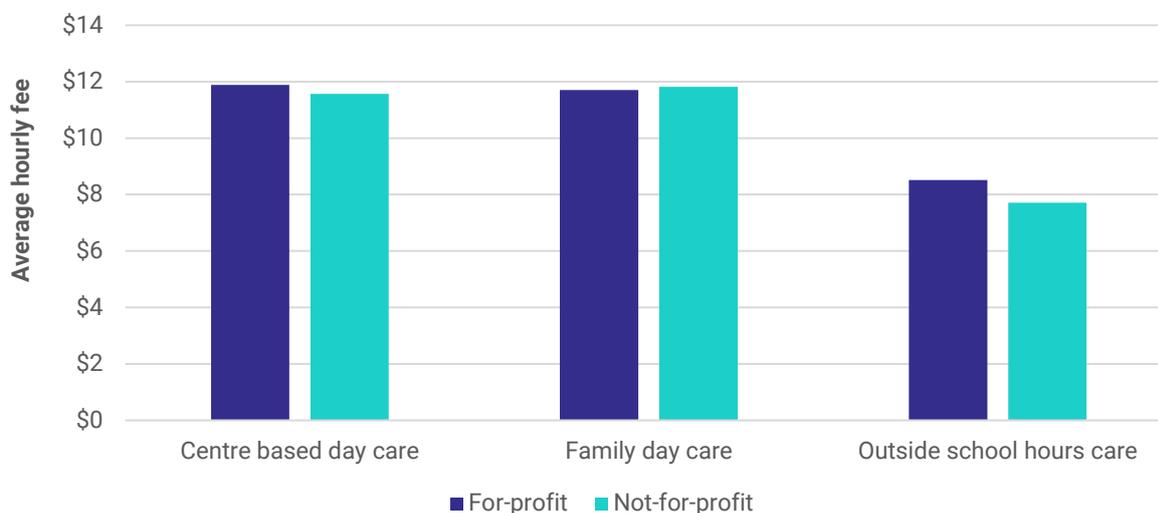
4.2. For-profit services generally charge more than not-for-profit services

This section considers how the price of childcare services differs by provider type, that is whether a provider operates as for-profit or not-for-profit. Overall, more childcare services (65%) operate as for-profit than not-for-profit (35%), and this is more likely for centre based day care, as noted in chapter 2.

On a national level, we observe the average hourly fee was higher in for-profit services compared to not-for-profit services, across all service types, except family day care, as

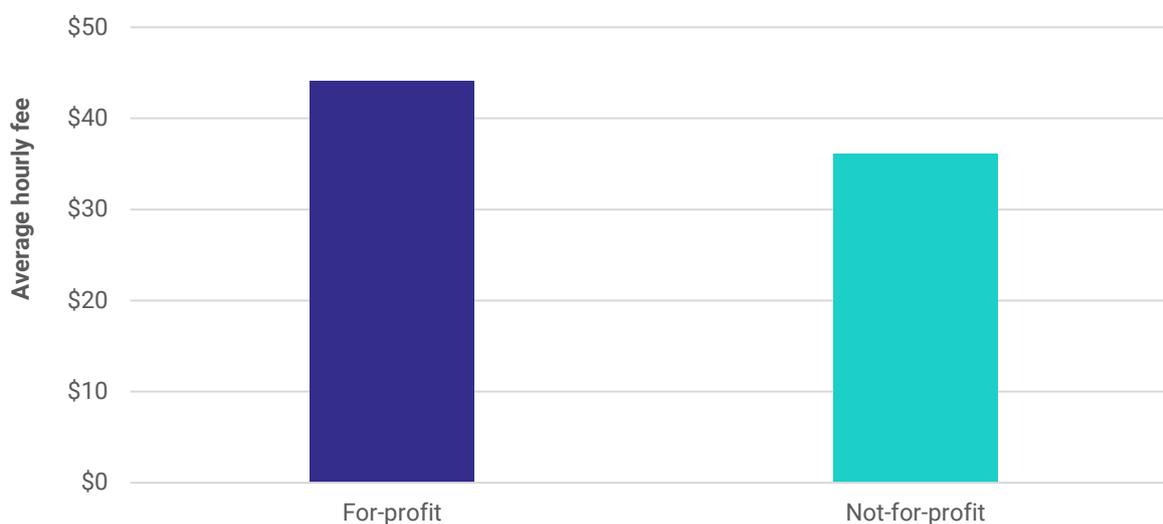
shown in figure 4.4 and figure 4.5. The difference is most notable for in home care services, where for-profit services charged on average 22% more than not-for-profit services in the December quarter 2022.

Figure 4.4: Average hourly fee of for-profit and not-for-profit services, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Figure 4.5: Average hourly fee for in home care services, for-profit and not-for-profit, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

However, for all service types, we find average fees for both for-profit and not-for-profit providers have increased at similar rates between the September quarter 2018 and December quarter 2022.

For centre based day care, average daily fees for both for-profit and not-for-profit services increased by about 20% and 19%, respectively, which is equal to \$20.70 and \$19.02 per day. For family day care the increase was about \$16 per day (22% for for-profit and 21% for not-for-profit).

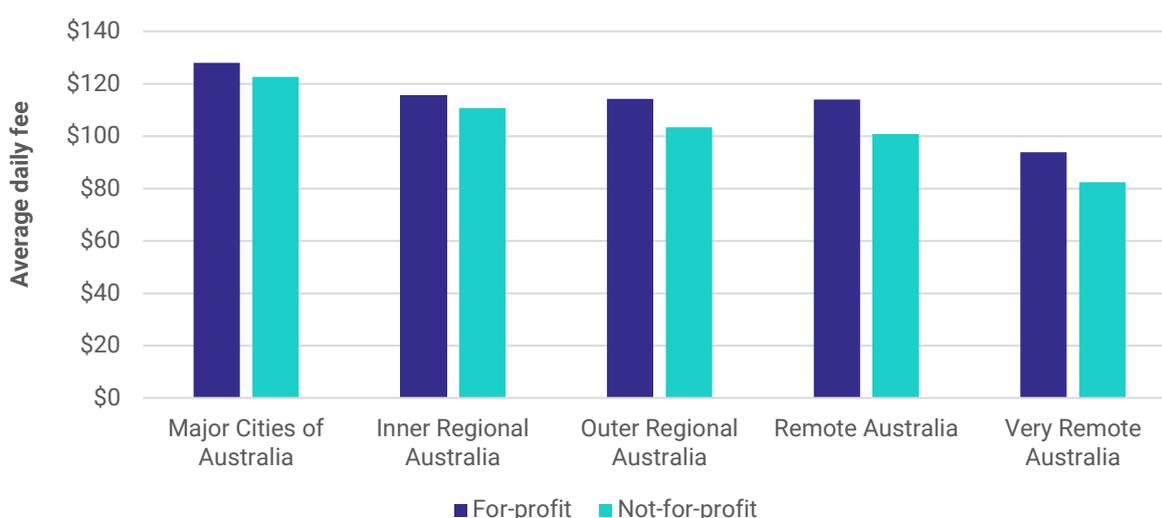
The average session fee for outside school hours care increased by 17% for for-profit services and 24% for not-for-profit services (about \$4.44 and \$5.59 per session, respectively). However, the average session fee for both services in the December quarter 2022 was quite similar (\$30.98 for for-profit and \$29.12 for not-for-profit services), so it appears prices have converged over time.

Average daily fees for both for-profit and not-for-profit in home care providers increased over the period, although at a slightly lower rate for for-profit providers (24% or \$62.61 per day) than not-for-profit providers (32% or \$66.82 per day). However, consistent with average hourly fees, average daily fees were significantly higher for for-profit in home care providers (\$323.68) than not-for-profit in home care providers in the December quarter 2022.

4.2.1. For-profit centre based day care services have higher average fees in all areas

For-profit centre based day care services have higher average daily fees in all areas, with fees decreasing as remoteness increases (figure 4.6). About three-quarters of all centre based day care services are in Major Cities and, of these, 76% are for-profit services. We find the number of for-profit services in Remote and Very Remote Australia is very small.

Figure 4.6: Average daily fee for centre based day care by provider type and remoteness, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

The average daily fee for centre based day care is also higher for for-profit services across all socio-economic areas, with higher fees corresponding to more advantaged areas for the most part (figure 4.7). We see the smallest difference in fees in the more disadvantaged areas. This trend aligns with information from providers that they consider the general capacity to pay of the area when setting prices, as discussed in chapter 2.

We note that not-for-profit services are more likely to offer services in more disadvantaged areas, for example about 30% of all not-for-profit centre based day care services operate in SEIFA decile 1 or 2, compared to 22% of for-profit services.

However, across the rest of the socio-economic areas, the share of services is similar, including in the most advantaged areas, where 7% of all for-profit services and 5% of all not-for-profit services operate.

Figure 4.7: Average daily fee for centre based day care by provider type and area SEIFA decile, December quarter 2022⁶⁸



Source: ACCC analysis of Department of Education administrative data.

4.3. Average fees for centre based day care vary by provider size

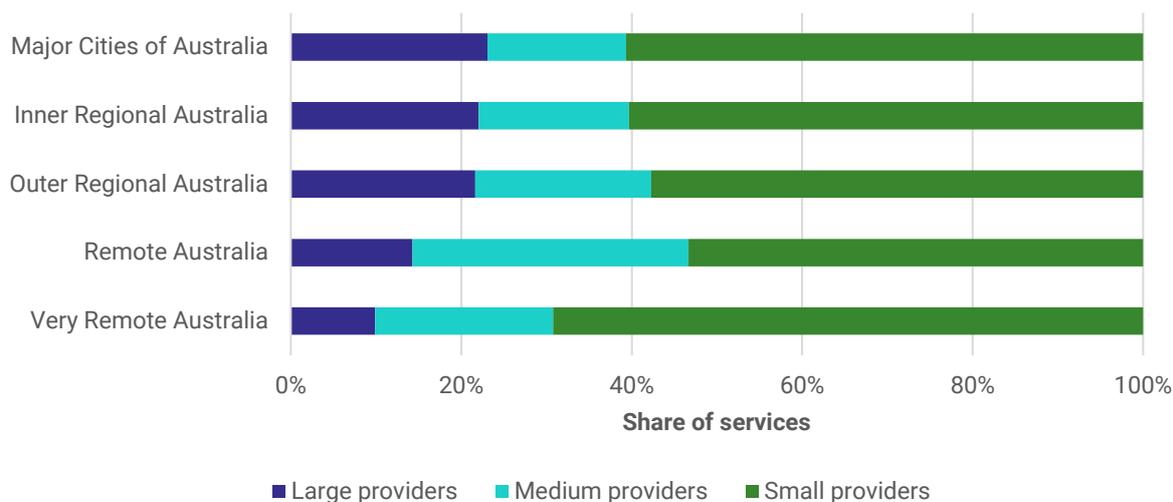
In this analysis we consider ‘large providers’ to have 40 or more services across Australia, ‘medium providers’ to have 5 to 39 services, and ‘small providers’ to have less than 5 services. Of the small providers, the majority (69%) have only one service.⁶⁹

Of all centre based day care services, about 23% are classed as large providers, 17% are classed as medium providers, and 60% are classed as small providers. We find large providers are less likely to operate in Remote and Very Remote Australia (figure 4.8).

⁶⁸ As discussed in chapter 3, SEIFA is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage.

⁶⁹ We note some of providers may provide both centre based day care and outside school hours services.

Figure 4.8: Share of centre based day care services by provider size and remoteness, December quarter 2022

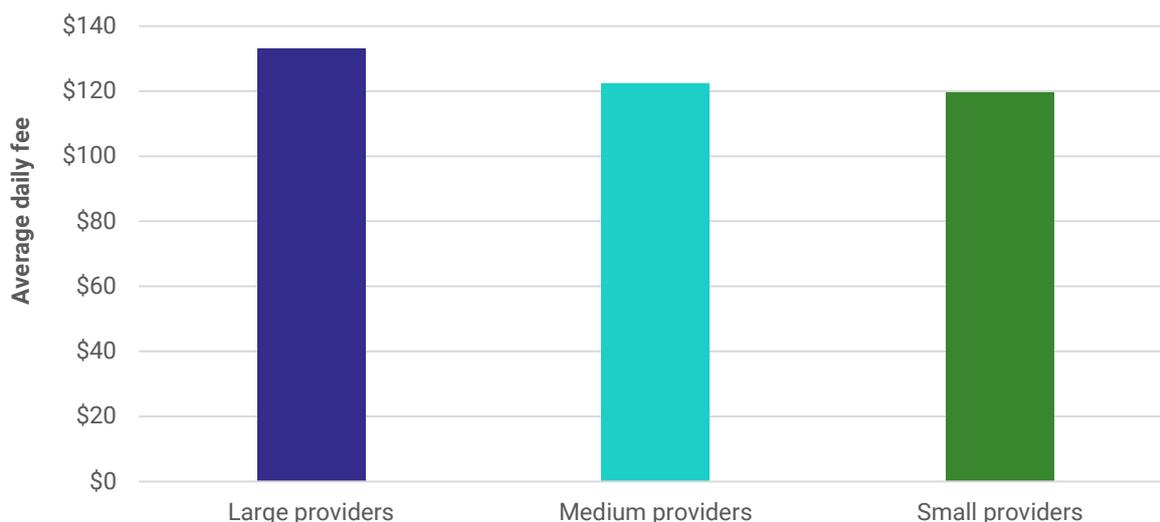


Source: ACCC analysis of Department of Education administrative data.

4.3.1. Large providers of centre based day care charge higher average prices across all areas of Australia

The average daily fee for centre based day care is highest for large providers (\$133.05), followed by medium providers (\$122.29) then small providers (\$119.71) (figure 4.9). In the December quarter 2022, large providers fees were 9% more than medium providers, and 11% more than small providers.

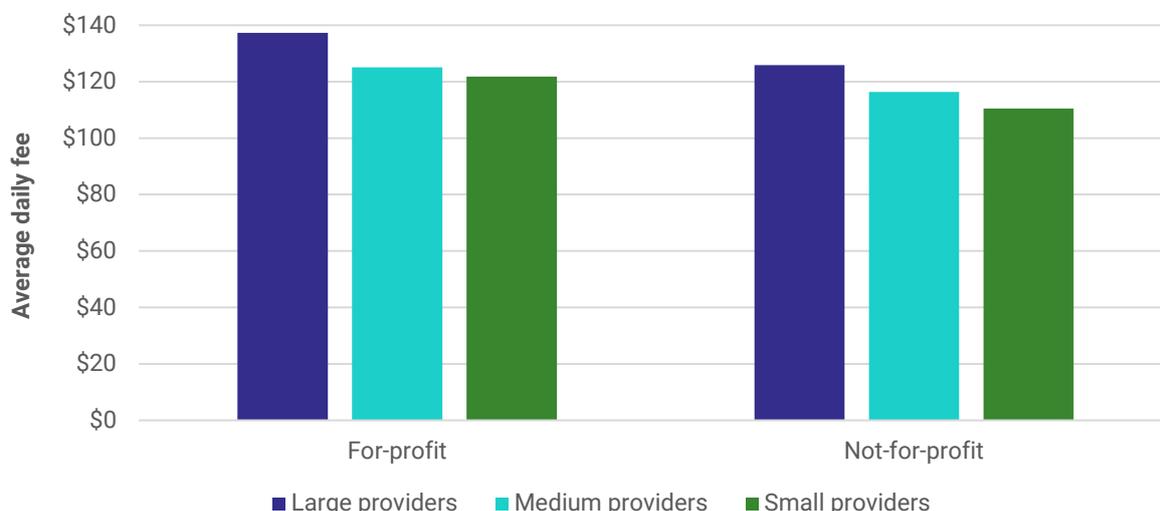
Figure 4.9: Average daily fee for centre based day care by provider size, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

This trend is the same regardless of whether the service operates as for-profit or not-for-profit (figure 4.10). Large for-profit providers charge a greater premium compared to not-for-profit large providers, which follows the same trends as discussed in section 4.2.

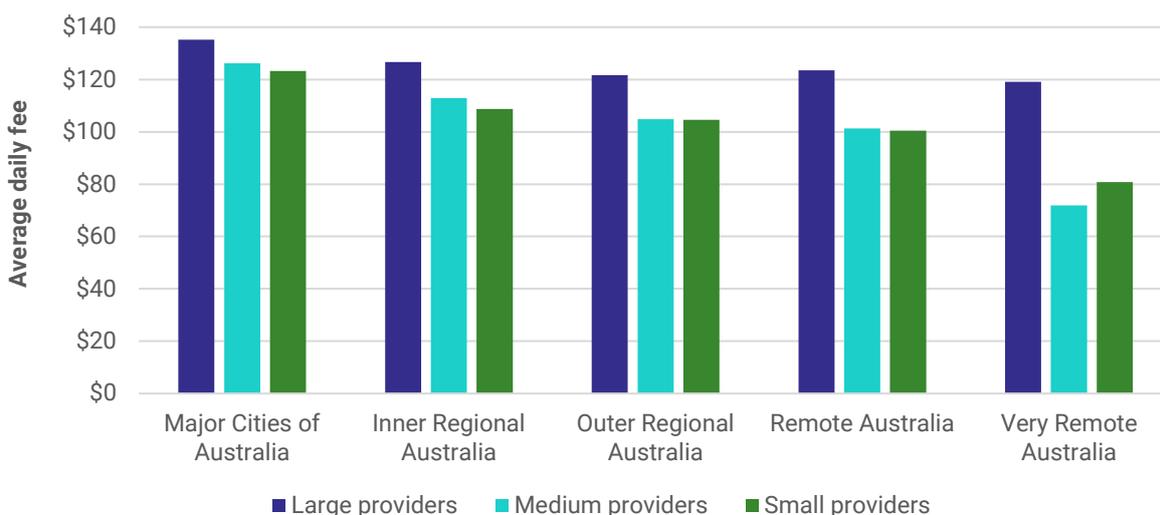
Figure 4.10: Average daily fee for centre based day care by provider size and provider type, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

A similar trend is evident across all remoteness areas (figure 4.11), however, the difference in average fees between large providers, and medium and small providers increases greatly as remoteness increases. In Very Remote Australia, large providers charge an average fee of \$119.12 per day, compared to \$71.88 per day for medium providers and \$80.85 per day for small providers.

Figure 4.11: Average daily fee for centre based day care by provider size and remoteness, December quarter 2022

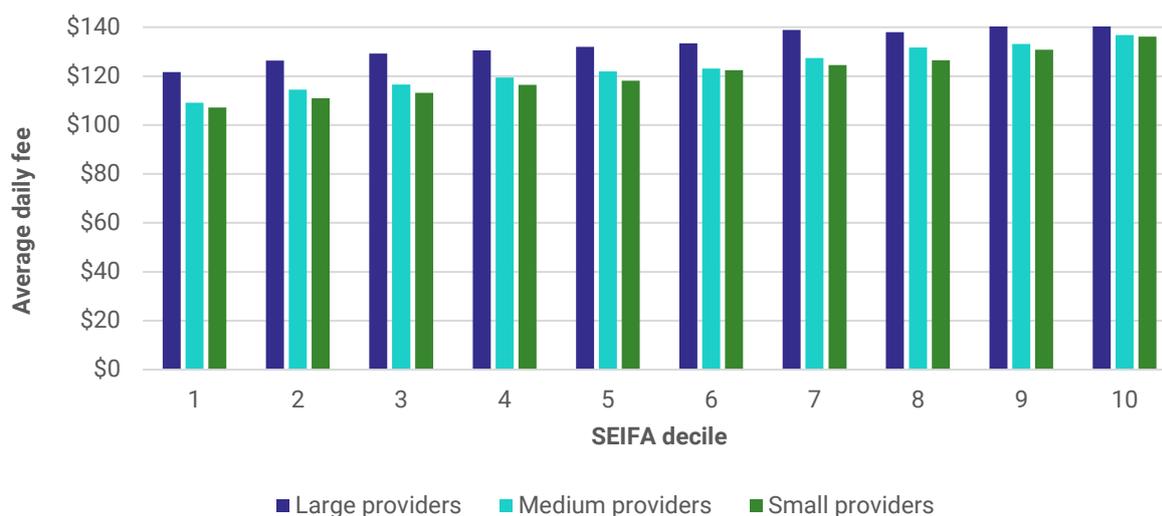


Source: ACCC analysis of Department of Education administrative data.

Large providers also charge higher fees across all socio-economic areas compared to small and medium providers (figure 4.12). The difference in average daily fees between large, and small and medium providers is greatest in areas of most disadvantage.

We will explore the relationship between prices and cost structures for large, medium, and small centre based day care providers of over the course of our inquiry to understand these price differences.

Figure 4.12: Average daily fee for centre based day care by provider size and area SEIFA decile area, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

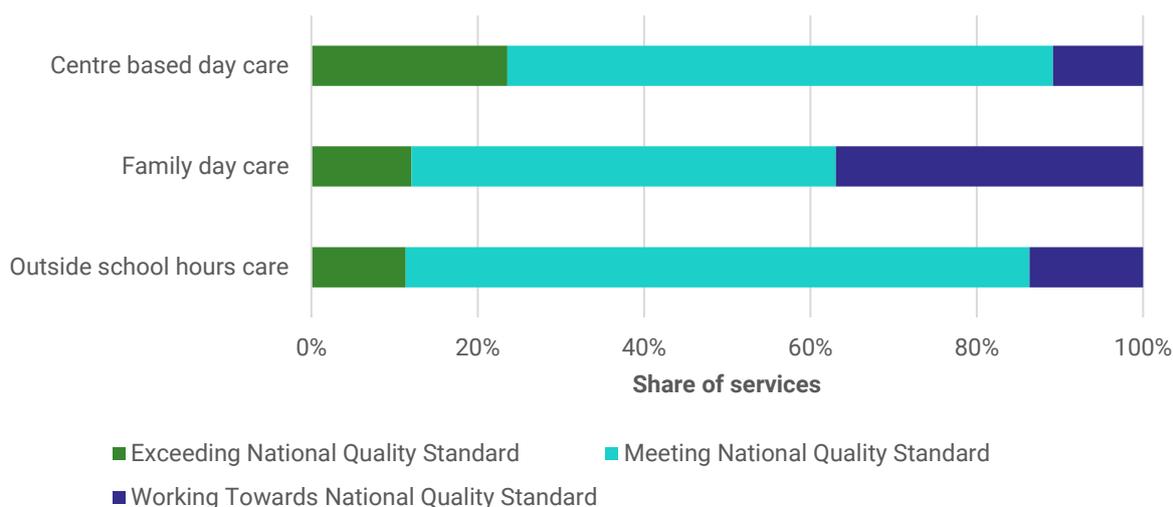
4.4. Services with higher National Quality Standard ratings charge higher prices

In this section, we examine prices of childcare services based on a service’s current National Quality Standard rating. These ratings apply to centre based day care, family day care and outside school hours care services. The ratings do not apply to in home care services, and as such these services are not included in this analysis.

We note that the rating is assessed at a point in time and some services may have a rating that is several years old. We have excluded services that do not yet have a rating.

We find the most common rating for all service types is ‘Meeting National Quality Standard’ (figure 4.13), with more than half of services of each type holding this rating. About 20% of centre based day care services are rated ‘Exceeding National Quality Standard’.

Figure 4.13: Share of services by National Quality Standard rating and service type, 2022



Note: We have excluded 'Excellent' and 'Significant Improvement Required' due to the low number of services with these ratings. We have also excluded services with no rating.

Source: ACCC analysis of Department of Education administrative data and ACECQA National Quality Agenda IT system data.

4.4.1. Fees for centre based day care differ slightly by National Quality Standard rating but not for other services

For centre based day care, there is a general trend for higher quality rated services to charge a higher fee (figure 4.14). There is some analysis by a large provider that is consistent with this, with this analysis showing services with an exceeding rating have a higher demand and can generally charge a small premium.⁷⁰

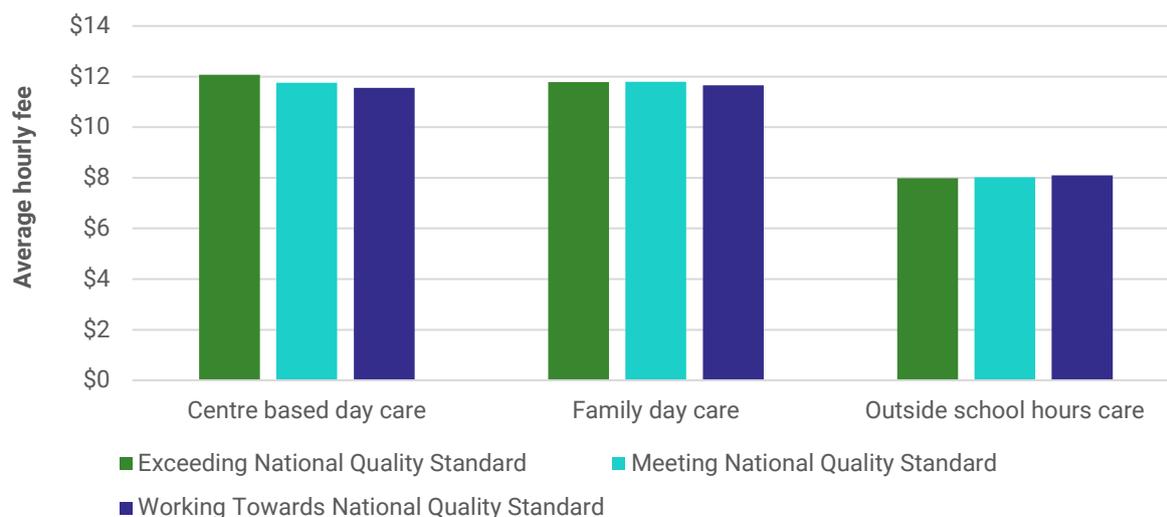
However, we observe the variance between the average fee for each quality rating is small (less than \$1 per hour), which suggests the National Quality Standard rating may not have a significant impact on the price of a childcare service.

This is consistent with the results from the parents and guardians survey, which indicate the National Quality Standard rating of a service is of less importance when choosing childcare compared to other potential indicators of quality such as cleanliness, educational programs and qualifications and skills of the educators.

In contrast to centre based day care, we observe the average fees for family day care services or outside school hours care services are very similar across the different ratings, and as such, the rating does not appear to have a significant impact on the price of the service. We expect that for family day care services this could be partly explained by the rating being applied to the service rather than the individual educator, and as such the rating may be less useful for households when comparing services and prices of educators.

⁷⁰ Information provided to the ACCC.

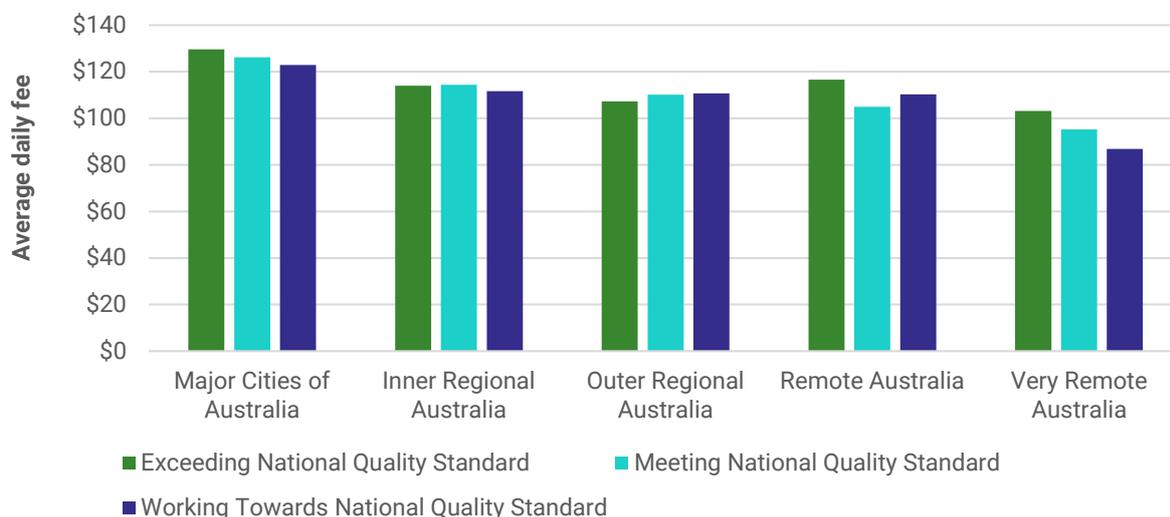
Figure 4.14: Average hourly fee by National Quality Standard rating, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

We observe some difference in the average daily fee for centre based day care services in Major Cities of Australia, as well as Remote and Very Remote Australia (figure 4.15). However, in Inner Regional Australia and Outer Regional Australia there is almost no difference in the average daily fee. This suggests the National Quality Standard rating is a less reliable indicator of quality in these areas.

Figure 4.15: Average daily fee for centre based day care National Quality Standard rating and remoteness, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

4.5. Prices and child characteristics

In this section, we look at how prices differ based on some of the demographic characteristics of the child in care, such as the age of the child, whether the household primarily speaks a language other than English at home, or whether the child identifies as a First Nations Australian.

4.5.1. Age is a driver of prices for centre based day care but not family day care

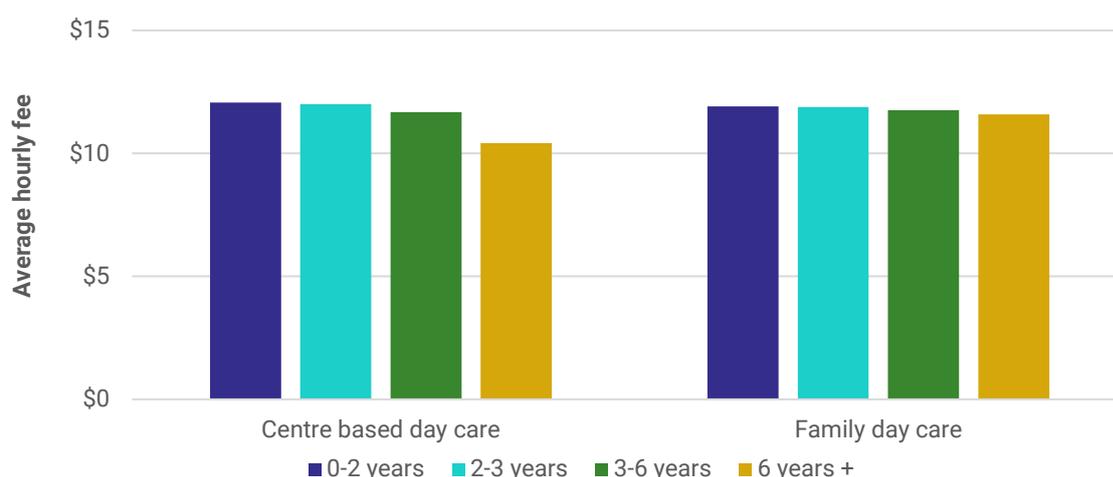
Most children in centre based day care (60%) and family day care (38%) are aged between 3 to 6 years. However, we observe the highest average hourly fee is for children aged 1 in centre based day care (\$12.10) and family day care (\$11.93) (figure 4.16).

The average hourly fee for centre based day care is higher for younger age groups and declines as the child's age increases, which likely reflects the higher staffing costs required to maintain educator-to-child ratios under the National Quality Framework. This also reflects information provided to the ACCC about pricing considerations, as discussed in chapter 2.

For family day care services, the hourly fee is very similar across all age groups, with the lowest fee applying to school age children. This is likely a result of family day care educators charging similar amounts for children of preschool age and under, as they are subject to different ratio requirements under the National Quality Framework compared to centre based day care.⁷¹

We will explore the cost structures for children of different ages over the course of this inquiry to understand how these impact pricing and availability of services for different age groups.

Figure 4.16: Average hourly fee for centre based day care and family day care by age group, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

⁷¹ Family day care services have a 1:7 educator-to-child ratio with a maximum of 4 children preschool age or under. Centre based day care services have a range of ratios based on the age of the children from 1:4 to 1:11.

We note that most children in outside school hours care services are aged 6 years and over, and that the average fees are very similar across different age groups. This is consistent with the ratio requirements.

We have excluded in home care services from this analysis as these services charge a fee to cover an entire household, which may include multiple children of different ages.

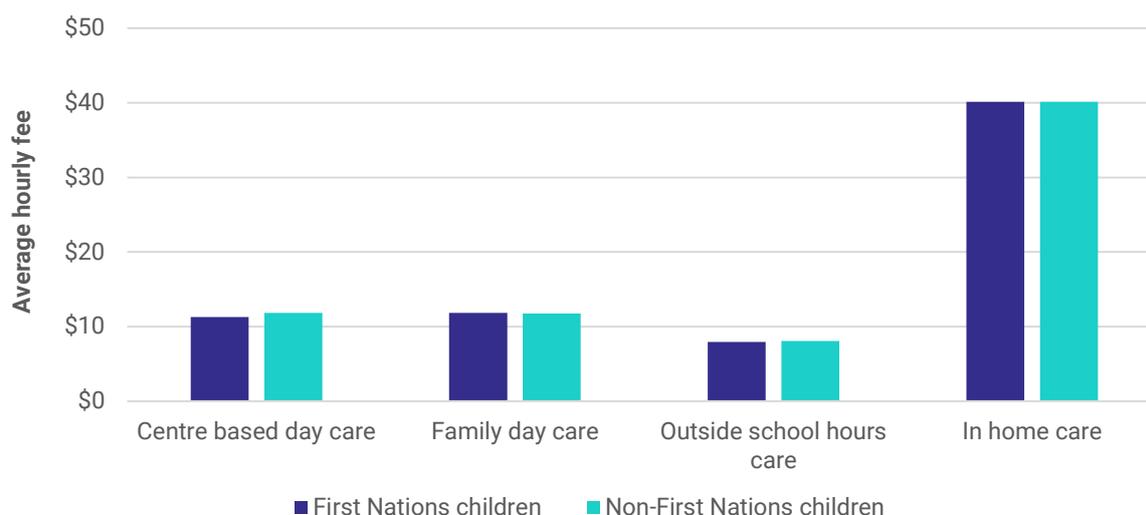
4.5.2. Demographic characteristics

First Nations Children

Over 4% of children who attend any type of childcare service come from households that have identified as First Nations Australians, for the December quarter 2022. Of these children, 67% attended centre based day care, 28% attended outside school hours care, 5% attended family day care and less than 1% attended in-home care.⁷²

The average hourly fee is similar across all service types for First Nations children and non-First Nations children (figure 4.17). For centre based day care, there is a small difference in the average hourly fee for First Nations children (\$11.28) compared to non-First Nations children (\$11.84), noting this is before the Child Care Subsidy is applied.

Figure 4.17: Average hourly fee for each service type, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

We also find that in areas such as Remote and Very Remote Australia, where a higher share of children attending childcare services are First Nations Australians, the average hourly fee for First Nations Australians households is slightly lower than for other households.

We note that services in Remote and Very Remote Australia, as well as those providing care in primarily First Nations communities, receive grant funding that aims to support continuity of locally-driven childcare service delivery. They also aim to increase participation of children

⁷² Currently the First Nations status of children attending childcare is inferred from whether the customer or customer's partner has identified as a First Nations Australian in their dealings with Services Australia. Services Australia will begin collecting information about whether children are identified as First Nations Australians from July 2023 as part of the Australian Government's policy to increase the minimum subsidised hours for First Nations children to a minimum of 36 hours per fortnight.

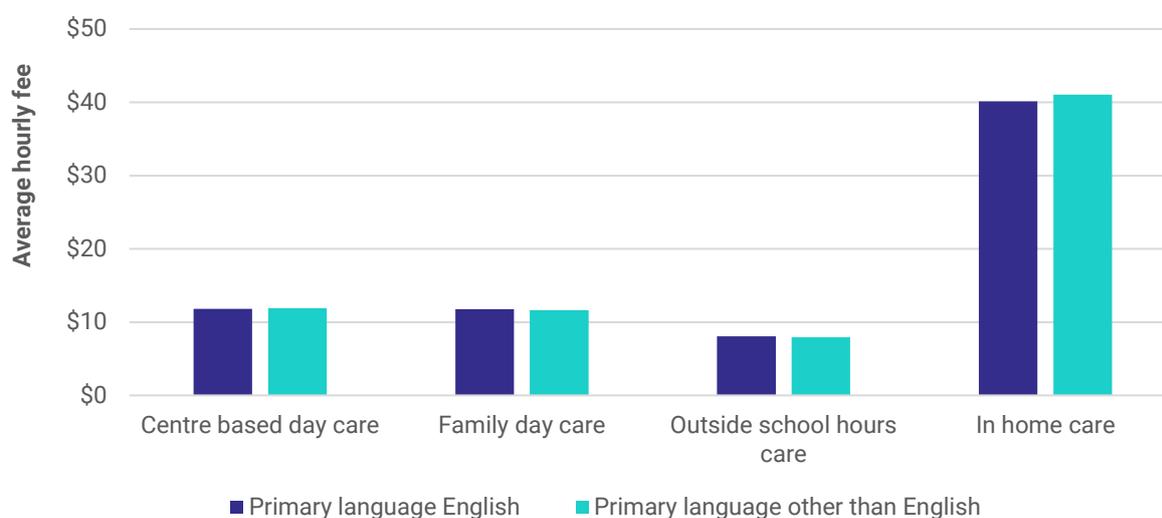
who identify as First Nations or belong to vulnerable or disadvantaged households and communities. We will explore this further over the course of the inquiry.

Children with a primary language other than English

Households with a primary language other than English pay very similar fees to primarily English-speaking households across all service types (figure 4.18).⁷³

However, this cohort, which represents 3% of children in childcare, are much more likely to be using family day care services, as noted in chapter 2. This means that the average daily fee may be lower for these households given family day care typically have a lower daily fee (and less hours per day) than centre based day care.

Figure 4.18: Average hourly fee for each service type by primary language, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

Children with disability and/or complex needs

As part of our inquiry, we will examine the prices and costs of childcare for children with disability and/or complex needs. However, as we do not currently have data available to examine the average prices we have considered some preliminary information from the parents and guardians survey collected about children with disability and/or complex needs using childcare.

According to the Australian Bureau of Statistics 2021 Census data, 1.4% of 0 to 4-year-olds and 4.4% of 5 to 14-year-olds were reported as needing assistance with at least one of the core activities of self-care, communication and mobility.⁷⁴

⁷³ Note households who identify as speaking a primary language other than English are identified through their engagement with Services Australia, and as such this may not capture the full cohort.

⁷⁴ The 2021 Census collected information about a person's need for assistance with one or more of the core activities of self-care, communication and mobility due to disability, long-term health conditions or the effects of old age. Australian Bureau of Statistics, [Profile of people with a core need for assistance in Australia](#), released 29 July 2022, accessed 7 June 2023.

About 14% of respondents to the parents and guardians survey have a child with disability and/or complex needs. Most of these respondents used centre based day care, or a combination of centre based day care and outside school hours care.

When asked about their ability to pay fees, most of those who answered (77%) said they found childcare fees 'somewhat financially burdensome' or they 'struggle to pay fees', which was similar to the number of all respondents who answered this question (74%). About 19% said they could 'comfortably pay fees', compared to 23% for all respondents.

Several of these respondents raised the challenge of finding a place for their child, and that there is a lack of qualified staff with the skills to care for children with disability and/or complex needs.

"Finding childcare that is inclusive of children with disability/complex needs is very difficult. Many services refuse to enrol disabled children, or try to get them to leave after starting."

"It's difficult to find a service capable of handling special needs children. Everyone advertises inclusion support but the reality is, very few staff actually have the knowledge of how to handle children with behavioural needs. This limited us greatly in finding a service."

"We were contacted by our preferred daycare to say that they had a slot available for my child. When I told them my child has autism (high functioning as he is verbal and reasonably social) they said they couldn't care for him and could not offer him the slot."

"I asked about accessing Inclusion Support Funding. The vast majority of staff and centre directors told me 'that is too administratively burdensome', 'even if you get the funding, it's still too hard to find staff'"

"My child is autistic and has ADHD. We ended up not sending her to before/after school care because she was experiencing severe school refusal/school can't, and also because she struggled with the noise and uncertainty of the care. While individual staff were kind and caring, they didn't seem to have specific skills around supporting children with disability, and there were no adjustments made for these children. We looked into in-home care but the process was complex, and once we received NDIS approval we weren't eligible for it anyway."

We will explore information from the Early Childhood Education and Care National Workforce Census to gain a better understanding of the prices for children with disability and/or complex needs over the course of our inquiry.

4.6. Further analysis for our inquiry

Over the course of our inquiry we will continue to explore the prices of childcare services by different characteristics, including by considering:

- the factors driving higher prices for centre based day care in areas with more services
- differences in cost structures for large, medium, and small childcare providers and whether there are any benefits of scale
- how costs differ when providing childcare to different groups of children.

5. The Child Care Subsidy and affordability

Key points

- About 50% of households in the lowest income decile spent between 5% to 21% of their disposable income on childcare, compared to about 2% to 9% for households in the highest income decile.
- A steep drop in average out-of-pocket expenses occurred following the introduction of the Multiple Child Subsidy in March 2022.
- In the December quarter 2022, the average daily subsidy was about 61% for centre based day care services, 68% for family day care services, and 80% for in home care services. For outside school hours care, the average subsidy per session was about 55%.
- Government subsidies offset a greater share of childcare fees in the December quarter 2022 than they did in the September quarter 2018. This is the case across all childcare service types.
- Almost double the number of centre based day care services and family day care services had average fees above the hourly rate cap in December 2022 compared to September 2018. The number of services with fees above the cap increased:
 - from 11% to 22% of services for centre based care
 - from 20% of services to 42% of services for family day care. (Most of this increase has occurred since September 2020).
- The Australian Capital Territory has the highest share of services charging above the hourly rate cap.
- In centre based day care shorter sessions are more likely to have hours charged over the hourly rate cap.
 - This reduces affordability for households with lower activity test entitlements, creating a situation where a higher share of their fees will be unsubsidised.

This chapter discusses the relationship between the Australian Government Child Care Subsidy and the hourly rate cap.

- Section 5.1 provides an overview of the out-of-pocket expenses and affordability for households.
- Section 5.2 examines the government subsidies and impact on fees.
- Section 5.3 discusses the hourly rate cap and share of services that charge over or under the rate cap.

5.1. Affordability

5.1.1. Out-of-pocket expenses and affordability

When announcing the ACCC inquiry into the supply of childcare services, the Australian Government acknowledged the 'significant burden' that rising childcare fees has put on many Australian households.⁷⁵

The ACCC acknowledges the average fees and expenses presented in this report may mask the significant variation in the experiences of different households and what they pay. We find, as discussed in chapters 3 and 4, that prices of childcare services vary depending on the location, size, and for-profit or not-for-profit status of the provider.

We also know that each household uses childcare differently and that even when 2 households use and pay the same daily fee for a childcare service, they may be entitled to different subsidies, as subsidies are determined by household income.

To better understand the impact of childcare fees on different households, we have estimated households' out-of-pocket expenditure on childcare as a share of their disposable income, grouped by income decile. This analysis is based on households using childcare in a representative fortnight in November 2022.⁷⁶

We find that despite households with low incomes receiving a greater government contribution and paying less out-of-pocket for childcare, these households, nevertheless, end up spending more of their disposable income on childcare.

About half of households in the lowest income decile spent between about 5% and 21% of their disposable income on childcare – with some other low income households spending more than this.⁷⁷

In contrast, half of the households in the highest income decile spent between 2% and 9% of their disposable income on childcare (figure 5.1).

The Australian Institute of Family Studies Child Care Package Evaluation (August 2021) found that households with a lower disposable income were more likely to be paying for some unsubsidised childcare hours.⁷⁸ Further analysis, later in the inquiry, will examine how policy settings impact out-of-pocket expenses for low income households.

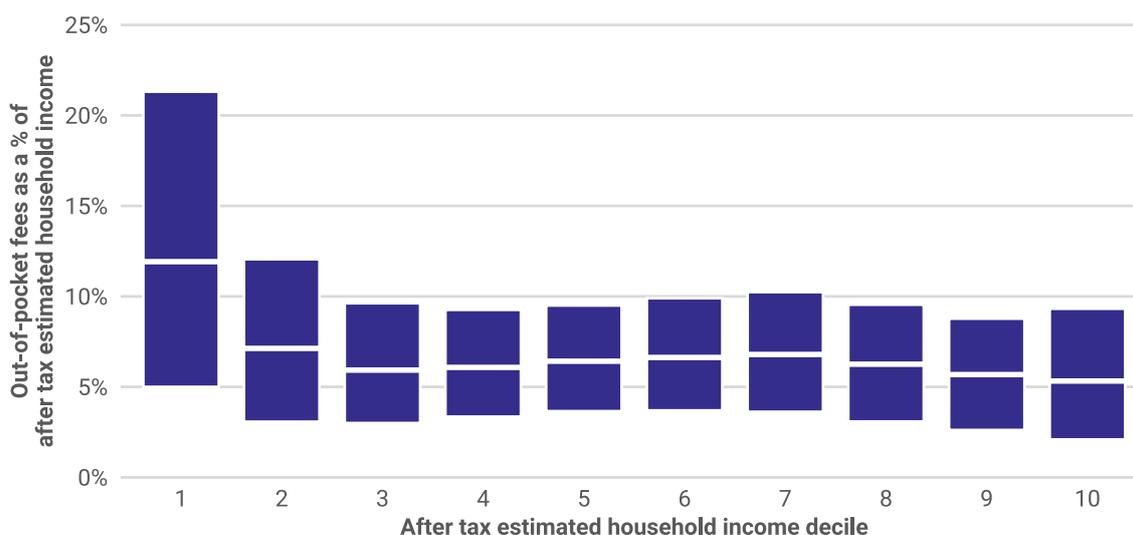
⁷⁵ The Hon Dr Jim Chalmers MP and the Hon Jason Clare MP, [October Budget to fund childcare price inquiry](#) [media release], Australian Government, 21 September 2022, accessed 1 June 2023.

⁷⁶ We selected the fortnight beginning 14 November as it does not include any school holiday periods or public holidays, and the out-of-pocket expenses as a share of household disposable income appears typical for other periods in 2022.

⁷⁷ The lowest income decile ranges from approximately \$1-\$35,000.

⁷⁸ 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](#), Australian Institute of Family Studies, August 2021, p 79.

Figure 5.1: Childcare out-of-pocket expenses as a share of disposable income, by after tax estimated household income decile, financial year 2021–2022⁷⁹



Note: Each box represents the interquartile range (the middle 50% of households) in each income decile. The top of the box is the 75th percentile and the bottom is the 25th percentile. The median is represented by the white line. After tax estimated income was calculated using adjusted taxable household incomes for the fortnight beginning 14 November 2022 (estimated by households) and estimated tax payable based on tax rate schedules and assuming zero tax deductions. Adjusted taxable household incomes may not include several additional income sources. See: www.servicesaustralia.gov.au/what-adjusted-taxable-income.

Source: ACCC analysis of Department of Education administrative data.

In addition to session fees, there are other fees that households may be required to pay when using childcare services, outlined in box 5.1, that contribute to out-of-pocket expenses and can impact affordability.

⁷⁹ 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 any additional sources of income 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.

Box 5.1: Additional fees of childcare services

There are some common additional fees households may face when using centre based day care or outside school hours care services, including enrolment fees, late fees, wait list fees, administration fees, excursion fees and others. Some of these fees are set out below.

Based on information provided to the ACCC, we observe the value of these fees varies between services, but some fees have been the same since 2018.

Waitlist fees

Large providers may charge a fee to put a child on a waitlist to attend their centre based day care service. These fees can range from \$10 to \$50 and are typically non-refundable.

Enrolment fees

Large providers may charge a fee to enrol a child into a service. Enrolment fees for centre based day care services can range from \$50 to \$250 per child and are typically non-refundable.

Some large providers charge different enrolment fees based on the location of the service, for example, one provider charges a \$100 enrolment fee in more advantaged socio-economic areas and \$50 in less advantaged areas.

For outside school hours care services, the enrolment fee can range from \$5 to \$50 per child.

Late fees

Providers may also charge a late collection fee that applies if a child is collected after operating hours. This fee varies between services, such as \$30 per 15 minutes or \$1 per minute.

5.1.2. Average out-of-pocket expense for households has decreased for most services since 2018, adjusting for inflation

Since 2018, the average out-of-pocket expense has increased across centre based day care, family day care and outside school hours care services.

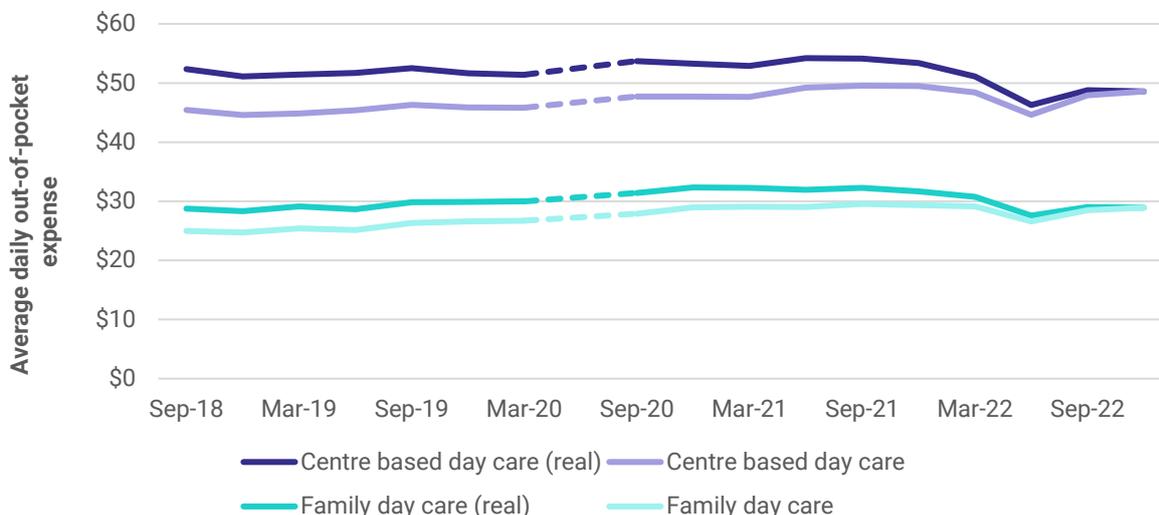
Once adjusted for inflation however, the average out-of-pocket expense decreased for centre based day care and outside school hours care services, and remained stable for family day care services. This means that the increase in centre based day care and outside school hours care fees was more than offset by an increase in the amount of subsidy paid to households. This is discussed further in section 5.2, but we expect this will be largely due to the introduction of a higher subsidy rate for households with more than one child aged 5 or younger in care in March 2022.⁸⁰

In figure 5.2, we observe that for centre based day care, the average out-of-pocket expense increased by \$3.18 per day (from \$45.42 to \$48.60) between the September quarter 2018 and the December quarter 2022. This is an increase of 7.0% in nominal terms, but a decrease of 7.2% once adjusted for inflation.

⁸⁰ The Hon Alan Tudge MP and Senator the Hon Jane Hume, [Increased child care support brought forward](#) [media release], Australian Government, 10 October 2021, accessed 19 May 2023.

For family day care, the average out-of-pocket expense increased by \$3.95 per day between the September quarter 2018 and the December quarter 2022. This is an increase of 15.8% in nominal terms, but an increase of only 0.5% once adjusted for inflation.

Figure 5.2: Average daily out-of-pocket expense for centre based day care and family day care services, September quarter 2018 to December quarter 2022

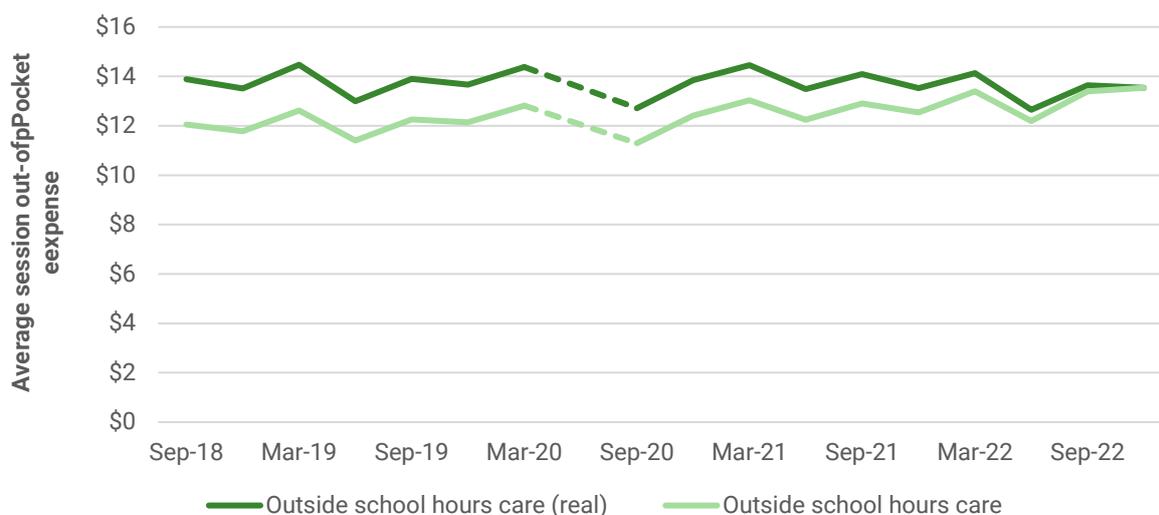


Note: No data is available for June quarter 2022, see Box 1.6 for more information.

Source: ACCC analysis of Department of Education administrative data.

For outside school hours care, the national average out-of-pocket expense per session increased by \$1.49 per session from the September quarter 2018 to the December quarter 2022 (figure 5.3). This is an increase of 12.3% in nominal terms, but a decrease of 2.5% once adjusted for inflation.

Figure 5.3: Average session out-of-pocket expense for outside school hours care September quarter 2018 to December quarter 2022



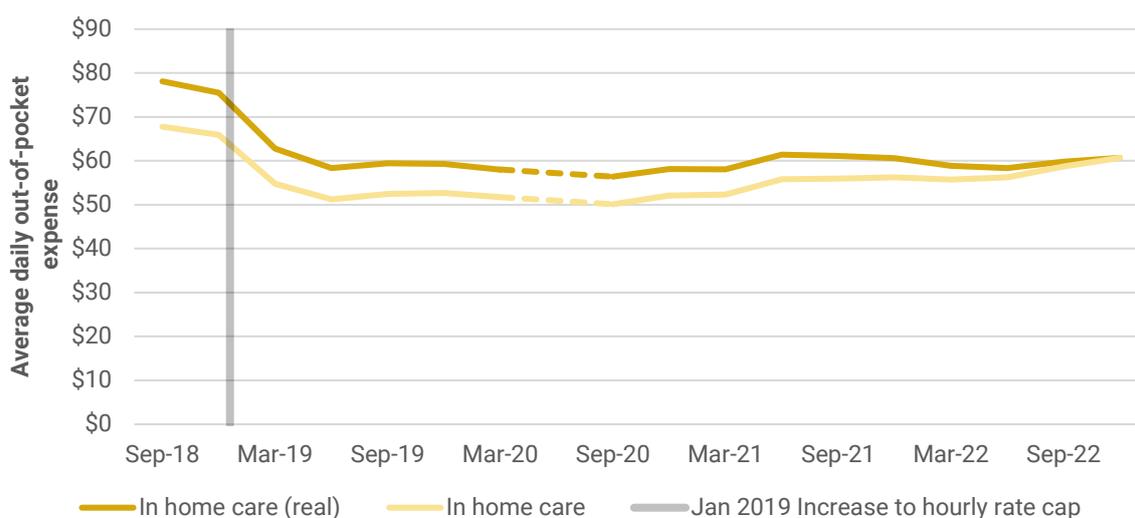
Note: No data is available for June quarter 2022, see Box 1.6 for more information.

Source: ACCC analysis of Department of Education administrative data.

For in home care, average out-of-pocket expenses decreased by \$7.08 per day between the September quarter 2018 and the December quarter 2022 (figure 5.4). This is a decrease of 10.5% in nominal terms, and a decrease of 22.3% once adjusted for inflation.

However, this decrease largely took place over 2018 and 2019, likely due to the increase of the hourly rate cap for in home care in January 2019.⁸¹ If we examine only the September quarter 2019 to the December quarter 2022, the average daily out-of-pocket expense increased by \$8.22 a day, which is an increase of 15.7% in nominal terms, or 2.0% in real terms.

Figure 5.4: Average daily out-of-pocket expense for in home care, September quarter 2018 to December quarter 2022



Note: No data is available for June quarter 2022, see Box 1.6 for more information.

Source: ACCC analysis of Department of Education administrative data.

5.2. Government subsidies offset more than half of childcare fees on average

Although childcare fees have been rising on average, as discussed in chapter 3, the Australian Government subsidises a large share of fees for households through the Child Care Subsidy and the Additional Child Care Subsidy.

⁸¹ The Hon Dan Tehan MP, [Helping more families access In Home Care](#) [media release], Australian Government, 7 December 2018, accessed 19 May 2023.

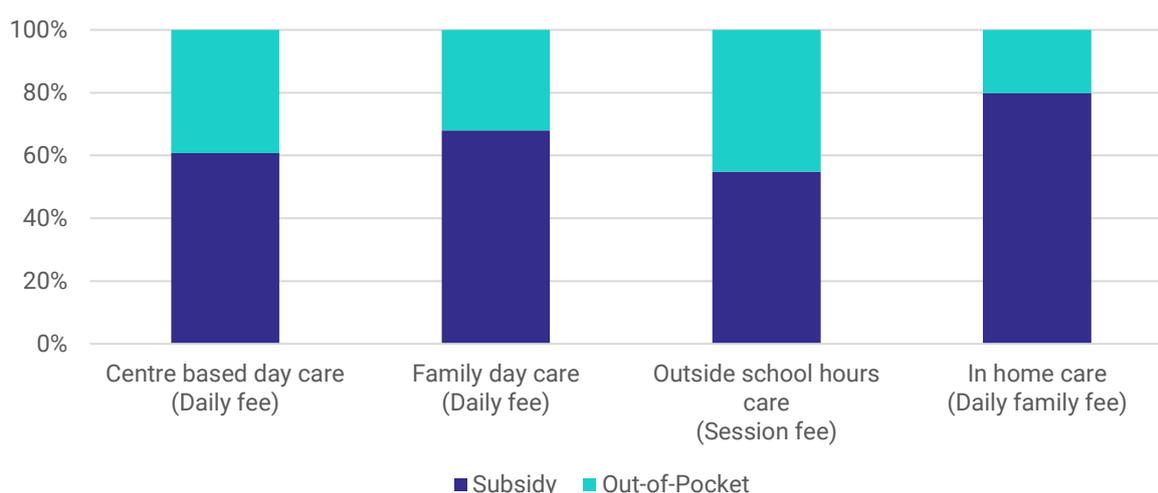
5.2.1. The Child Care and Additional Child Care Subsidy covers an increasing share of childcare fees for most service types

In the December quarter 2022, the national average subsidy was:⁸²

- \$75.04 per child per day for centre based day care
- \$61.31 per child per day for family day care
- \$240.73 per family per day for in home care, and
- \$16.46 per child per session for outside school hours care.

The average daily subsidy was about 61% of the total fee for centre based day care, 68% for family day care services and around 80% of the daily fee for in home care services. For outside school hours care, the average subsidy per session is around 55% of the total average session fee (figure 5.5). The different subsidy amounts reflect the different fees charged for each service type.

Figure 5.5: Average subsidy and out-of-pocket expense as a share of total fee, December quarter 2022



Note: We have calculated the average subsidy, using data about the Child Care Subsidy and the Additional Child Care Subsidy, excluding the 5% of Child Care Subsidy withheld.

Source: ACCC analysis of Department of Education administrative data.

We observe, on average, the share of subsidy to fees has increased across all service types, but this is most apparent for in home care (figure 5.6).

The share of subsidy to fees, as used in this analysis, could also be described as an average effective subsidy rate. The higher the share, the more the government is offsetting the fees for childcare services through the Child Care Subsidy and Additional Child Care Subsidy.

However, we note this is different to a household's Child Care Subsidy approved subsidy rate, as it is derived from all fees paid by households. For example, this analysis includes

⁸² These averages are calculated using data about the Child Care Subsidy and the Additional Child Care Subsidy, excluding the 5% of Child Care Subsidy withheld for reconciliations at the end of the financial year. We note our calculations are based on estimates at a point in time and will not account for such reconciliations.

instances where a family pays for childcare services that are not subsidised (for example, hours in excess of those provided under the Child Care Subsidy activity test).

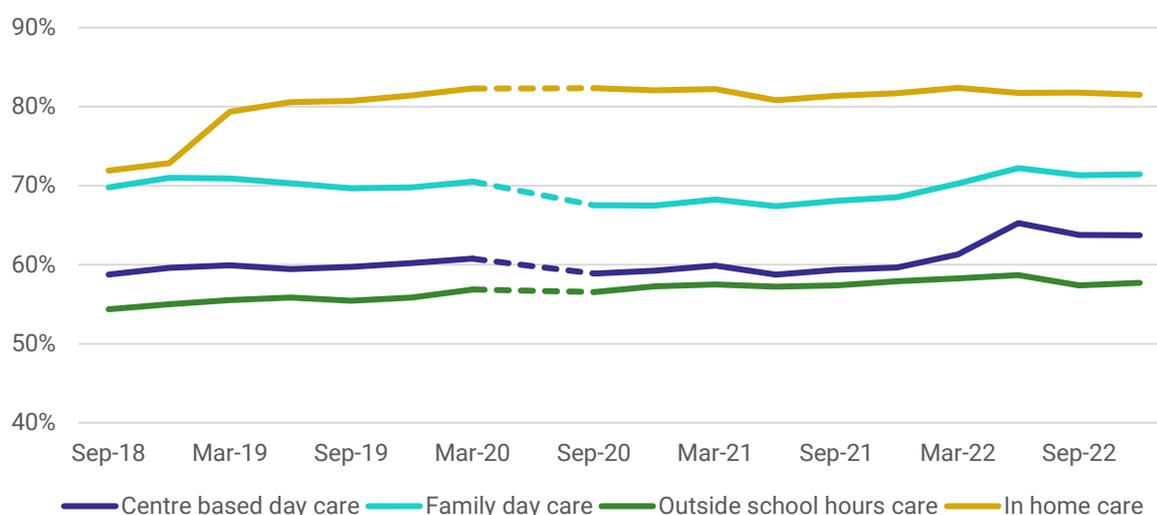
Family day care services saw the smallest change overall from 69.8% to 71.5% while centre based day care increased from 58.8% to 63.7%. Both service types experienced a notable increase from the June quarter 2022. We expect this will be largely due to the introduction of a higher subsidy rate for households with more than one child aged 5 or younger in care in March 2022.⁸³

The share of subsidy in outside school hours care increased from 54.4% to 57.7%.

In home care services have seen the biggest increase in the effective subsidy rate, increasing from 71.9% to 81.5% between the September quarter 2018 and the December quarter 2022. Most of this increase occurred between 2018 and 2019, likely due to the increase in the hourly rate cap.⁸⁴ If we examine only the period between September quarter 2019 and December quarter 2022, the share has only increased slightly from 80.8% to 81.5%.

Conversely to centre based day care and family day care, in home care is unlikely to benefit from the Multiple Child Subsidy, as in home care fees are paid at a household level rather than per child. This can be seen in figure 5.6, where centre based day care and family day care have an increased share of subsidy in the March 2022 quarter, while the share of subsidy for in home care remains stable.

Figure 5.6: Effective subsidy rate by service type, September quarter 2018 to December quarter 2022



Note: In this analysis we have also included the 5% of the Child Care Subsidy that it usually withheld for any reconciliations at the end of the financial year. The effective subsidy rate therefore will be slightly higher than the subsidy rate presented in figure 5.5.

Source: ACCC analysis of Department of Education administrative data.

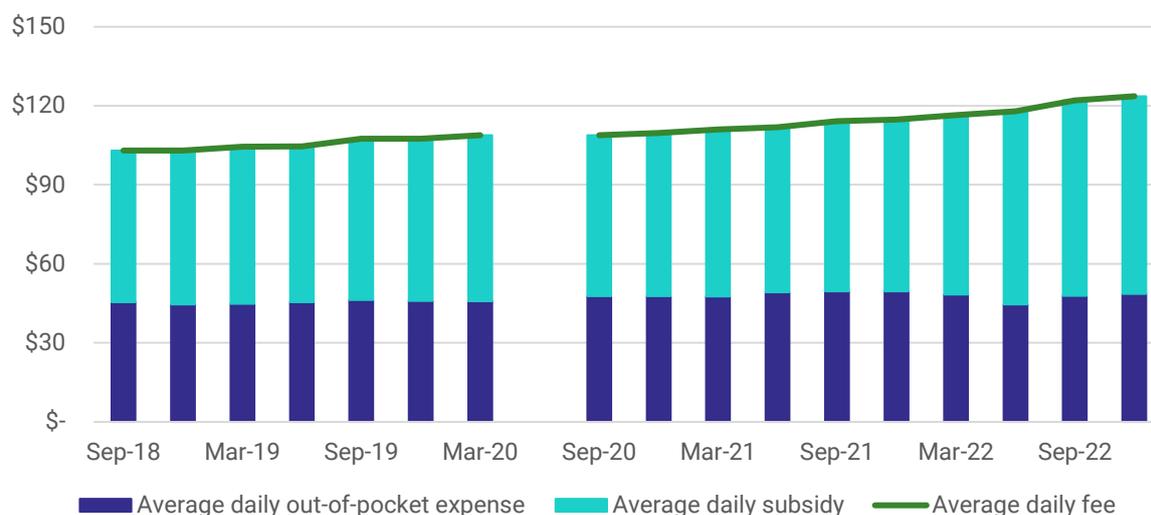
We find that the increase in subsidy has lessened the impact of fee increases on households' out-of-pocket expenses. Figure 5.7 below shows the average daily fee per child for centre based day care over time, broken down by out-of-pocket expense and subsidy

⁸³ The Hon Alan Tudge MP and Senator the Hon Jane Hume, Increased child care support brought forward.

⁸⁴ The Hon Dan Tehan MP, Helping more families access In Home Care.

amounts. We observe that the average daily subsidy has increased along with the average daily fee, while there is less increase in out-of-pocket expenses.

Figure 5.7: Average daily fee in centre based day care, by subsidy and out-of-pocket expense, September quarter 2018 to December quarter 2022



Note: We have calculated the average daily subsidy, using data about the Child Care Subsidy and the Additional Child Care Subsidy, excluding the 5% of Child Care Subsidy withheld.

Source: ACCC analysis of Department of Education administrative data.

Session length can impact subsidy amount for centre based day care

The length of a session of care for centre based day care services can vary by significantly more than the other service types. As noted in chapter 3, services may offer a long day session, half-day sessions and occasional care for an hour or 2. However, most centre based day care sessions are charged for 9 hours and above, with 10 hours being the most common session length.

The session length is an important consideration for households when it comes to calculating their subsidy entitlement, and in turn, their out-of-pocket expense.

This is due to how the session length and daily fee interacts with the activity test and the hourly rate cap. The activity test determines the number of hours of subsidised childcare to which a household will be entitled. The hourly rate cap is the maximum hourly fee rate that is eligible for the Child Care Subsidy.⁸⁵

Households that are charged a daily fee for longer sessions of care may have an hourly rate that is under the hourly rate cap, but this will use more of their eligible hours of subsidised care available in the fortnight.

Households that are charged a daily fee for shorter sessions of care will use less of their eligible hours, but may have an hourly rate that exceeds the hourly rate cap. Which is more beneficial depends on the number of hours of subsidised childcare the household is entitled to and the hourly rate of each service. See box 5.2 below for an illustrative example.

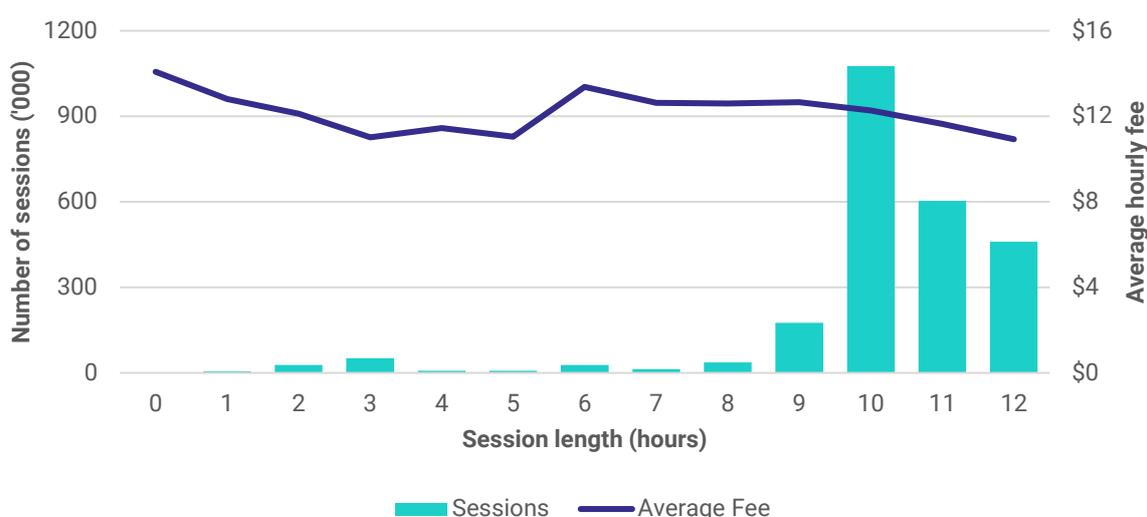
⁸⁵ Where a service provider charges a rate above the cap, the subsidy percentage applies to the hourly rate cap and the family must meet the full amount they are charged over the cap. Where a provider charges a rate less than the cap, households will receive their applicable subsidy percentage of the actual hourly fee charged.

For the November 2022 reference week, the highest average hourly fee was for sessions below one hour (\$14.08), likely corresponding to occasional care sessions, preschool wrap-around hours or additional hours outside regular use.⁸⁶

For sessions that correspond to more regular use, the highest average hourly fee was for 6-hour sessions (\$13.37) compared to the lowest fee, which was for 12-hour sessions (\$10.93).

The most common session length is 10 hours, followed by 11 hours (figure 5.8). Most centre based day care sessions were for full day sessions of care.

Figure 5.8: Average hourly fee by session length for centre based day care services, November reference week 2022



Source: ACCC analysis of Department of Education administrative data.

Box 5.2: Impact of session length and activity test on subsidy

A family needs childcare for 5-days a week and is eligible for a subsidy of 85% and the maximum amount of care under the activity test (100 hours per fortnight). The family has a choice between Service A and Service B. Both services charge a daily fee of \$130.

Service A

Service A offers a 12-hour day session of care, which means the hourly fee is \$10.83 (below the hourly rate cap of \$12.74). The service will charge the family for 120 hours of care over the fortnight.

This means the family will receive subsidised care for 100 hours and will be unsubsidised for 20 hours in the fortnight.

Out-of-pocket expense for subsidised hours (100 hours): \$162.50

Out-of-pocket expense for unsubsidised hours (20 hours): \$216.67

Total out-of-pocket expense for the fortnight: \$379.17

⁸⁶ Occasional care services provide education and care to children primarily on a non-regular or casual basis but are considered centre based day care for the purposes of the Child Care Subsidy.

Service B

Service B offers a 10-hour day session, which means the hourly fee is \$13 (above the hourly rate cap of \$12.74). The service will charge the family for 100 hours of care over the fortnight.

This means the family will be out-of-pocket for the hourly amount above the fee cap (\$0.26/hour) for the fortnight. All the hours of care (100 hours) will attract some subsidy.

Out-of-pocket expense for subsidised hours using hourly rate cap (100 hours): \$191.10

Out-of-pocket expense for amount above the hourly rate cap (100 hours): \$26

Total out-of-pocket expense for the fortnight: \$217.10

In this example, Service B provides a more lower expense option for the family in the circumstances, despite the hourly fee rate being higher than the hourly rate cap.

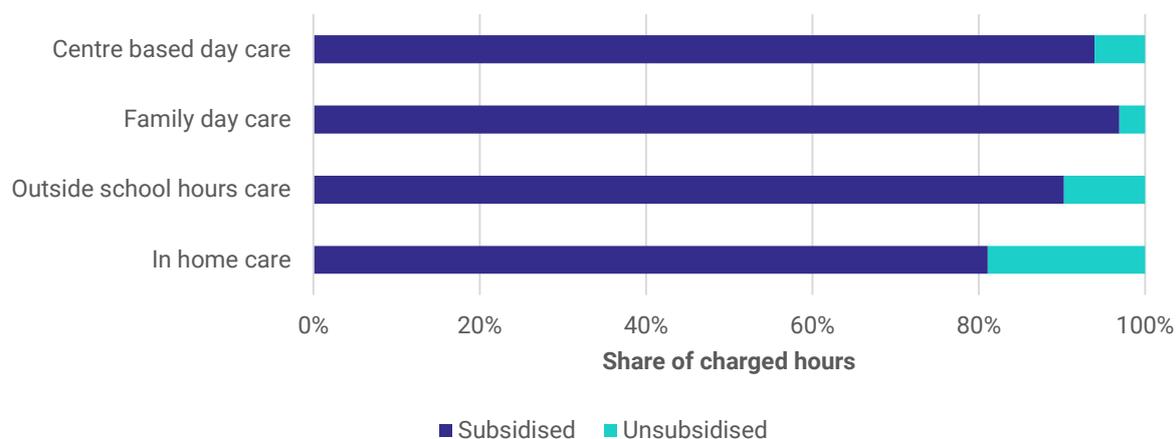
For further consideration of how the session length interacts with the hourly rate cap, see section 5.3.5.

5.2.2. Households receive a subsidy for most of their charged hours

On average, most households received a subsidy for most of their charged hours for childcare in the December quarter 2022 (figure 5.9).⁸⁷

The number of subsidised hours was highest for family day care services (97%) and lowest for in home care services (81%). This means that nearly 20% of in home care hours were paid entirely out-of-pocket by the household. This would be higher still when we consider that even when households do receive a subsidy, that subsidy may not cover the total cost of care.

Figure 5.9: Subsidised and unsubsidised hours as a share of total hours charged by service type, December quarter 2022

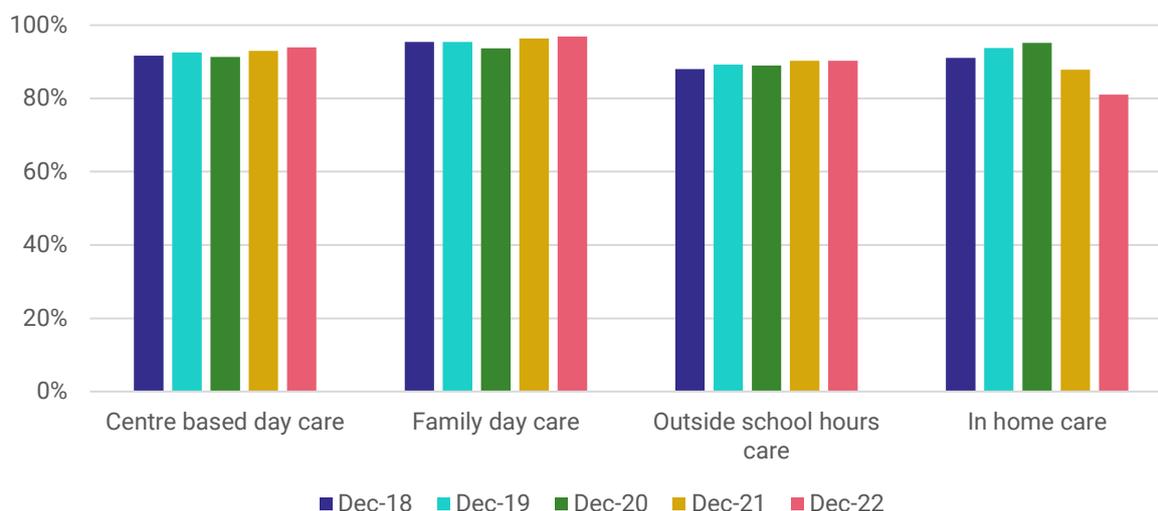


Source: ACCC analysis of Department of Education administrative data.

⁸⁷ However, we note this only describes whether the family received any subsidy and does not capture differences in that level of subsidy.

Figure 5.10 shows the change in the share of subsidised hours over time. There is a slight increase for centre based day care, family day care and outside school hours care services. However, the share of subsidised hours for in home care fell 10 percentage points from 91% in December quarter 2018 to 81% in December quarter 2022. Further analysis, later in the inquiry, will examine why this trend occurs for in home care.

Figure 5.10: Share of childcare hours that attracted a subsidy by service type, December quarter 2018 to December quarter 2022 (quarter-on-quarter)



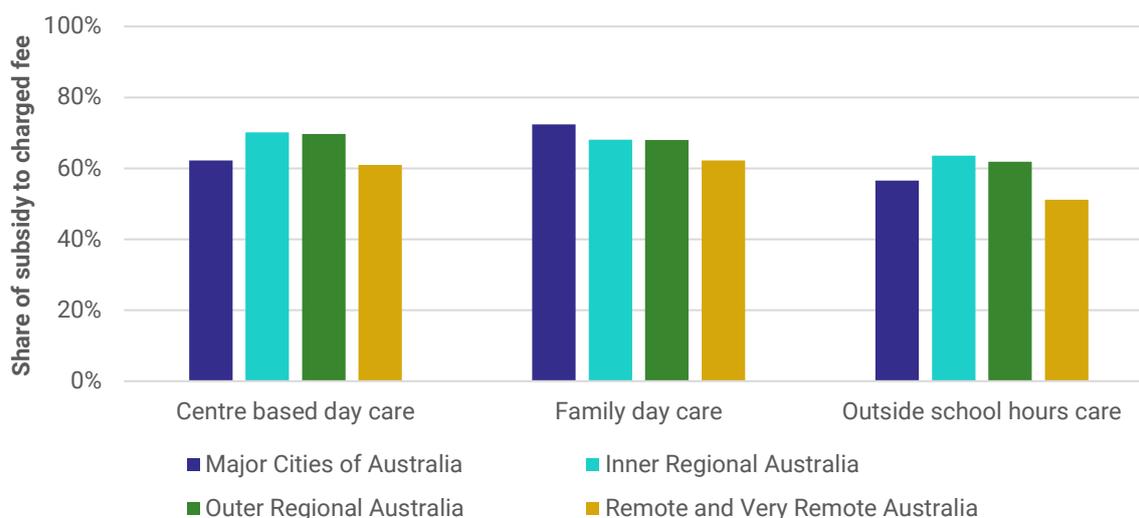
Source: ACCC analysis of Department of Education administrative data.

5.2.3. Remote areas receive a lower rate of subsidy

We observe that Remote and Very Remote Australia receive the lowest rate of subsidy across centre based day care, family day care and outside school hours care (figure 5.11). In home care has not been included in this analysis due to the small sample size.

Using available data, we find this trend cannot be explained by different income levels, or a lower Child Care Subsidy rate, on average, in Remote and Very Remote Australia. We will explore this further over the course of our inquiry, in particular, examining whether this could be caused by families exceeding their allowable fortnightly hours under the activity test.

Figure 5.11: Effective subsidy rate by remoteness, December quarter 2022



Note: In this analysis we have also included the 5% of the Child Care Subsidy that is usually withheld for any reconciliations at the end of the financial year.

Source: ACCC analysis of Department of Education administrative data.

5.3. The hourly rate cap affects out-of-pocket expenses for households

In this section, we examine childcare fees in relation to the hourly rate cap.

The national average hourly fee for each service type compared to the hourly rate cap is outlined in box 5.3.

The 2018 Jobs for Families Child Care Package (the Package) introduced the hourly rate cap to put downward pressure on childcare fees. The cap sought to restrain fee increases and encourage households to be conscious of fees.⁸⁸

However, the Australian Institute of Family Studies evaluation report found no change in the pattern of increase following the introduction of the Package, and a significant share of hours of care were charged above the cap.

The above cap charging was more frequent in capital cities and in remote locations, and for younger children.⁸⁹ The report also found little evidence in the data available of the hourly fee cap working as a constraint on fees being charged by services.⁹⁰

⁸⁸ The Regulation Impact Statement noted that a minimum co-contribution from all childcare users was seen by stakeholders as acceptable, fair, and necessary. A co-contribution can encourage parents to be conscious of the fees charged and help keep downward pressure on childcare fees. Department of Education and Training, [Regulation Impact Statement – Jobs for Families Child Care Package](#), Australian Government, 2015, accessed 1 June 2023, p 43.

⁸⁹ J.R Bray et al., *Child Care Package Evaluation: Final Report*, pp 66, 69.

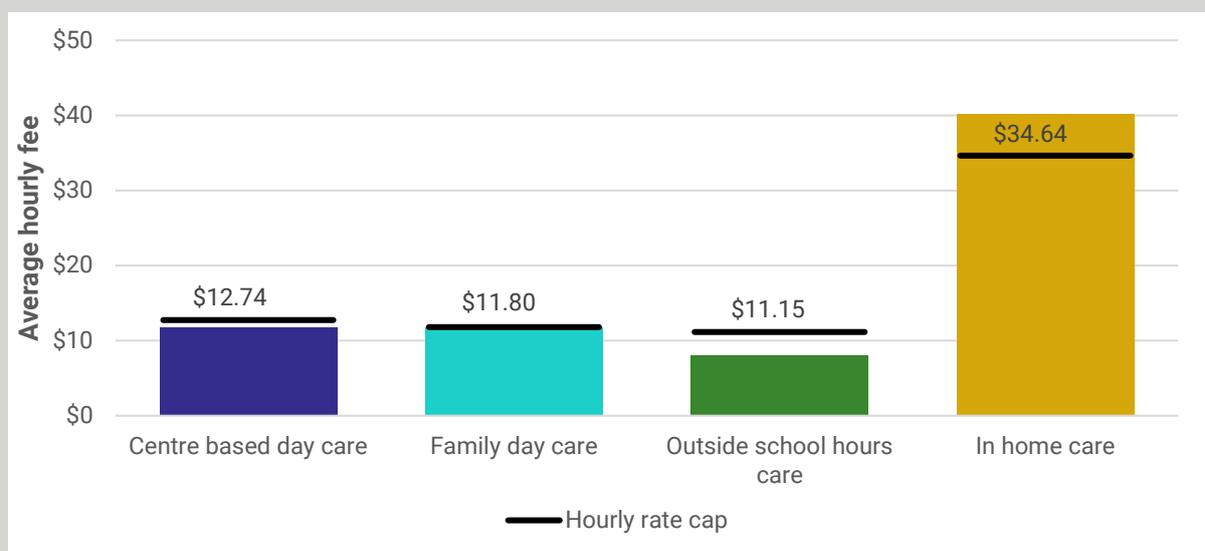
⁹⁰ J.R Bray et al., *Child Care Package Evaluation: Final Report*, p 341.

Box 5.3: National average hourly fee compared to hourly rate cap, December quarter 2022

The national average hourly fee for all approved service types, except in home care, was below the relevant hourly rate cap⁹¹ in the December quarter 2022, as follows:

- \$11.81 for centre based day care, compared to a cap of \$12.74
- \$11.74 for family day care, compared to a cap of \$11.80
- \$8.08 for outside school hours care, compared to a cap of \$11.15
- \$40.14 for in home care per family, compared to a cap of \$36.64 per family.

Figure 5.12: National average hourly fee for childcare services, compared to hourly rate cap, by service type, December quarter 2022



Source: ACCC analysis of Department of Education administrative data.

The amount of subsidy a household receives (and corresponding out-of-pocket expense) will depend on factors including the fees charged by their childcare service and whether it exceeds the hourly fee rate cap, such as set out in box 5.3. However, as many services do not charge an hourly fee it can be difficult for households to reconcile and understand the amount they pay for childcare.

Preliminary analysis indicates that, on average, children attend care for less hours than parents are charged for. We note the exception is in home care, where attended hours and charged hours appear to align, likely because this type of care is charged on an hourly basis.

This trend is most pronounced for longer sessions of centre based day care, for example, it appears that a significant number of parents are being charged for 10 to 12 hour sessions while their child only attends for 8 to 9 hours.

There are many reasons this may be the case – for example, parents may value the ability to drop off and collect their child when convenient within the session time window and think of the price as a daily fee regardless of the number of hours attended. However, we will examine this trend further over the course of our inquiry.

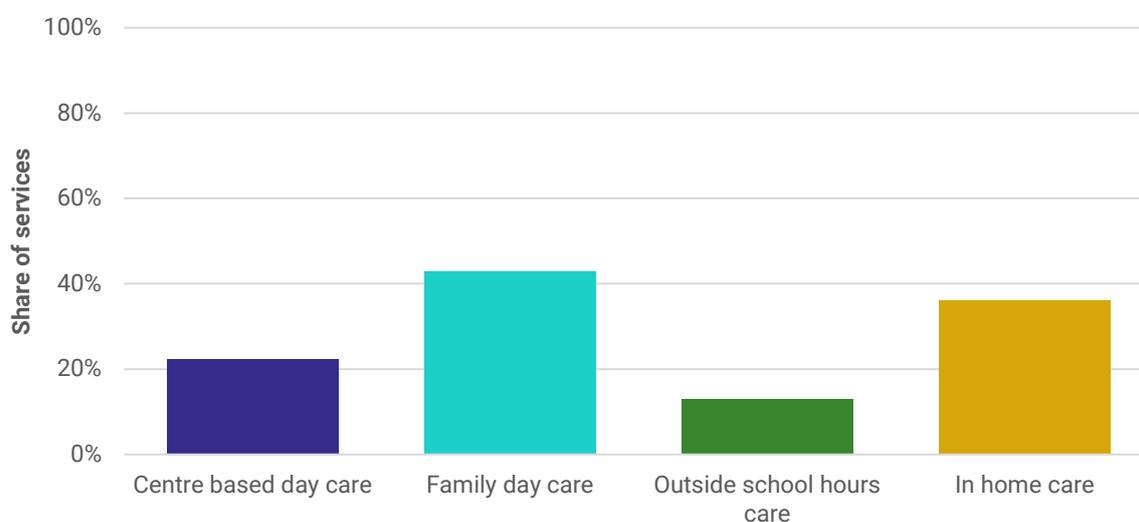
⁹¹ The estimates of the hourly fee are based on the total weekly charged fees and the total weekly hours charged, due to the nature of the data provided by the Department of Education.

5.3.1. About one-in-five centre based day care services charge above the hourly rate cap

The share of services charging above the hourly rate cap varies across the service types and does not appear to be correlated to the value of the hourly rate cap for each service type (figure 5.13).

We observe that 22% of centre based day care services charged an average hourly fee above the hourly rate cap in the December quarter 2022. There were also 13% of outside school hours care services were charging above the hourly rate cap, 43% of family day care services over 37% of in home care services were charging above the hourly rate cap. However, the high prevalence of over the hourly rate cap fees in in home care services is less surprising due to the high costs of caring for families with individualised care needs.

Figure 5.13: Share of services with an average hourly fee above the hourly rate cap for each service type, December quarter 2022

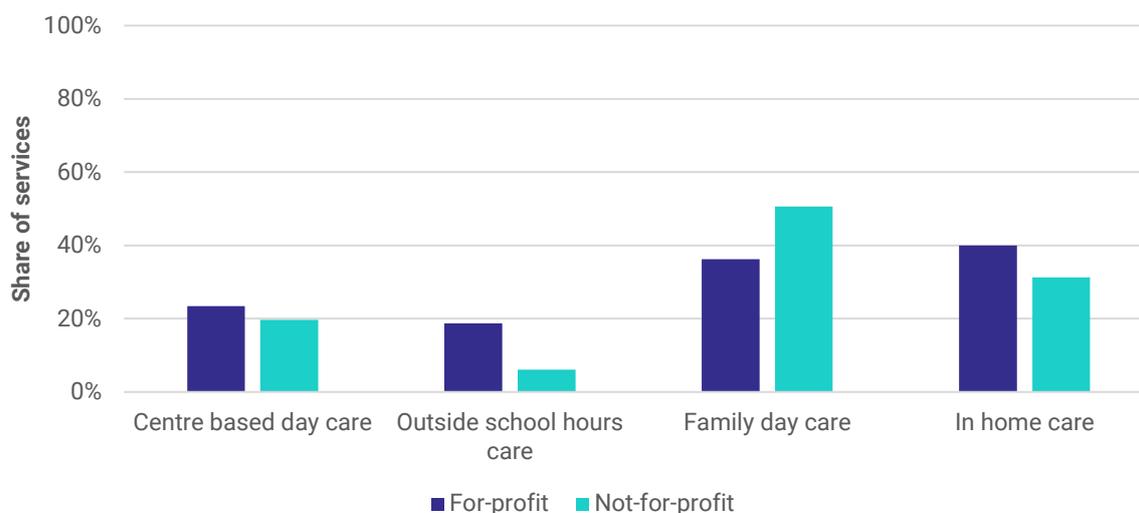


Note: Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

Across centre based day care, outside school hours care and in home care, not-for-profit providers were less likely to have services that charged above the hourly rate cap. The exception was family day care, where the for-profit services were less likely to charge over the hourly rate cap (figure 5.14).

Figure 5.14: Share of services with an average hourly fee above the hourly rate cap by management type, December quarter 2022



Note: Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

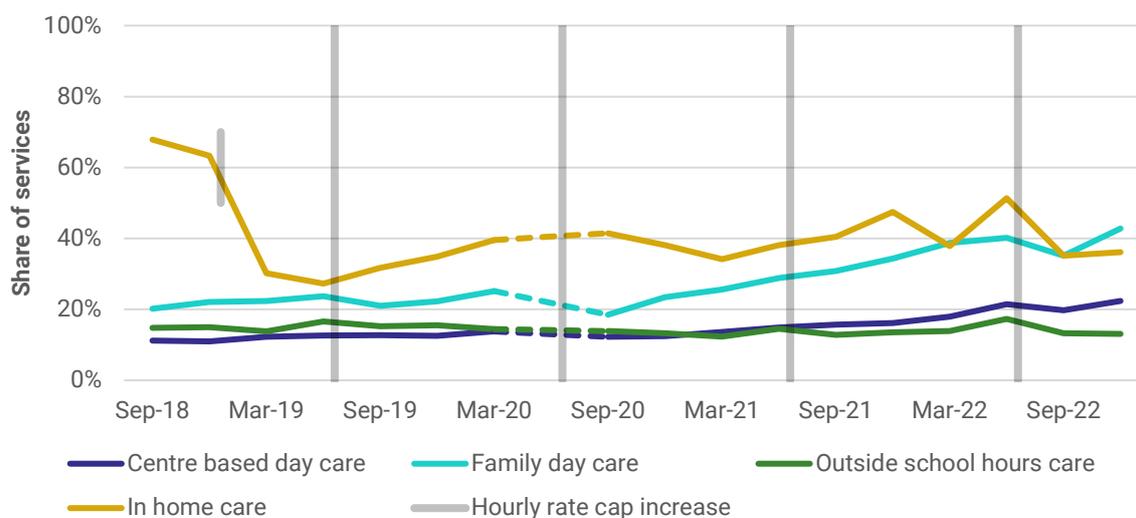
Source: ACCC analysis of Department of Education administrative data.

5.3.2. The number of family day care and centre based day care services charging above the hourly rate cap has doubled since 2018

Fee increases that are higher than the hourly rate cap will have a larger effect upon the out-of-pocket fees for households.

Generally, the share of services charging above the hourly rate cap has increased since the introduction of the Package. However, the change in the share of services charging above the hourly rate cap varies across service types (figure 5.15). The share of services with average fees above the hourly rate cap at outside school hours care services has remained relatively stable. However, the share of other service types have all experienced noticeable increases over time, in particular family day care services.

Figure 5.15: Share of services with an average hourly fee above the hourly rate cap for each service type, September quarter 2018 to December quarter 2022



Note: Vertical lines represent where the hourly rate cap has been increased. The first hourly rate cap increase occurred from January 2019 and only applied to in home care in recognition of the high fees in that sector. Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

The share of family day care services with an average hourly fee above the rate cap has more than doubled since 2018, increasing from 20% of services to 42% of services. Most of this increase has occurred since September 2020.

Almost double the number of centre based day care services had average fees above the hourly rate cap in December 2022 compared to September 2018, increasing from 11% to 22% of services.

In home care saw a material decrease in the number of services charging over the hourly rate cap in 2019. This was due to an adjustment to the in home care hourly rate cap increasing the cap from \$25.48 to \$32.00, in acknowledgement that it was too low for the first 6 months of the Package.⁹²

Since the initial adjustment, the share of services charging over the cap has gradually increased.

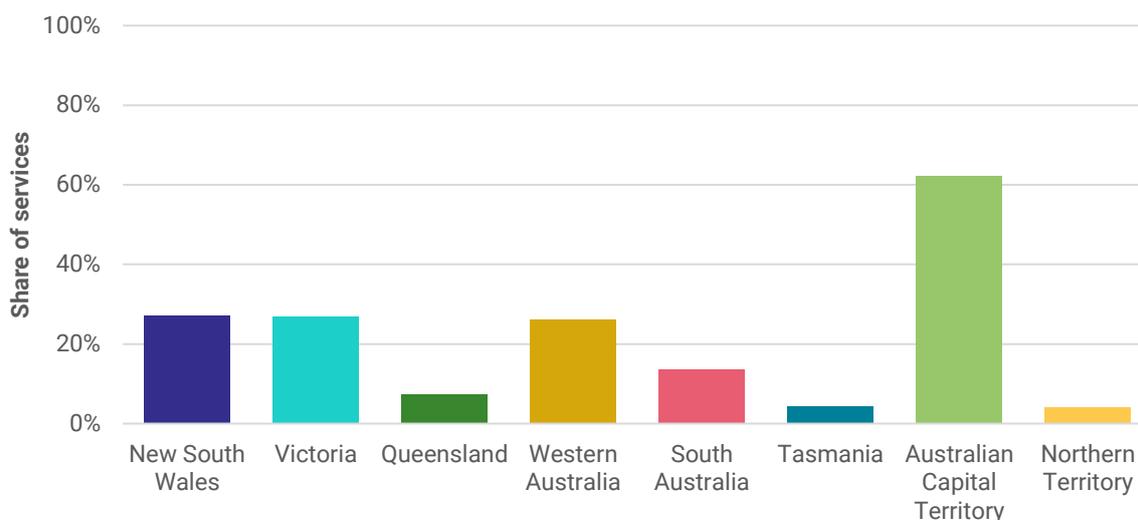
5.3.3. Highest share of services charging over the hourly rate cap is in the Australian Capital Territory

The share of centre based day care services with average fees above the hourly rate cap varies by jurisdiction (figure 5.16). The Australian Capital Territory has an average fee above the hourly rate cap and accounts for most of the centre based day care services with average fees above the cap.

This follows the same trend as average fees but provides an idea of how many households may be experiencing fees that are not covered by the Child Care Subsidy.

⁹² The Hon Dan Tehan MP, Helping more families access In Home Care.

Figure 5.16: Share of centre based day care services with an average hourly fee above the hourly rate cap for each state and territory, December quarter 2022



Note: Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

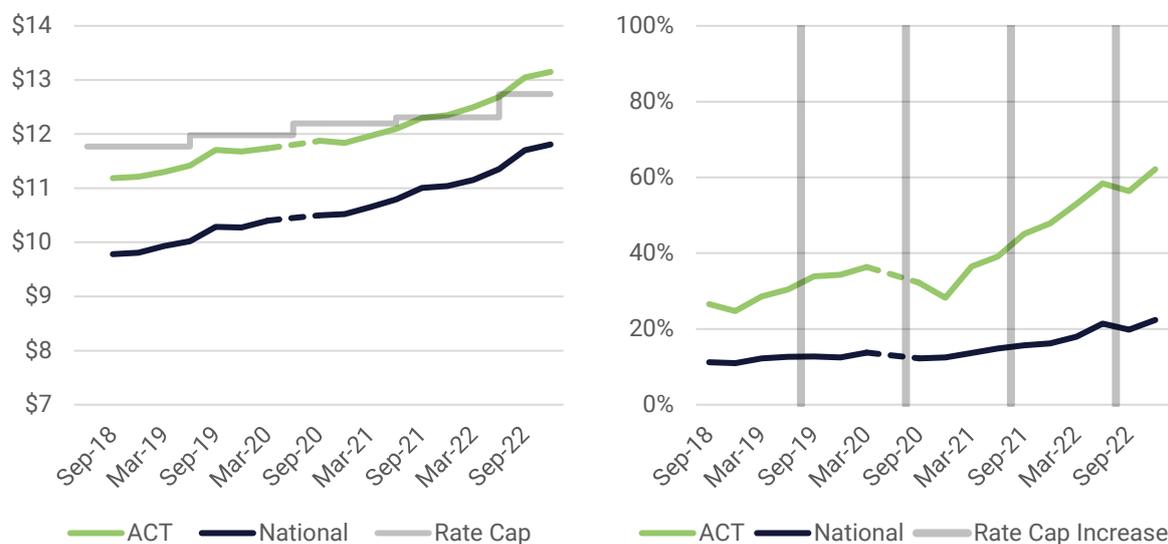
Source: ACCC analysis of Department of Education administrative data.

While fees in the Australian Capital Territory have not seen above average growth, the share of services with an average fee over the hourly rate cap has increased significantly (figure 5.17). This is due to the relatively high starting position of fees in the Australian Capital Territory in 2018, meaning only small fee increases are required to reach the hourly rate cap.

In contrast, the share of services charging above the hourly rate cap in Queensland is very low, representing only 7% of services. The high fees in the Australian Capital Territory are not particularly surprising, given its relatively high socio-economic rating, and the relationship between socio-economic rating and fees (section 3.3.2).⁹³

⁹³ Australian Bureau of Statistics, [Socio-Economic Indexes for Areas \(SEIFA\), Australia](#), ABS Website, accessed 14 June 2023.

Figure 5.17: Average hourly fee (left hand side) and share of centre based day care services with an average hourly fee above the hourly rate cap (right hand side), national average compared to the average for the Australian Capital Territory, September quarter 2018 to December quarter 2022



Note: Vertical lines represent where the hourly rate cap has been increased. Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

Across family day care, the share of services with an average fee above the hourly rate cap is more evenly distributed (figure 5.18). Of interest, Tasmania has the highest share of services charging over the cap, but also a smaller number of services than most other jurisdictions.

Figure 5.18: Share of family day care services with an average hourly fee above the hourly rate cap for each state and territory, December quarter 2022



Note: Jurisdictions in with less than 5 services identified are excluded. Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

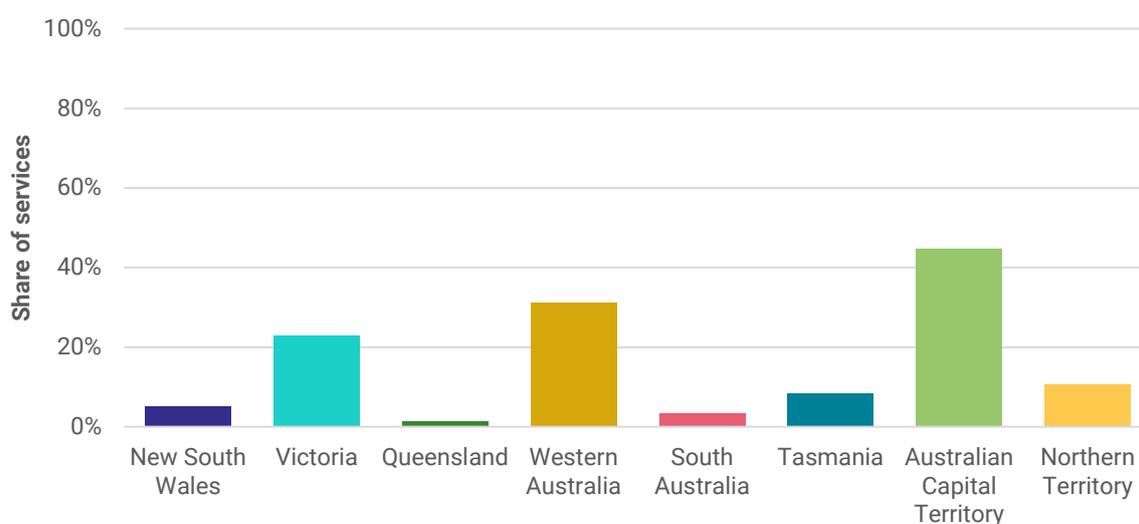
Source: ACCC analysis using Child Care Subsidy administrative data.

Different trends are apparent for the outside school hours care services charging over the hourly rate cap (figure 5.19).

Once again, the Australian Capital Territory has the highest share of services charging above the hourly rate cap (46%).

Western Australia has a significant number of outside school hours care services charging above the rate cap (32%). This is being driven by outside school hours services in remote parts of Western Australia, discussed in chapter 3.

Figure 5.19: Share of outside school hours care services with an average hourly fee above the hourly rate cap for each state and territory, December quarter 2022



Note: Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

5.3.4. Most outside school hours care services above the hourly rate cap are in Remote Australia

The share of outside school hours care services charging above the hourly rate cap is highest in Remote and Very Remote Australia (figure 5.20).

This result is predominantly driven by the services in remote parts of Western Australia. Of note, centre based day care services in Remote Australia are more likely to charge above the hourly rate cap in comparison to services in Inner Regional and Outer Regional Australia and Very Remote Australia.

Family day care services follow a similar trend to family day care average fees, where a higher share of services charged above the hourly rate cap as remoteness increases.

Figure 5.20: Share of services with an average hourly fee above the hourly rate cap by remoteness, December quarter 2022⁹⁴



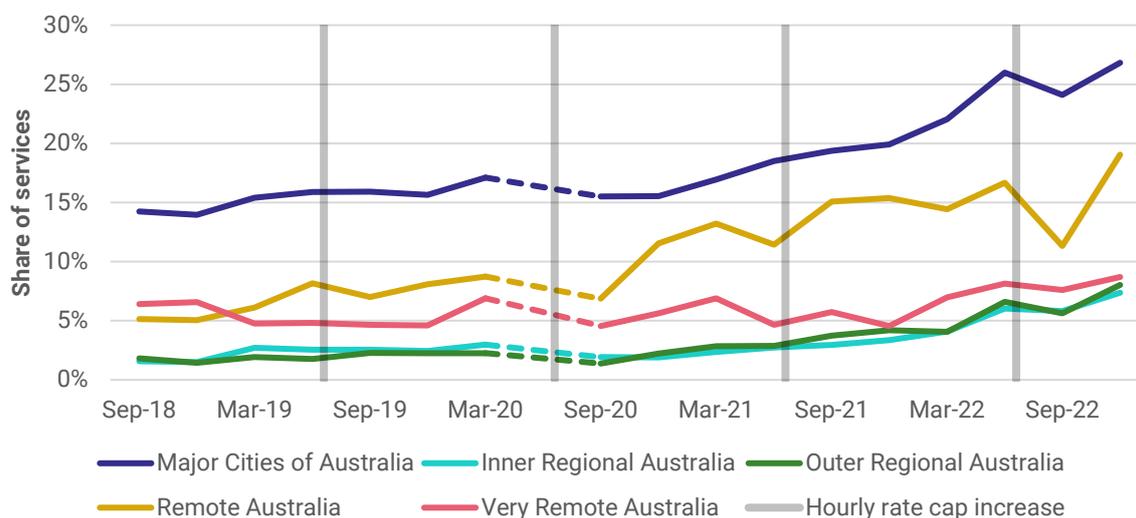
Note: Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: Children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

⁹⁴ Note remoteness categories have been aggregated or removed to prevent identification of individual services.

Following on from September 2020, there has been a significant increase in the number of centre based day care services charging above the hourly rate cap (figure 5.21). This increase has been driven primarily by services in Major Cities of Australia and Remote Australia.

Figure 5.21: Share of centre based day care services with an average hourly fee above the hourly rate cap in each remoteness category, September quarter 2018 to December quarter 2022



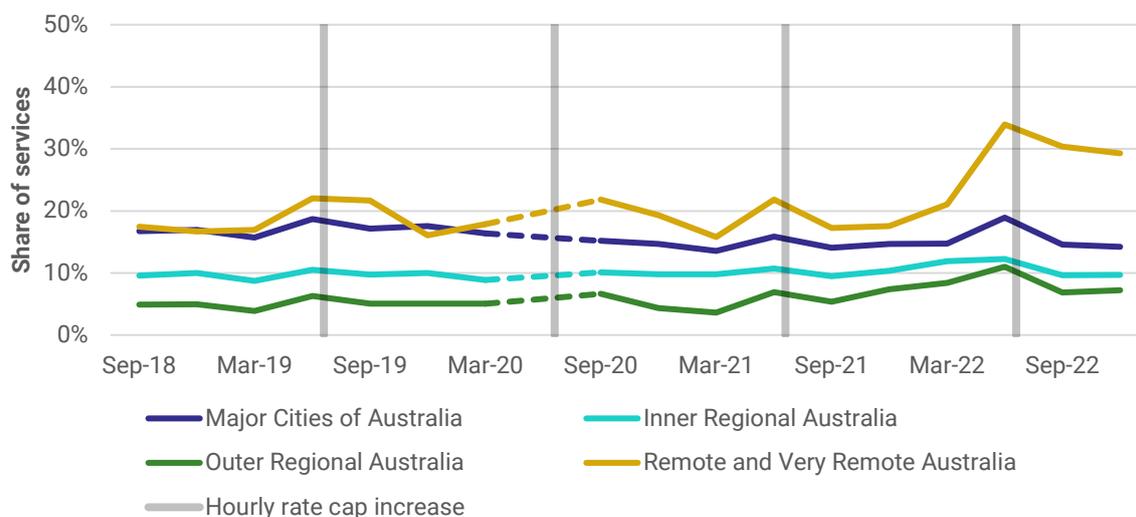
Note: Vertical lines represent where the hourly rate cap has been increased. Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

While the share of outside school hours care services charging over the hourly rate cap nationally has not changed substantially since the introduction of the Package, remote outside school hours care services are increasingly charging above the cap (figure 5.22). This is again driven by outside school hours care services in remote Western Australia, with the increase beginning around December 2021.

Further analysis will be undertaken, later in the inquiry, to understand the pricing trends and how they respond to and operate with the hourly rate cap.

Figure 5.22: Share of outside school hours care services with an average hourly fee above the hourly rate cap in each remoteness category, September quarter 2018 to December quarter 2022



Note: Vertical lines represent where the hourly rate cap has been increased. Some small groups of children who are subject to different hourly rate caps are excluded in calculating averages: children receiving the Additional Child Care Subsidy (child wellbeing, grandparent, or temporary financial hardship); school aged children attending centre based day care services; and children below school age who are attending outside school hours care services.

Source: ACCC analysis of Department of Education administrative data.

5.3.5. Households’ experience of the hourly rate cap

For in-depth analysis of the fees being paid by parents, analysis was undertaken on a sessional basis, examining a representative week in November each year from 2018 to 2022 (table 5.1).

We note that children in receipt of the Additional Child Care Subsidy, those attending centre based day care older than 6 years, or attending outside school hours care under 6 years are included in this analysis.

Table 5.1: Week of sessional analysis

Year	Week Beginning
2018	12 November
2019	11 November
2020	9 November
2021	8 November
2022	14 November

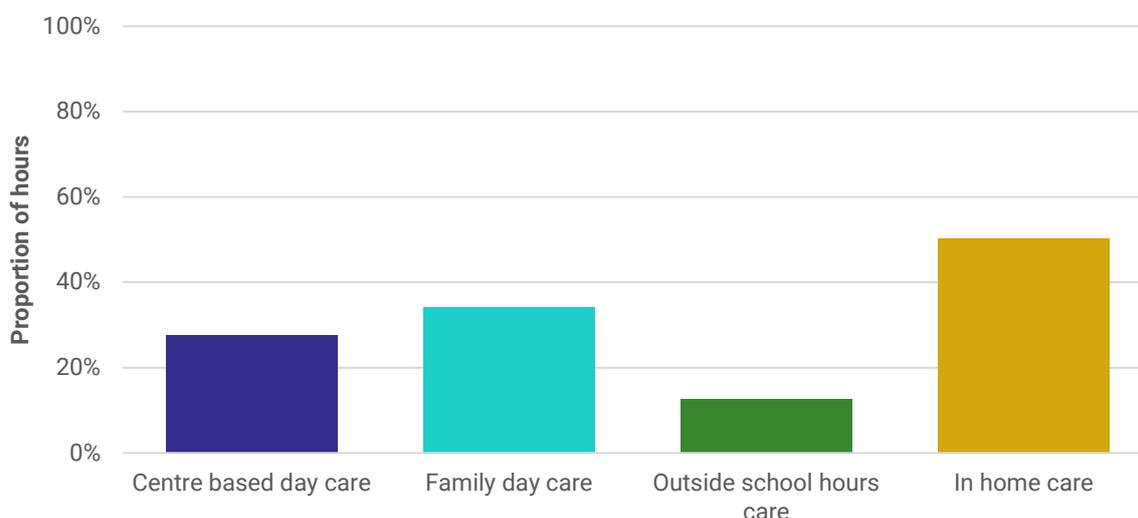
In a November 2022 reference week, 28% of hours charged to households at centre based day care were over the hourly rate cap (figure 5.23). Whereas in the December quarter 2022, 22% of services were charging average prices above the hourly rate cap. The difference indicates there are a significant number of services that charge at or under the hourly rate cap in general, but do charge some hours at a higher hourly fee.

Family day care services had the opposite trend, in which a lower share of households were being charged above the hourly rate cap in comparison to the share of family day care services charging above the hourly rate cap. Further sessional analysis will be required to determine the pricing behaviour that leads to this.

The share of households charged for sessions over the cap at outside school hours care services is similar to the share of services charging over the cap on average, indicating a more homogenous fee at these services.

For in home care, almost 50% of hours were charged above the hourly rate cap, including children receiving a higher hourly rate cap as part of the Additional Child Care Subsidy (section 1.4.2). This may present a significant affordability issue for households using in home care, as any amount above the hourly rate cap is entirely borne by the household as an out-of-pocket expense.

Figure 5.23: Share of hours charged above the hourly rate cap, week of 14 November 2022



Note: Children who are entitled to subsidy up to 120% of the hourly rate cap (Additional Child Care Subsidy), hours charged are considered against 120% of the relevant hourly rate cap.

Source: ACCC analysis of Department of Education administrative data.

Where households were charged above the hourly rate cap, the hourly fee was significantly higher than the rate cap itself (table 5.2), meaning these households paid a significant portion of unsubsidised fees. The difference is most notable for outside school hours care, as the national average hourly fee for outside school hours care is considerably below its hourly rate cap.

Table 5.2: Average hourly fees for sessions charged above the hourly rate cap, in comparison to the hourly rate cap, week of 14 November 2022.

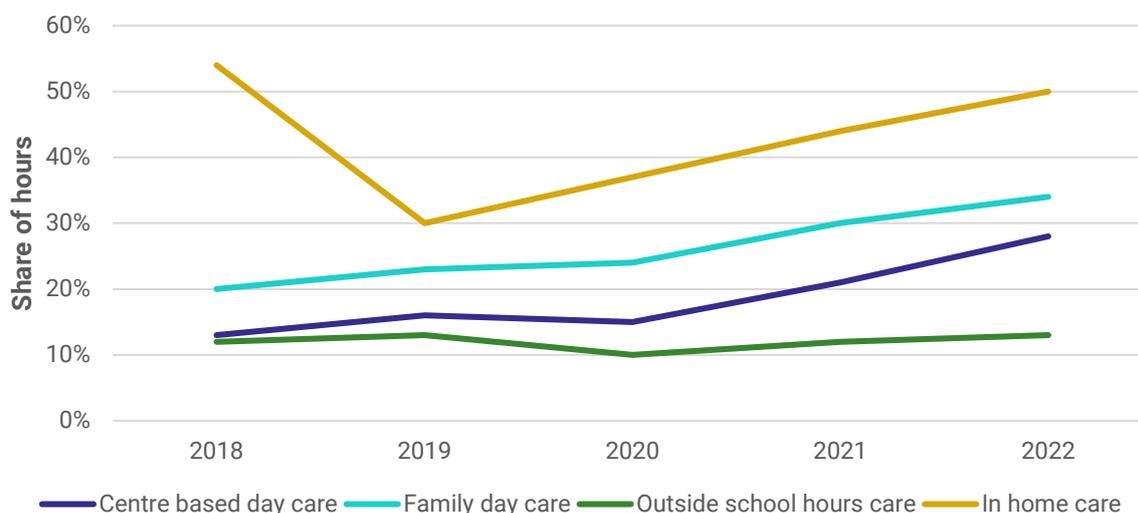
	Hourly rate cap	Average hourly fee for all sessions	Average hourly fee for session charged above the hourly rate cap
Centre based day care	\$12.74	\$11.84	\$13.93
Family day care	\$11.80	\$11.76	\$13.21
Outside school hours care	\$11.15	\$8.82	\$12.75
In home care	\$34.64	\$39.97	\$40.83

Note: Children who are entitled to subsidy up to 120% of the hourly rate cap (Additional Child Care Subsidy), hours charged are considered against 120% of the relevant hourly rate cap.

Source: ACCC analysis of Department of Education administrative data.

The share of hours being charged above the hourly rate cap has been increasing over time, despite annual increases of the hourly rate cap in line with the Consumer Price Index (figure 5.24). Although generally out-of-pocket expenses are dropping, at least some households are likely to be experiencing increased numbers of hours charged above the hourly rate cap, being paid through a higher share of out-of-pocket expense to fees.

Figure 5.24: Share of hours charged above the hourly rate cap by service type, November reference week 2018 to 2022



Note: Children who are entitled to subsidy up to 120% of the hourly rate cap (Additional Child Care Subsidy), hours charged are considered against 120% of the relevant hourly rate cap.

Source: ACCC analysis of Department of Education administrative data.

Session length also has a significant effect on whether services are charging over the hourly rate cap, as discussed above.

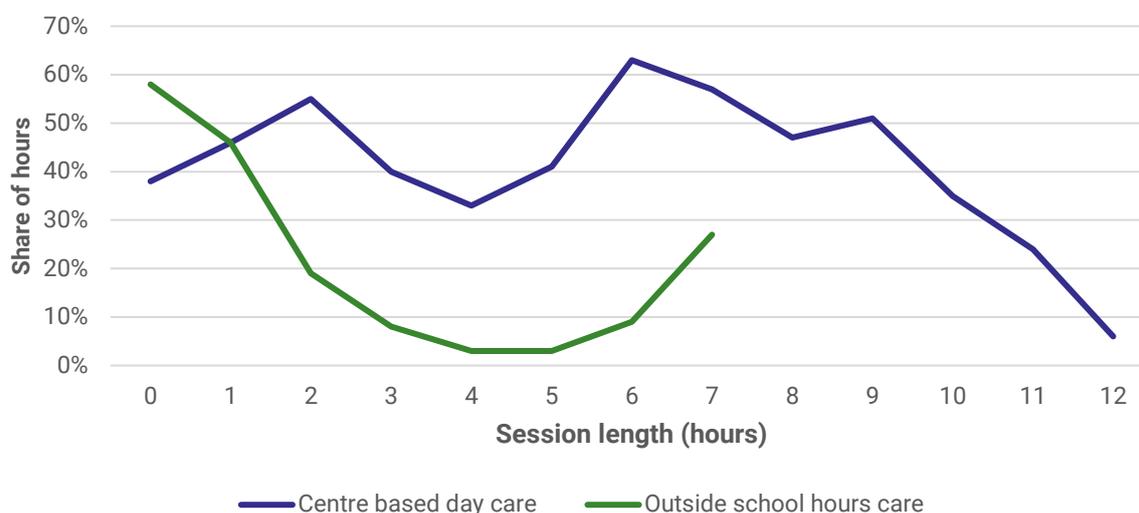
For centre based day care, shorter sessions are much more likely to have hours charged above the hourly rate cap (figure 5.25). This will affect households with fewer hours of subsidised childcare (due to the activity test), who might use shorter sessions to fit within

their lower entitlement. There is a high likelihood of these households being charged over the hourly rate cap, which significantly increases their out-of-pocket expenses. The issue would be particularly acute for low income households who are eligible for 24 hours of subsidised care per fortnight, as the 6-hour session provides a flexible option for them to utilise more than one day of a care a week.⁹⁵

The general trend is for centre based day care services to charge fees below the hourly rate cap for 12 hour sessions, but charge fees above the hourly rate cap for 10 hour sessions. This is likely due to services charging a daily price and changing session length to accommodate differing activity test results.

Most outside school hours care sessions are one to 4 hours in length. Similar to the trends seen for centre based day care daily sessions (9–12 hour sessions), there is a downward trend in average hourly fee as the session hours increase.

Figure 5.25: Share of hours charged above the hourly rate cap by service type, week in November 2022



Note: Children who are entitled to subsidy up to 120% of the hourly rate cap (Additional Child Care Subsidy), hours charged are considered against 120% of the relevant hourly rate cap.

Source: ACCC analysis of Department of Education administrative data.

5.4. Further analysis for our inquiry

Over the course of our inquiry we will continue to explore how the Child Care Subsidy impacts affordability and out-of-pocket expenses, including by considering:

- policy settings, such as subsidy rate, activity test and hourly rate cap, that reduce the affordability of childcare, particularly for low income households
- how the hourly rate cap impacts price setting behaviour, and how differing hourly prices are set within services
- the influence of session lengths on out-of-pocket fees, considering interactions with the hourly rate cap and activity test.

⁹⁵ J.R Bray et al., Child Care Package Evaluation: Final Report, p 157.

Appendix A – Competition and Consumer (Price Inquiry—Child Care) Direction 2022



Competition and Consumer (Price Inquiry—Child Care) Direction 2022

I, Jim Chalmers, Treasurer, give the following direction to the Australian Competition and Consumer Commission.

Dated 28 October 2022

Dr Jim Chalmers
Treasurer

Authorised Version F2022L01421 registered 01/11/2022

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Part 1—Preliminary

1 Name

This instrument is the *Competition and Consumer (Price Inquiry—Child Care) Direction 2022*.

2 Commencement

- (1) Each provision of this instrument specified in column 1 of the table commences, or is taken to have commenced, in accordance with column 2 of the table. Any other statement in column 2 has effect according to its terms.

Commencement information		
Column 1	Column 2	Column 3
Provisions	Commencement	Date/Details
1. The whole of this instrument	The day after this instrument is registered.	

Note: This table relates only to the provisions of this instrument as originally made. It will not be amended to deal with any later amendments of this instrument.

- (2) Any information in column 3 of the table is not part of this instrument. Information may be inserted in this column, or information in it may be edited, in any published version of this instrument.

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 give to the Treasurer an interim report on the inquiry by no later than 30 June 2023.

8 Period for completing the inquiry

For the purposes of subsection 95K(1) of the Act, the inquiry is to be completed, and a report on the matter of inquiry given to the Treasurer, by no later than 31 December 2023.

Appendix B – Socio-Economic Indexes for Areas

Socio-Economic Indexes for Areas (SEIFA) is a product developed by the Australian Bureau of Statistics that ranks areas in Australia according to relative socio-economic advantage and disadvantage. SEIFA provides measures of socio-economic conditions by geographic area. The indexes are based on information from the five-yearly Census.⁹⁶

SEIFA 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.⁹⁷

SEIFA is a collection of 4 indexes, each summarising a different aspect of the socio-economic conditions in an area using different Census data. The ACCC has used the Index of Relative Socio-economic Disadvantage (IRSD) in this inquiry. Where references are made in this report to relative advantage or disadvantage this is within the context of the IRSD. We have also undertaken analysis of prices from the perspective of the Index of Relative Socio-economic Advantage and Disadvantage (IRSAD) and find there are no significant differences in pricing trends when using IRSAD versus IRSD.

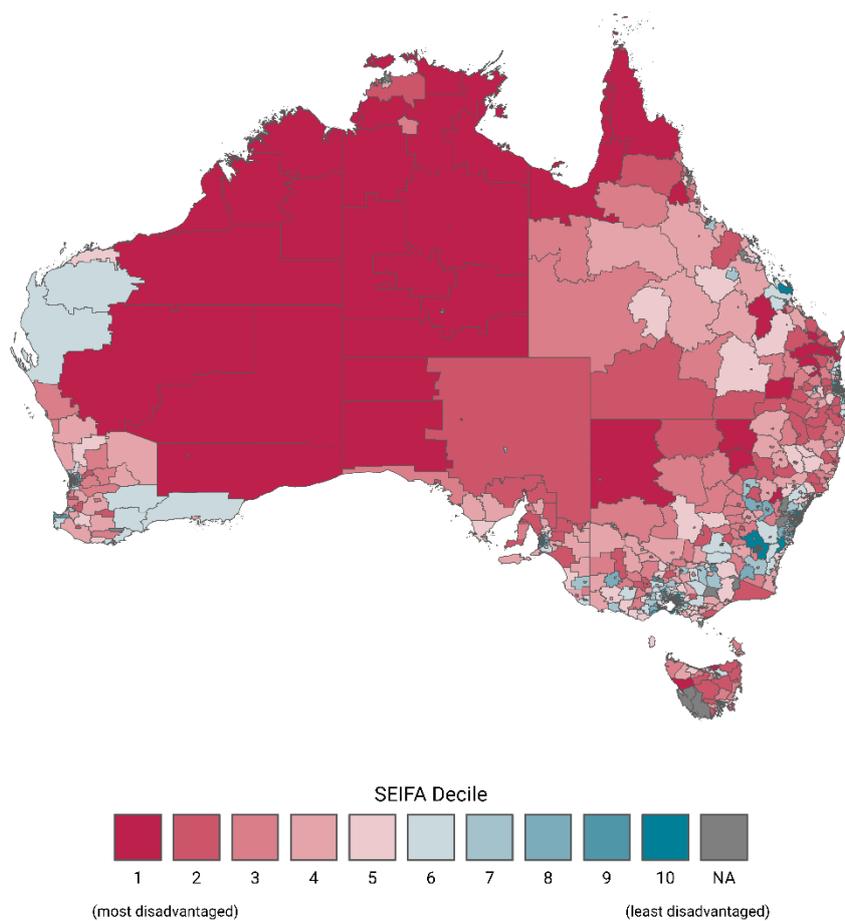
The deciles are area-based, rather than population based. This means that each decile contains an equal number of areas. They may not contain an equal number of people or dwellings.

Areas of most advantage are predominantly located in greater capital cities, with most areas of disadvantage located in regional and remote areas of Australia (figure B.1).

⁹⁶ Australian Bureau of Statistics, [Socio-Economic Indexes for Areas \(SEIFA\)](#), accessed 14 June 2023.

⁹⁷ Australian Bureau of Statistics, [Socio-Economic Indexes for Areas \(SEIFA\), Australia](#), accessed 14 June 2023.

Figure B.1: Map of SA2 SEIFA IRSD deciles, Australia, 2021



However, areas of advantage and disadvantage can vary significantly across greater capital cities, as shown below (figures B.2 to B.9).

Figure B.2: Map of SA2 SEIFA IRSD deciles, Greater Sydney, 2021

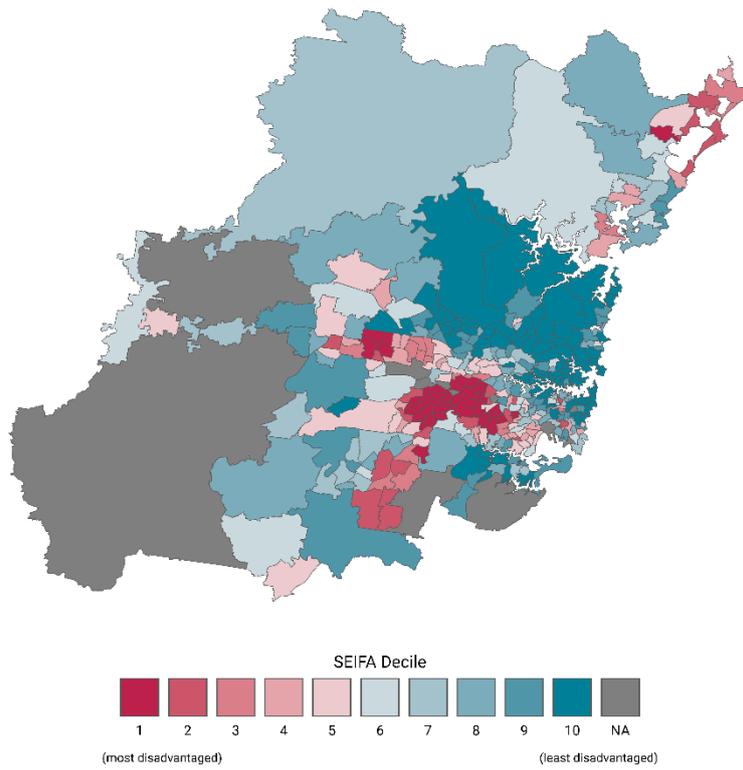


Figure B.3: Map of SA2 SEIFA IRSD deciles, Greater Melbourne, 2021

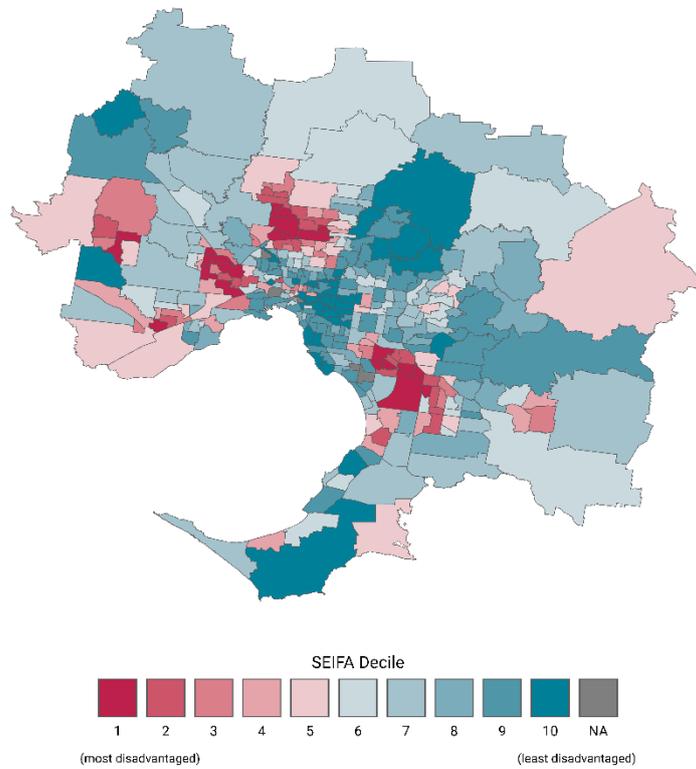


Figure B.4: Map of SA2 SEIFA IRSD deciles, Greater Brisbane, 2021

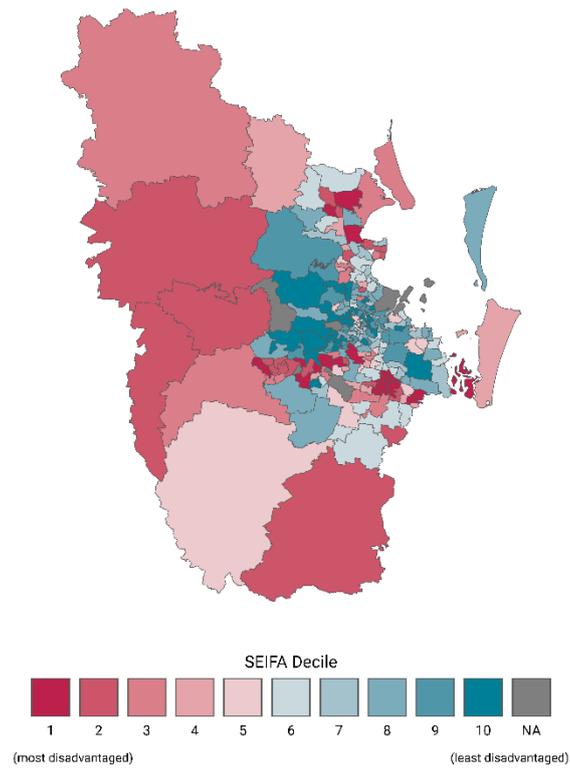


Figure B.5: Map of SA2 SEIFA IRSD deciles, Greater Perth, 2021

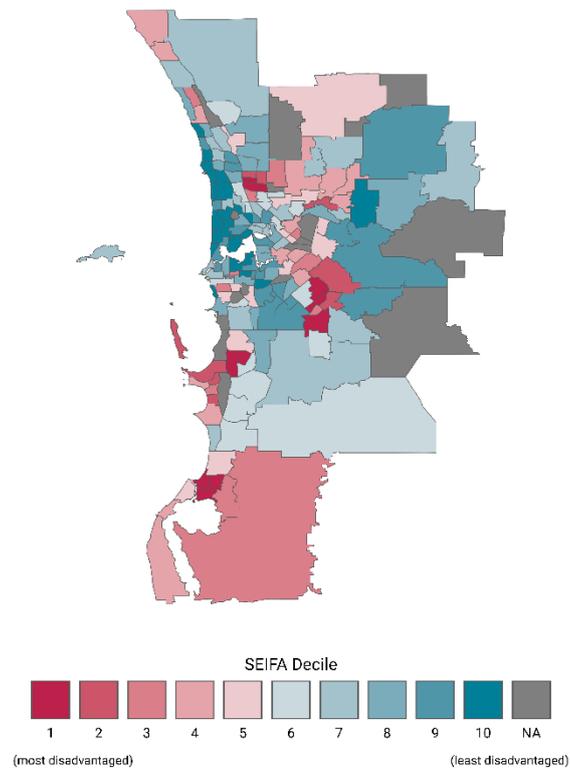


Figure B.6: Map of SA2 SEIFA IRSD deciles, Greater Adelaide, 2021

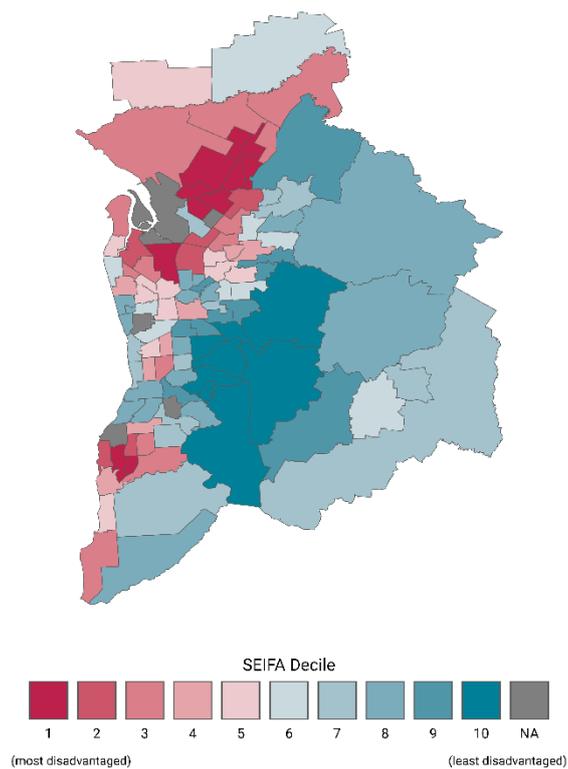


Figure B.7: Map of SA2 SEIFA IRSD deciles, Greater Hobart, 2021

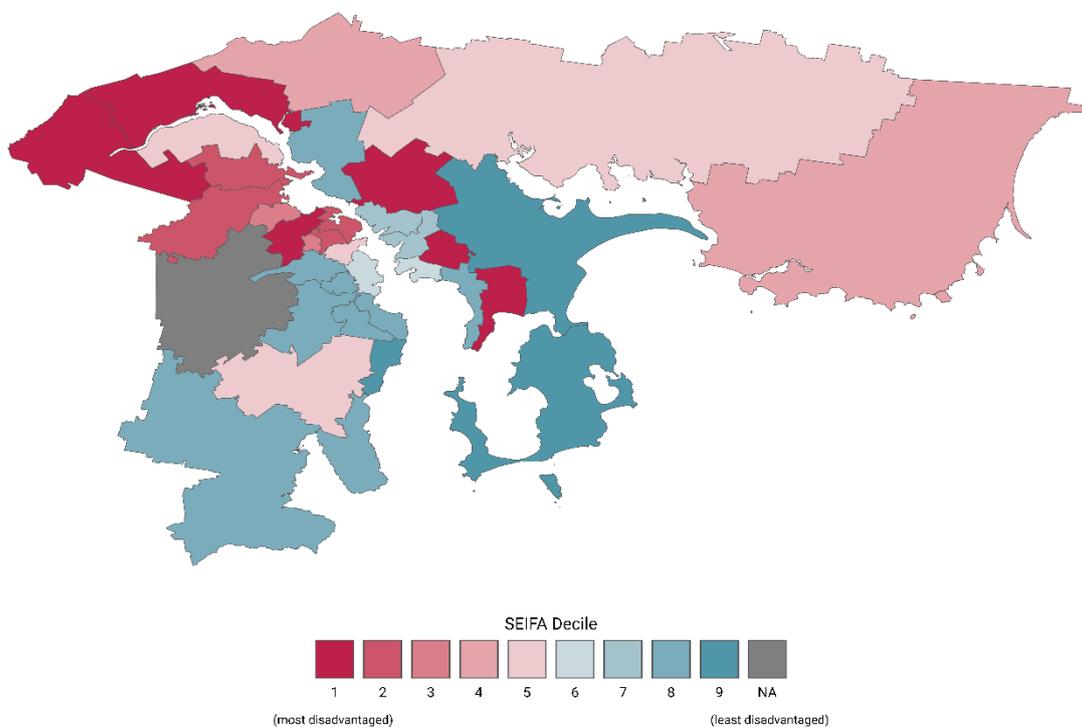


Figure B.8: Map of SA2 SEIFA IRSD deciles, Greater Darwin, 2021

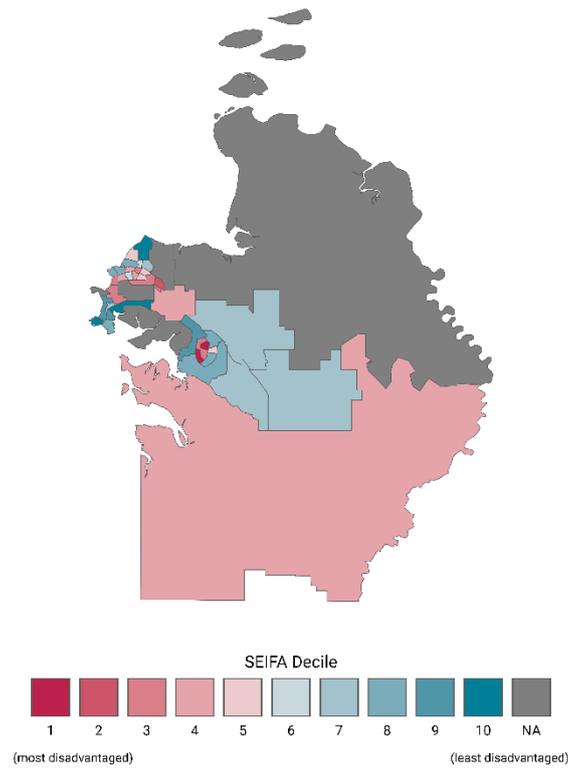
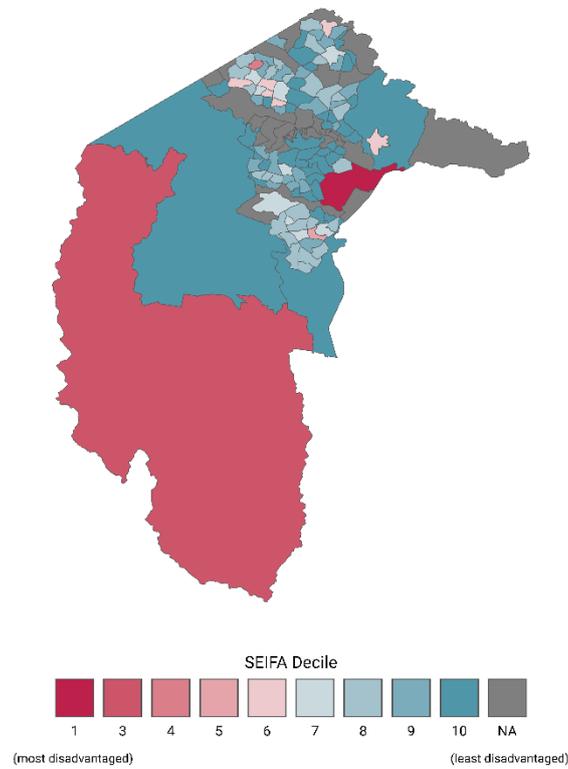


Figure B.9: Map of SA2 SEIFA IRSD deciles, Australian Capital Territory, 2021



Appendix C – Remoteness Structure

The Australian Statistical Geography Standard (ASGS) is a classification of Australia into a hierarchy of statistical areas. It is a social geography, developed to reflect the location of people and communities. It is used for the publication and analysis of official Australian Government statistics and other data.⁹⁸

The ASGS Remoteness Structure defines Remoteness Areas for the purpose of releasing and analysing statistics. Remoteness Areas divide Australia into 5 classes of remoteness which are characterised by a measure of relative geographic access to services (table C.1).

Table C.1: Remoteness Area Classes and example localities, 2021

Remoteness Area Name	Example localities
Major Cities of Australia	Adelaide (SA), Sunshine Coast (Qld), Canberra (ACT)
Inner Regional Australia	Hobart (Tas), Busselton (WA), Bendigo (Vic)
Outer Regional Australia	Darwin (NT), Broken Hill (NSW), Mildura (Vic)
Remote Australia	Alice Springs (NT), Broome (WA), Mount Isa (Qld)
Very Remote Australia	Bourke (NSW), Ceduna (SA), Carnarvon (WA)

Under the Remoteness Structure, Major Cities are distinct from the capital cities (for example, Newcastle is classified as a Major City, however, Darwin and Hobart are not).

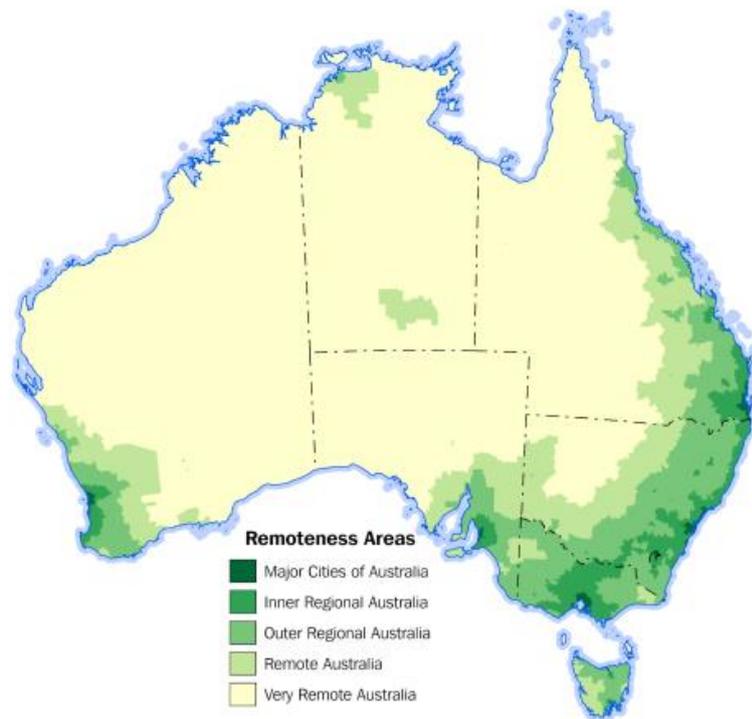
The Remoteness Areas are based on the Accessibility/Remoteness Index of Australia Plus (ARIA+), produced by the Australian Centre for Housing Research at the University of Adelaide.⁹⁹ ARIA+ is derived by measuring road distance from different locations to a service centre, and uses population as a proxy measure for service availability at that service centre.¹⁰⁰ The remoteness areas for 2021 are displayed in figure C.1.

⁹⁸ Australian Bureau of Statistics, [Australian Statistical Geography Standard \(ASGS\) Edition 3](#), accessed 14 June 2023.

⁹⁹ Australian Bureau of Statistics, [Remoteness Structure](#), accessed 14 June 2023.

¹⁰⁰ Australian Bureau of Statistics, [Remoteness Areas](#), accessed 14 June 2023.

Figure C.1: Map of ASGS Edition 3 Remoteness Areas for Australia¹⁰¹



¹⁰¹ Australian Bureau of Statistics, [Map of ASGS Edition 3 Remoteness Areas for Australia](#), accessed 14 June 2023.