



Childcare inquiry

Interim report

September 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

Land of the Ngunnawal people

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This report was updated on 11 October 2023 to correct an error in Figure 1.17 on page 55.

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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 family. The activity test is used to determine the number of hours of subsidised childcare family is entitled to.
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
Disability and/or complex needs	May include children with disability and/or with needs who require or will benefit from specific considerations or adaptations.
Daily fee	The daily fee charged for childcare services. This is calculated by total fees charged divided by the total days charged.
Early childhood teacher	An educator with an approved early childhood teaching qualification.
Educator	A person who provides care at a childcare service, in their own home or, in the case of in home care, in the child's own home.
Enrolments	The ACCC calculates enrolments figures based on the number of children who used approved childcare services at least once during the given period, irrespective of duration or frequency.
Family day care	A type of childcare that is usually provided in the home of an educator.
Hourly fee	The hourly fee of childcare services. This is calculated by dividing total fees charged by total hours charged.

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

Provider	A provider of childcare that has been approved under Family Assistance Law to receive and pass on the Child Care Subsidy on behalf of the Australian Government
Real terms	Real terms measure prices that have been adjusted for inflation.
Remoteness Areas	Remoteness Areas divide Australia into 5 classes of remoteness which are characterised by a measure of relative geographic access to services. These classes are Major Cities, Inner Regional, Outer Regional, Remote and Very Remote.
Service	A service of a provider, that has been approved under Family Assistance to receive and pass on the Child Care Subsidy on behalf of the Australian Government.
Session fee	This is calculated by dividing total fees charged by the total sessions charged.
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. In this report the ACCC considered the use of both the Index of Relative Advantage and Disadvantage (IRSAD) and the Index of Relative Disadvantage (IRSD) for analysis of costs and profits. Our analysis is presented using IRSAD as this index better aligns with our understanding of the factors influencing costs and profitability.
Standard deviation	Statistical measure of the variation between different values
Statistical Areas	Geographic areas specified by the Australian Bureau of Statistics for special analysis. 'Statistical Area Level 2' (SA2)
Subsidised hours	Hours eligible for government assistance to help households with the cost of childcare

Acronyms

ACCS	Additional Child Care Subsidy
CCS	Child Care Subsidy
CPI	Consumer Price Index
NQF	National Quality Framework
NQS	National Quality Standard
SEIFA	Socio-Economic Indexes for Areas

Organisation

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACECQA	Australian Children’s Education and Care Quality Authority
IPART	Independent Pricing and Regulatory Tribunal
OECD	Organisation for Economic Co-operation and Development

Overview

Introduction

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

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 (appendix A). Preschools and informal care by friends and family are not within the scope of this inquiry.

We published our [first interim report](#) in July 2023 which focused on prices, supply and demand for childcare and an initial examination of the impact of the Child Care Subsidy.

This second interim report makes draft findings and recommendations regarding the costs of providing childcare services, the nature of competition in childcare markets, the profitability and viability of the sector, and the effectiveness of Australia's existing price regulation mechanisms in aiding affordability of childcare.

The ACCC welcomes submissions on the preliminary findings and recommendations by 29 October 2023. You can make a submission via the [ACCC website](#).

This report focuses primarily on centre based day care and outside school hours care services. We are continuing our analysis of family day care and in home care services costs and will report our findings for these services in our final report due to the Treasurer by 31 December 2023. In our final report, we will also report on changes to prices following the introduction of the increased Child Care Subsidy in July 2023 and provide our final findings and recommendations. This will follow the completion of our stakeholder roundtables and consideration of submissions from interested stakeholders.

Childcare in Australia

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.

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

- affordability of, and access to, childcare for households
- provision of quality educational and developmental outcomes for children
- supporting workforce participation of parents and guardians
- valuing childcare educators' and early childhood teachers' contributions to children's and parents' and guardians' lives and development, as well as Australian society more generally
- outcomes and equity for all children and households

- value for money for taxpayers (including the impact on taxpayers over time).

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

When the Child Care Subsidy and hourly rate cap were introduced in 2018, focus was on sending a message that demonstrated what high fees were, with the intention of placing downward pressure on fees and the taxpayer burden over time.¹ When the increase to the Child Care Subsidy that took effect in July 2023, the emphasis was on improving childcare affordability, encouraging workforce participation and supporting children's school-readiness and long term outcomes.²

While government policy and subsidies for childcare services have supported workforce participation for some households and have some influence on prices, the outcomes for children and households differs significantly depending on their income and circumstances. We have also found measures to put downward pressure on prices and taxpayer burden have had only limited effectiveness.

Childcare providers supply services for children and households in significantly different situations, from highly urbanised, highly advantaged households to providing services to children in very remote locations with vastly different needs. The decision of where to supply can be motivated by profit, the social provision of services to meet the needs of children and households in particular areas or circumstances, or sometimes both.

Essential to the provision of childcare services is a stable educator workforce. Educators and centre managers drive the quality, reputation and viability of providers, through the education, care and connections they provide to children and households.

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

As such, a single policy approach that achieves desired outcomes for all children and households may not be possible. A mix of different measures and supports is likely to be a more suitable approach to meet the needs of different types of children and households in a range of different locations and situations.

These policy decisions will need to be based on clear government objectives and priorities. As we have observed in Australia and internationally, governments can prioritise many different objectives including affordability of, and access to childcare for all households, supporting workforce participation, provision of quality educational outcomes, recognising the contribution of educators and value for money for taxpayers.

These different objectives can at times be complementary and at other times involve trade-offs when designing policy and regulatory frameworks. The factors the government seeks to prioritise (including their relative priority) will determine which regulatory options are most suitable for achieving the government's objectives and will necessarily require governments to weight the priorities they are seeking to achieve.

¹ Department of Education and Training, [Regulation Impact Statement - Jobs for Families Child Care Package](#), November 2015, p 54.

² Explanatory Memorandum, [Family Assistance Legislation Amendment \(Cheaper Childcare\) Bill 2022](#).

Costs to supply centre based day care have been increasing

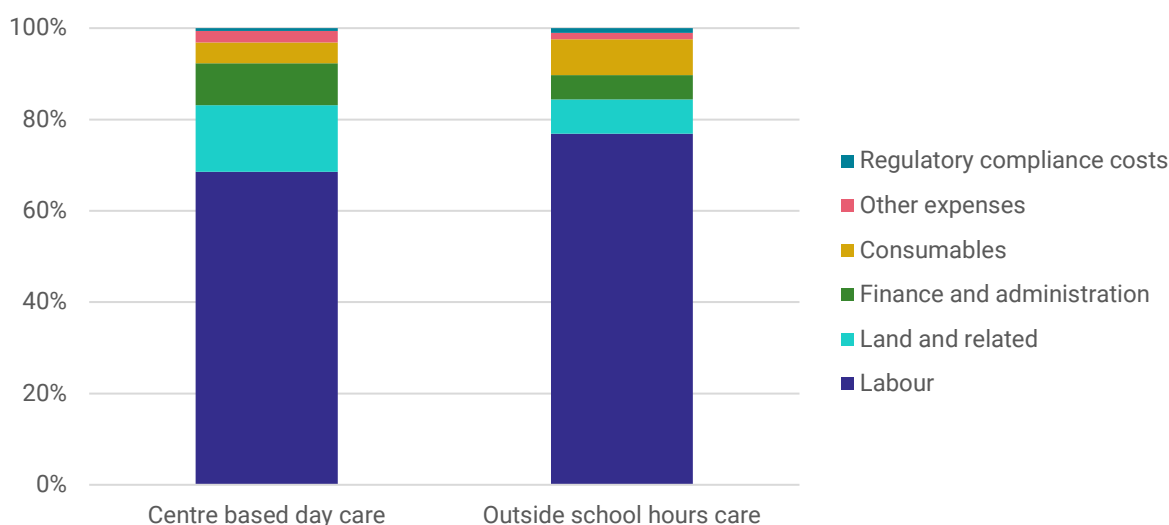
Costs for large providers providing centre based day care grew faster than inflation between 2018 and 2022, increasing by 27% over the period, while costs for outside school hours care kept pace with inflation.

We note that our June interim report found that centre based day care fees had increased by 20% across all services between 2018 and 2022. When adjusted for inflation, this increase was about 4%. This increase in fees may at least in part be referable to the increased costs of providing childcare that we observe in our analysis.

Centre based day care costs were an average \$11.72 per charged hour in 2022 while outside school hours care costs were an average \$7.77 per charged hour.

Labour accounts for the greatest share of costs for both centre based day care providers (69%) and outside school hours care providers (77%) (figure 1). Land and related costs (15%) and finance and administration costs (9%) are the other key drivers of cost for providers of centre based day care, while for providers of outside school hours care it is consumables (7.9%).

Figure 1: Share of costs for centre based day care and outside school hours care, by cost category, 2022



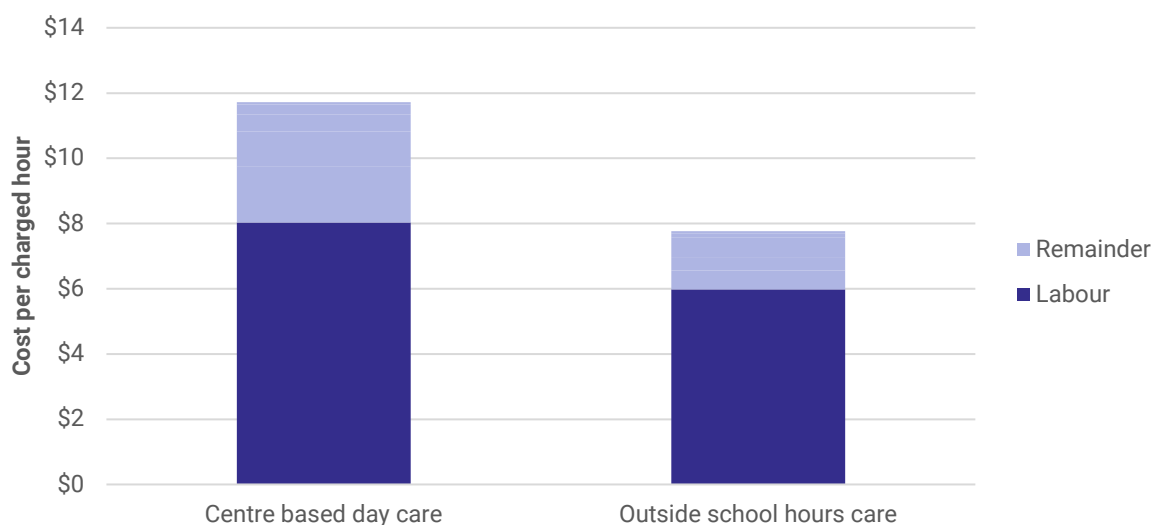
Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Labour is the most significant cost of providing childcare

Childcare is a service-based industry, reliant on skilled and caring educators and teachers to deliver quality education and care. It follows that labour is the most significant cost to providers in delivering both centre based day care and outside school hours care.

In 2022, labour accounted for 69% or more of total costs for centre based day care providers and 77% of costs for outside school hours care providers (figure 2).

Figure 2: Average labour costs for centre based day care and outside school hours care, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Labour costs have increased significantly between 2018 and 2022. For centre based day care, labour costs increased by 28%, which is greater than the increase in the Wage Price Index over the same period.

Paying above award wages and employing staff on a full-time basis (as opposed to a part-time basis) are likely to be the reasons some providers have higher labour costs than others. This is particularly the case for large not-for-profit centre based day care providers, which paid 94.5% of their staff above award wages compared to for-profit providers paying 64.3% of their staff above award wages. Further, the childcare staff of not-for-profit providers are more likely to be employed on a full-time basis, whereas for-profit providers primarily rely on part-time staff.

Labour costs for centre based day care are higher in remote areas of Australia. This may be influenced by reported higher rates of staff vacancies and turnover, and the use of contractor staff and overtime costs to fill staffing gaps.

Land costs are also significant

Land costs were the second largest overall expense for centre based day care providers, accounting for 15% of total costs. For outside school hours care providers, consumables (for example, food and educational supplies) and land were the next biggest driver of costs, accounting for 7.9% and 7.4% of total costs respectively.

Land costs for centre based day care services appear lower for large not-for-profit providers than for-profit providers. In 2022, land costs for large not-for-profit providers accounted for about 10% of total expenses whereas this was about 18% of total expenses for for-profit providers.

We have not found evidence that this is due to low or 'peppercorn rents'. Rather, some of the difference in land and related expenses may be explained by whether a provider owns or rents the property. Not-for-profit providers have a much higher proportion of owned (10%) and donated (1.3%) sites than for-profit providers. However, most centre based day care and outside school hours care services are provided on rented or licensed sites (such as defined parts of schools).

Centre based day care has a higher share of expenses going towards interest and fees on money borrowed, consistent with providers of centre based day care services using debt to set up or improve their premises. Providers of outside school hours services are far more likely to licence property, putting land improvement and repair costs in the hands of the licensor.

For centre based day care, land costs (in particular, rent, licencing fees and interest charges), have been increasing since the introduction of the Child Care Subsidy in 2018. The same has not occurred with outside school hours care services, where land costs have not displayed a consistent trend. We intend to explore further the nature of relationships between childcare centre owners and childcare providers in our final report.

For outside school hours care, land costs across for-profit and not-for-profit providers are relatively consistent, although somewhat higher for for-profit providers.

Large not-for-profit centre based day care providers have lower land costs but are investing savings into staff (and quality)

It appears large not-for-profit centre based day care providers invest savings from lower land costs into labour costs, to improve the quality of their services and their ability to compete in their relevant markets. Our analysis indicates:

- the cost to supply centre based day care was similar in 2022 for both for-profit and not-for-profit large providers
- labour costs were much higher for large not-for-profit providers than for-profit providers, while land costs were lower
- large not-for-profit providers have a higher proportion of staff employed full-time and at an above award wage (accounting for somewhat higher labour costs than for-profit centre based providers), indicating that reductions in land costs are reinvested into labour for large not-for-profit providers.

We also find centre based day care services with a higher proportion of staff paid above award and with lower staff turnover also have a higher quality rating under the National Quality Standard. This may be influenced by longer-serving staff members having stronger connections to children and their families.

Location has an influence on the cost to supply childcare, but overall costs only vary significantly for the most remote and most socio-economically advantaged areas

Overall, costs to supply centre based day care and outside school hours care to households in different areas of remoteness and socio-economic advantage do not appear to differ greatly. The exception is in the areas of most remoteness and of highest socio-economic advantage, where land and labour costs are higher.

In 2022, labour costs were significantly higher in very remote areas than in Major Cities or regional areas. Labour costs for centre based day care are highest in the areas of greatest socio-economic advantage, but also higher in the areas of least socio-economic advantage (likely reflecting the increase in labour costs to supply remote and very remote areas).

Land costs in 2022 for centre based day care and outside school hours care providers were highest in areas of greatest socio-economic advantage (decreasing significantly as the level

of socio-economic advantage decreases). This is potentially due to providers competing for access to land in metropolitan areas.

However, services in very remote areas have higher land costs than those in remote areas, likely a reflection of higher maintenance costs. Further, site ownership and donated sites are more prevalent for services in remote and very remote areas, suggesting that high land costs in very remote areas could be due to high upkeep costs.

For outside school hours care the trends are similar, but the increase in labour and land costs in the highest areas of advantage are less significant than for centre based day care, which is consistent with our analysis of prices across areas of socio-economic advantage in our June interim report.

The nature of competition reflects the unique demand and supply factors in childcare markets

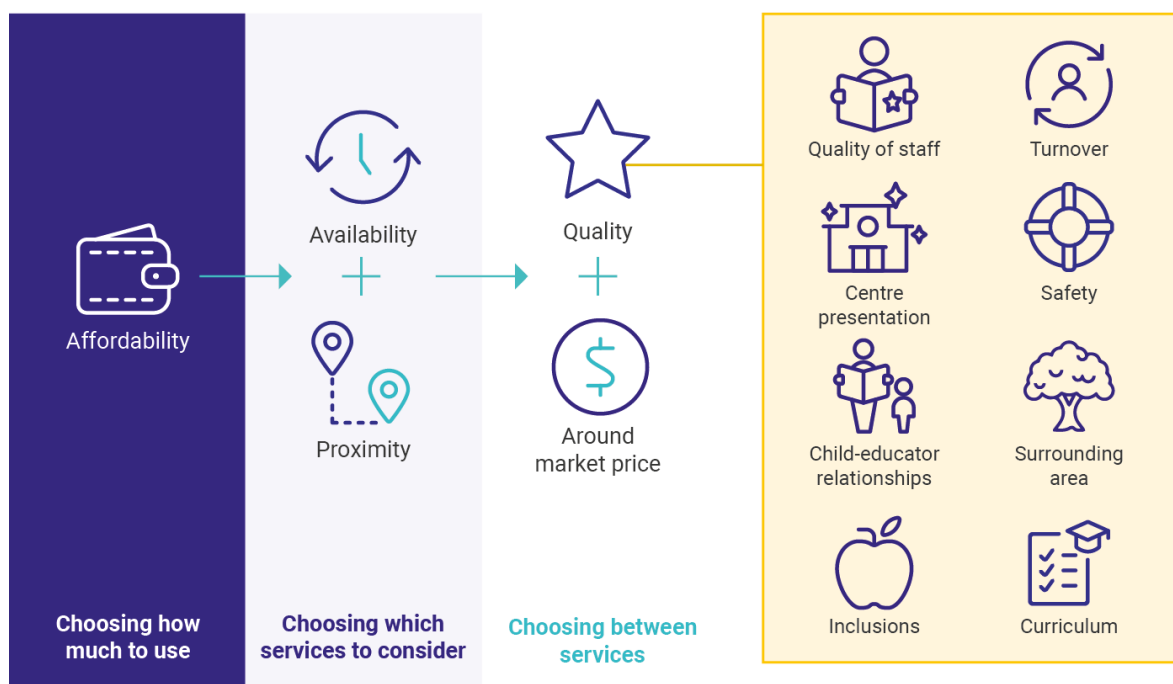
Choosing whether to use a childcare service is a complex and extremely personal decision for parents and guardians. While we can generalise about households' decision-making processes in relation to childcare, in practice decisions will be strongly influenced by personal circumstances.

In our June interim report, we observed that competition in childcare markets emerges more substantively through non-price factors and service differentiation, than via prices. After answering the threshold considerations of affordability, location and availability, households then place a high weight on perceptions of quality of a childcare service over the actual fees. This September interim report further considers the childcare demand and supply factors that shape how competition plays out in childcare markets.

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

The role and influence of price depends on which stage parents and guardians are at in the decision-making process when choosing childcare (figure 3).

Figure 3: Parents' and guardians' decision-making process when choosing childcare



The price of childcare plays an important and influential role in parents' and guardians' decision making in determining *how* much childcare to use:

- For most parents and guardians, the decision to use childcare is closely tied to the decision to enter or remain in the labour force.
- This means that willingness to pay for childcare is driven by the opportunity cost to parents and guardians of not returning to work. This not only includes forgone wages in the present but also negative impacts on future wealth, as well as the value parents and guardians place on their child receiving formal early education and care and in what setting.
- Parents and guardians will consider prevailing market prices in their local area and their own willingness to pay, and will make a decision on whether to use childcare, and how much, so long as the benefits of childcare exceed the cost.
- For lower income households, the opportunity cost of not using childcare may be much lower than that of higher income households, and prevailing market prices may easily surpass any benefit these households receive in using childcare.

However, despite how important the overall cost of childcare is to parents and guardians, childcare consumers are generally less sensitive to small variations in price than in many other markets.

Once parents and guardians have determined how much childcare to use and are choosing between similarly priced services within their local area, price plays a less influential role and providers compete more on 'quality' to attract and retain children and families.

In addition, certain features of the childcare market may also reduce how sensitive parents and guardians are to variations in price:

- Fees are subsidised for most households under the Child Care Subsidy, meaning modest increases in price are likely to not fully flow through to households' out-of-pocket expenses.

- Quality is a significantly important factor for parents and guardians, and a low price relative to local competitors may be seen as a signal of low quality.
- The costs for households to switch services are likely to be high and exceed the benefits of a small price reduction. These costs include the mental energy and effort required to search for and transition to a new service, and the emotional costs of supporting a child in transitioning and adjusting to a new service. These are costs which must be incurred by time-poor parents or guardians who have small children. Switching costs will likely be even greater for households with multiple children in childcare.

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

Within local area markets, providers carefully monitor prices of nearby competitors and take them into account in setting their own prices such that there is often little variation in the prices charged within an area.

Fees are also influenced by local area demand factors (including the general willingness to pay within an area) and the cost to supply, which can vary by location. This translates to prices having little variance *within* local markets, although prices can have high variance *between* markets.

Households in lower socio-economic areas are likely to be more responsive to price changes, as increases in out-of-pocket expenses will have a disproportionately larger impact on household income. As such, any increase in out-of-pocket expenses may result in less use of childcare or a complete withdrawal of using any childcare (rather than a change of provider).

Further, as prices do not vary significantly between services within markets, there are few opportunities to switch to a lower priced service and any financial benefit of switching is likely to be small and unlikely to outweigh the emotional and time costs of locating and supporting children to transition to a new childcare service.

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

Households prefer local services and quality is key

Our analysis shows that parents and guardians typically consider and prefer centre based day care services located close to their home. Most households travel a short distance of between 2 and 3 kilometres. For outside school hours care, parents and guardians are largely confined to services provided at, or close to, a child's school.

Availability is also a key threshold question, as if there are limited or no places available in a local area, parents' and guardians' decision making may be highly limited or they may have no option to use childcare.

Parents' and guardians' perception of quality is a key factor driving decisions for selecting a childcare service. As childcare is an 'experience good', meaning it is difficult to accurately determine quality of a childcare service without having used it, parents and guardians appear to rely on informal measures of quality over formal National Quality Standard ratings.

Informal measures of quality include word of mouth, presentation of the facility (such as modern facilities and well maintained indoor and outdoor areas), and staff relationships with children (as an indicator of quality of educators and centre managers).

Further, switching between services tends to occur as a result of parent concern with the quality of a childcare service rather than because of prices (as noted above).

Market dynamics encourage supply in more advantaged areas and Major Cities

Providers' supply decisions are highly influenced by expectations of profitability within a particular area or market, which are driven by expectations of demand and willingness to pay.

The willingness to pay for childcare within a local area is heavily influenced by household incomes, as this influences the opportunity costs of not using childcare services. Demand is also likely higher for households with 2 working parents or guardians.

As a result, providers place significance on the demographic make-up of the local area in making decisions to enter or increase service provision in markets. This reflects the highly localised nature of childcare markets. Demographic information considered by providers includes the area's age profile, labour force characteristics (in particular, female workforce participation rate and family structure), household income and population growth rate.

These factors encourage supply to markets where demand for childcare is highest, and parents and guardians are likely willing to pay higher prices. In particular, for-profit providers are more likely to supply these markets as the opportunity for profit is greater.

These markets tend to be in metropolitan areas of higher socio-economic advantage. This higher demand and greater willingness to pay explains why we find operating margins are higher in areas of higher socio-economic advantage and Major Cities of Australia.

While providers' supply decisions are generally driven by considerations of viability, we note that there are providers that supply some services at a loss. This reflects that – like many other human services – childcare plays an important societal role. This results in not-for-profit providers accounting for a greater proportion of services in areas of very low advantage.

The supply of unprofitable services usually occurs where providers perceive an important social benefit to providing the service, such as providing a service in an area where there otherwise wouldn't be access to childcare, or providing a service that caters to disadvantaged or vulnerable cohorts. For providers with multiple services, it is possible to support the operation of unprofitable services by operating other services that do make a profit.

Market forces on their own may not achieve all desired social objectives or expectations

Current market dynamics for childcare can significantly affect vulnerable cohorts of consumers who need to access these services. There are fewer centre based day care services in less-advantaged and more remote areas, resulting in fewer available places for children, lower quality and, where services are available and accessed, a higher proportion of household income being spent on out-of-pocket expenses.

These market dynamics mean that while current outcomes may reflect what would be expected of functional markets (meaning price signals ensure services – including those offering higher quality – are provided to those who value them most highly and with the highest willingness to pay), market forces alone may not achieve all the objectives of the Australian Government, nor meet all the expectations of the community. Specifically, market forces alone are unlikely to ensure:

- equitable educational and or developmental outcomes across all children and households
- increased workforce participation in some areas (particularly for women and essential workers).

The nature of childcare markets and the role played by price, as well as the impact of the Child Care Subsidy (discussed below), also mean it is unlikely that market forces alone will act as an effective constraint on prices to ensure affordability for households (including households with low incomes and vulnerable cohorts) and to minimise the burden on taxpayers.

The childcare sector is generally profitable

The childcare sector is widely viewed as a safe and strong investment with guaranteed returns, backed by a government safety net. However, profitability across the childcare sector is highly variable and influenced by many factors, including provider type, service type, location, operating models and strategies.

We find operating margins at centre based day care services located in Major Cities and in advantaged areas are generally strong. This appears to be encouraging supply in these areas, particularly for for-profit providers. However, profitability can vary significantly within markets depending on occupancy levels.

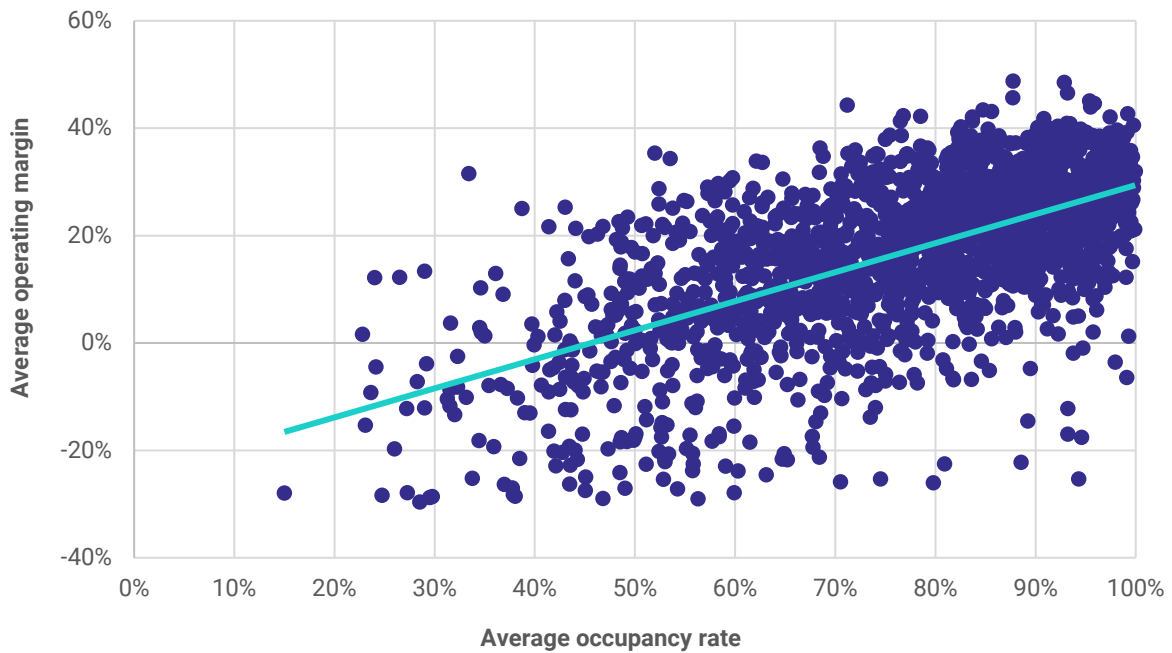
As a result, providers compete to attract and retain households – particularly on quality. This competition on quality can drive up costs (and reduce profitability), although depending on the demand and willingness to pay within an area (and the softening impact demand side subsidies have on price competition), many of these costs can be passed through to parents and guardians.

The implications of these findings for disadvantaged households will be discussed further in our final report.

Occupancy is a key driver of profitability

Occupancy is a key driver of revenue for childcare providers and, therefore, has a significant impact on profitability and viability. Overall, we find there is a strong positive relationship between the average operating margin and average occupancy rate for large providers of centre based day care in 2022 (figure 4).

Figure 4: Average operating margin (service-level) and average occupancy rates of large providers of centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

From information provided to the ACCC, centre based day care providers, in general, consider the minimum occupancy rate to breakeven is between 50% to 85%.

Large not-for-profit providers appear to have higher breakeven occupancy rates than large for-profit providers. Large providers may also set and have capacity to sustain much lower occupancy targets for new centres, to allow time to build a customer base and influence prevailing market prices.

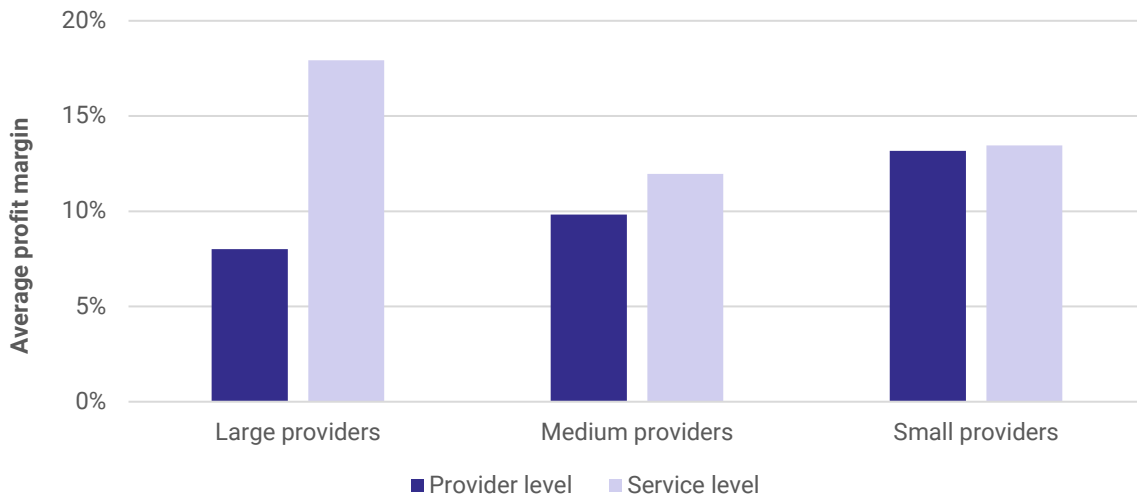
As occupancy is a key driver of profitability, providers may seek to operate in areas that most likely guarantee ongoing demand.

Head office costs reduce large centre based day care provider profitability

The average profit margins for providers of all sizes were positive in 2022 (figure 5). However, profitability of large providers is significantly affected by head office overheads, debt and cost of capital – particularly for those undertaking large acquisition growth strategies.

At a service level, which excludes head office and group expenses, large providers of centre based day care have much higher profit margins than small and medium providers. However, once head office and group expense are taken into account, the profit margins are similar across providers.

Figure 5: Average profit margin (service-level and provider-level) for centre based day care providers, by provider size, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Our analysis has not revealed significant benefits from economies of scale that are observable by way of lower costs or higher margins at the provider level. Land costs tend to increase with size for both providers of centre based day care and outside school hours care. Consumables are higher for large providers of outside school hours care, while finance and administration costs are higher for large centre based day care providers, when compared with smaller providers. This may indicate that any benefits of scale are reinvested into the provider to better enable large providers to compete on quality, or are used to support growth and acquisition strategies.

The impact head office costs of large providers has on the overall cost to supply childcare suggests there may be further benefit in understanding what is driving this, and whether the costs are efficiently incurred, given the implications for the Commonwealth budget. This is particularly relevant where providers incur significant debt to undertake fast growth strategies through acquisition to build a large service portfolio with the expectation of recouping investment through the sale of the business.

For-profit centre based day care providers have higher margins than not-for-profit providers

Large for-profit providers of centre based day care have consistently had higher profit and operating margins than not-for-profits since 2018. The average profit margin for large centre based day care providers was about 9% for for-profit providers and about 6% for not-for-profit providers in 2022 (figure 6).

This is particularly evident among small and medium providers of centre based day care, where the average profit margin of for-profit providers was around 20% in 2022, and negligible or negative for not-for-profit providers. This may indicate that small and medium not-for-profit providers are more likely to provide services in less profitable areas, and also incur higher costs in supplying childcare. However, we note our sample of small and medium providers is small relative to the sector and may not reflect all services.

Figure 6: Average profit margin (provider-level) for centre based day care providers, by provider size and type, 2022



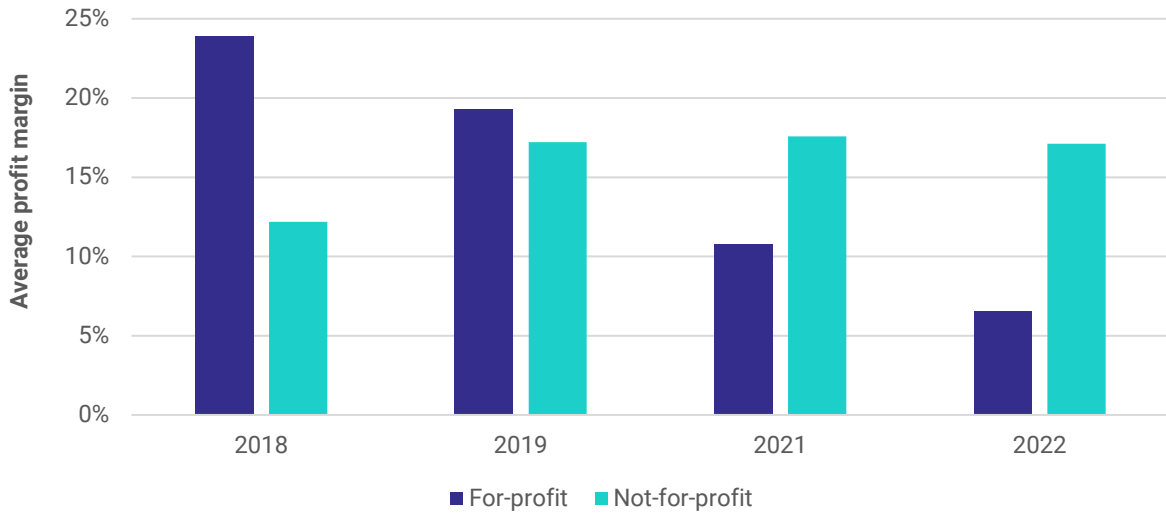
Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

This is consistent with our analysis of prices in our June interim report, where we found that across all geographic and socio-economic areas for-profit centre based day care providers charged higher average hourly fees compared to not-for-profit service providers. It is also consistent with our analysis of costs in this September interim report where we find the costs to supply centre based day care is similar for both large for-profit and not-for-profit providers, and higher for small and medium not-for-profit providers.

The profitability of outside school hours care providers has changed since COVID-19

Large for-profit outside school hours care providers had higher profit margins before 2020 but by 2022 not-for-profit providers of all sizes had higher profit margins than for profit providers (figure 7).

Figure 7: Average profit margin (provider-level) for large providers of outside school hours care, by provider type, 2018 to 2022

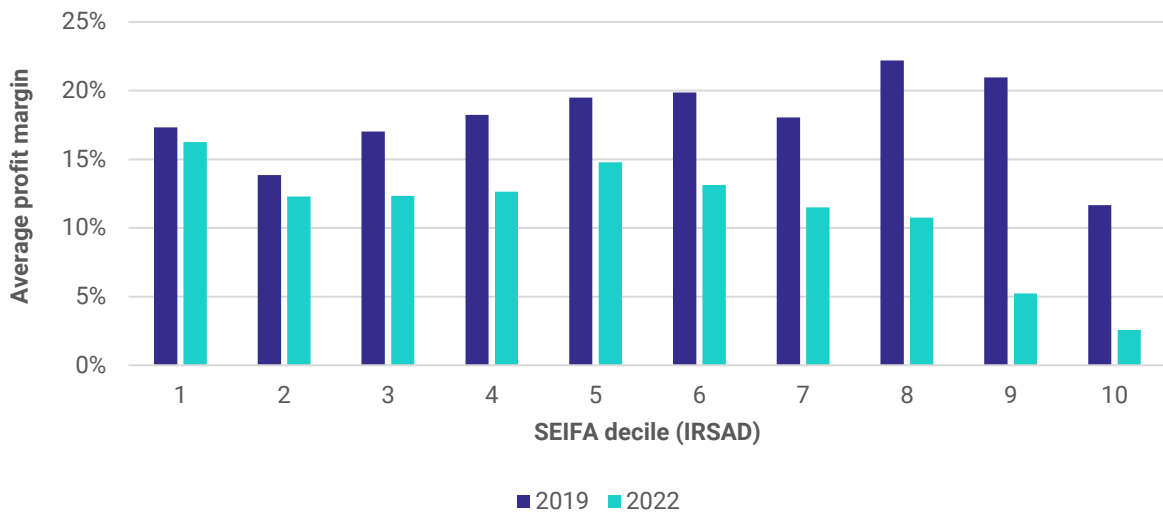


Note: Our analysis excludes 2020 due to COVID-related data quality issues.

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

The average profit margin for large providers of outside school hours care declined most significantly in Major Cities and in more advantaged areas between 2019 and 2022 (figure 8).

Figure 8: Average profit margins (provider-level) for large providers of outside school hours care, by SA2 SEIFA decile, 2019 and 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Current educator shortages are having a material impact on the supply and cost of childcare

Staffing availability has emerged as one of the most significant challenges affecting the supply of childcare services in Australia. The shortage of early childhood education and care staff has been a driver of increasing labour expenses since 2018, with many providers investing significant resources into addressing recruitment and retention challenges.

The key factors that appear to be contributing to workforce shortages include:

- less attractive pay and conditions relative to other industries (particularly preschools and primary schools)
- increasing responsibilities and burdens on educators remaining in the sector
- the need for staff to allocate (unpaid) personal time to study for required qualifications (also affected by current cost of living pressures)
- the impacts of the COVID-19 pandemic (including on overseas workers and migration)
- less availability of overseas workers.

These issues lead to burnout, with many staff leaving the industry, needing more time off due to illness.

Staffing constraints are a barrier to market entry and expansion

Staffing shortages, and associated high labour costs, are having a material impact on providers and constraining their ability to supply new markets, or expand their operations in existing markets.

Limited workforce availability appears to impact whether a service is established or supplied at all, but also has materialised in many providers having to offer fewer places than they are licensed for, as they are unable to meet educator-to-child ratios to fill capacity. The inability to offer maximum capacity at services is widespread and leads to significant loss of supply.

Availability of staff affects the quality, viability and profitability of services

The success of childcare services is enormously dependent on the educators and staff in those centres. Educators and staff have a significant impact on the quality and reputation of the service, as well as the service's ability to generate profits (through their influence on occupancy) and contribute to the ongoing viability of the service through stable tenure.

Due to educator-to-child ratios, staffing shortages impact services' ability to operate at higher occupancy levels and, therefore, impact service viability and profitability.

The existing price regulation mechanism has a limited effect on price

Subsidies for products and services are typically used to generate positive social benefits. The Child Care Subsidy is justified by the wider benefits that childcare provides to society.³

The Child Care Subsidy is a demand-side subsidy, which follows the child and is paid to the service provider.

The Australian Government uses the Child Care Subsidy to pay a percentage of childcare fees up to an hourly rate cap (with parents and guardians paying the remainder as out-of-pocket expenses). The hourly rate cap was intended to:

- send a strong message about what a 'high fee' service is
- place downward pressure on price rises and limit the financial burden on taxpayers over time.

However, our analysis indicates that the complexity of the hourly rate cap (and the Child Care Subsidy in general), along with the unique characteristics of childcare markets, are limiting the effectiveness of the hourly rate cap as a price signal and constraint on prices.

The small local area market nature of childcare services means that price control mechanisms like the hourly rate cap are likely to only restrain prices in certain limited situations. For example, the hourly rate cap is unlikely to influence pricing behaviour in local area markets where all providers price well above the hourly rate cap or all providers price well below the cap.

The Child Care Subsidy is complex and the hourly rate cap has had limited effect in reducing prices

The operation of the Child Care Subsidy – and its inherent complexity – can make it very difficult for parents and guardians to accurately estimate their subsidy entitlement. This makes it challenging to accurately compare the out-of-pocket expenses they will face with different services in their local area market.

While the Child Care Subsidy is less complex than the previous Child Care Benefit and Child Care Rebate, the system is still complex for time poor parents and guardians. In particular, there appears to be a disconnect between the Child Care Subsidy being calculated on an hourly basis and actual pricing for centre based day care, which is typically set on a daily basis. Because of this, the hourly rate cap is unlikely to be a strong price signal for households.

The evidence suggests that centre based day care providers are tailoring session lengths for the households and demographic groups they serve rather than engaging in price competition. By maximising a household's subsidised hours and minimising their out-of-pocket expense, providers appear to be able to maintain or increase their revenues and profitability.

³ The Productivity Commission, [Childcare and Early Childhood Learning](#), Inquiry Report no. 73, vol. 2, 2014, pp 560–61 states that this can include improved childhood development outcomes and greater workforce participation. Lifting participation can also potentially have a positive fiscal impact, particularly for families vulnerable to poverty. It can also address equity concerns, particularly for mothers or other primary carers, by levelling the playing field such that these groups face the same incentives to work as women without children and men.

For the majority of households using centre based day care, this tends to involve reducing daily session lengths to 10 hours per day and increasing hourly fees. We have observed:

- internal pricing decision documents that explicitly reference optimising the Child Care Subsidy for households to maintain or increase revenue
- more services charging fees above the hourly rate cap over time
- the number of children attending for 5 days per week using 10 hour sessions has more than doubled between 2018 and 2022, while the number of children attending 5 days per week using 11 and 12 hour sessions has declined
- low usage of very short (3 or 6 hour) sessions
- more children attending childcare 5 days per week in 2022 than in 2018.

The limited influence of price on households' decision making once they are using a service, along with a subsidy limiting the effect of price changes on the household's out-of-pocket expenses has facilitated this, particularly as centre based day care has primarily been charged on a daily session length, rather than hourly basis.

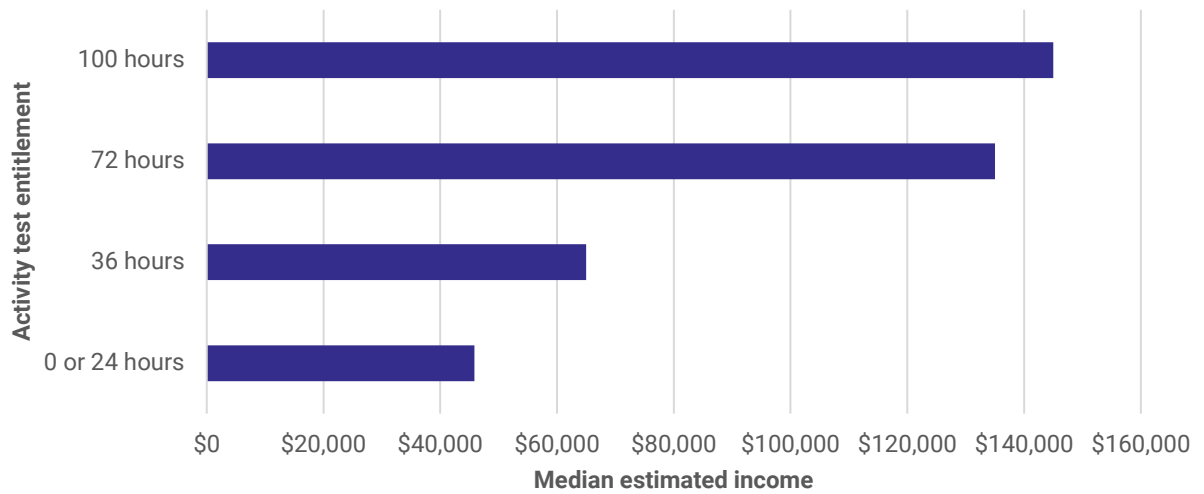
An unintended consequence is that there may be less favourable options available for households in an area with different needs to the norm, including those entitled to fewer subsidised hours of care and/or those who need greater flexibility, such as households with shift workers.

Households with lower activity test entitlements face affordability challenges

Households with lower activity test entitlements tend to have a lower median household income than those with the higher entitlements (figure 9). This is because the number of subsidised hours a household is entitled to is determined by the activity test and primarily based on the number of hours of work (or other approved activities such as study, training and volunteering) that parents and guardians undertake.

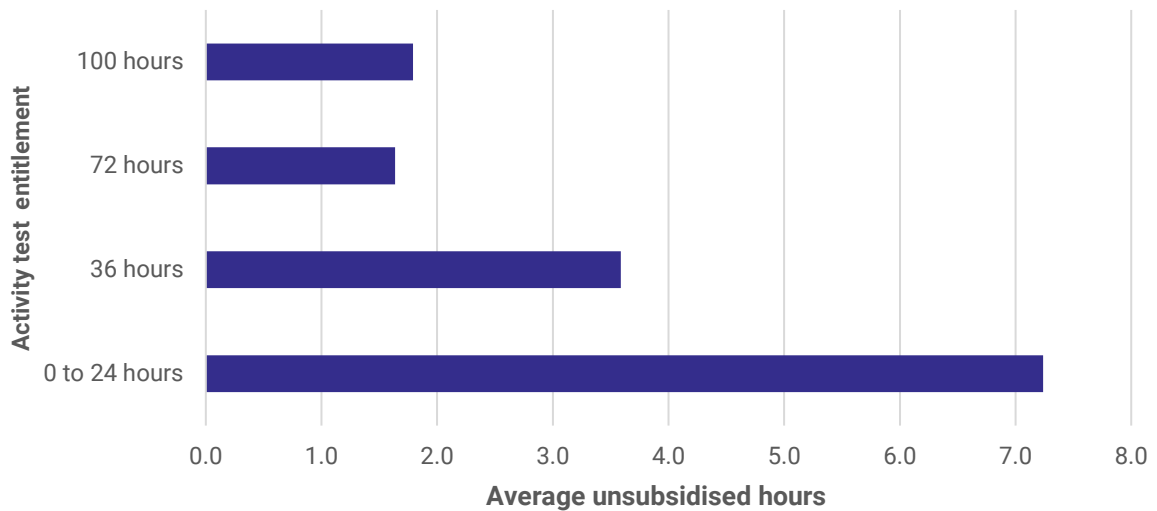
We also find that these households with a lower entitlement tend to use a greater share of unsubsidised hours (figure 10), leading to higher out-of-pocket expenses and potential affordability concerns.

Figure 9: Median household estimated income, by activity level entitlement, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

Figure 10: Average unsubsidised hours, by activity test entitlement, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

StartingBlocks.gov.au information has not been useful for parents' and guardians' decision making

The government childcare service comparator website StartingBlocks.gov.au is intended to help households review childcare vacancies, prices and inclusions, compare services side-by-side, and estimate their out-of-pocket expenses.

However, StartingBlocks.gov.au does not appear to be widely used by parents, based on responses to our parents and guardians survey, and much of the relevant data is either out of date or not published on the website. This reduces its effectiveness as a price and service comparator tool for consumers. In particular, limitations include:

- it is difficult to accurately compare out-of-pocket expenses between services, as fees are generally advertised as ‘typical daily fees’ and session lengths are not always published
- price information is often out-of-date or no longer relevant
- National Quality Standard ratings are often out of date and parents do not rely on them, often preferring to use word of mouth or their own perceptions
- information about availability of places may be unclear (for example, does not specify the relevant age range) or out of date.

Childcare in Australia is relatively less affordable for households than in most other OECD countries

To inform our review of the effectiveness and impact of existing price control mechanisms in Australia we have, along with the Productivity Commission and Department of Education, met with overseas government agencies, and examined:

- information from the Organisation for Economic Co-operation and Development (OECD) to understand how Australia’s prices and government expenditure on childcare services compares to other countries
- price regulation mechanisms in several relevant OECD countries.

In Australia in 2022, for a couple on average wages with 2 children (aged 2 and 3) in centre based day care full-time, net childcare costs came to 16% of net household income. In contrast, the average for OECD countries was 9%, with Australia ranked 26th out of 32 countries. This is despite the Australian Government contribution to fees being significantly higher than most other OECD countries – 16% in Australia compared to the OECD average of 7%.

From 2018 to 2022, nominal gross fees in Australia increased by 20.6% in comparison to the OECD average of 9.5%. In real terms, the increase was 7.3% in comparison to the OECD average of minus 7.1%. This is comparable to our June interim report finding that, from 2018 to 2022, the average session fee for centre based day care in Australia increased by 20.8%, although we found a lower real increase of 4.8%.

One reason for the relative increase in gross fees in Australia is likely to be a relative increase in the provision of supply-side subsidies in other OECD countries. The fact that the OECD average real gross fee *decreased* from 2018 to 2022 by 7.1%, when the average CPI increase was 17.8%, suggests that other OECD countries have significantly increased supply-side subsidies, whether through government provision of childcare services or operating subsidies for private providers.

Many OECD countries are moving to increased supply-side subsidies combined with greater regulation of childcare fees

Internationally, we have observed countries increasing public expenditure on childcare to improve affordability for households. OECD data shows that, in 2019, public expenditure on

early childhood education and care for 0–5 year olds was 0.6% of GDP in Australia in comparison to the OECD average of 0.8%.

In countries that rely on market provision of childcare services, some countries such as the Netherlands have used indirect price regulation (like Australia) to act as an indirect form of price discipline. In these circumstances, we observe:

- as part of a government’s market stewardship role, a strong price monitoring role supported by a credible threat of further intervention, could support the indirect price discipline of the hourly rate cap
- there can be limits in competition delivering broader government objectives, requiring greater government stewardship of markets for childcare services
- where a need for government intervention is identified, such as delivery of a service in an under-served area or to a vulnerable cohort, supply-side subsidies may be required. There can be a role for competitive tenders to support this
- significant policy changes may require a different price regulation model (as is currently being considered in the Netherlands). Direct price regulation is more likely to be required where countries expand public expenditure as this reduces the price sensitivity of households (any price increase has only a limited impact on out-of-pocket expenses).

Overall, we have observed many countries (including the United Kingdom, Ireland, Canada and New Zealand) moving to greater regulation of childcare fees such as mandated low fees or free hours, supported by supply-side subsidies.

If fee controls are introduced then the fee or supply-side subsidy needs to be set so as to financially sustain provision without funding excessive profits. There are a range of approaches used internationally to support this, including: cost benchmarking or estimation; benchmarking fees charged by providers that are not part of the scheme; public and not-for-profit provision; and decentralised provision to support an approach that is tailored to a local market. Based on our experience in economic regulation of infrastructure and utilities markets, we note that price controls based on a cost methodology is likely to involve substantial challenges in determining costs for diverse, highly localised markets that service vastly different cohorts and geographic areas. This can introduce complexity and create opportunities for regulatory gaming.

The design of the price regulation model depends on a country’s overarching policy objectives for the early childhood education and care sector, whether this is to secure universal high quality education and care for children, encourage workforce participation of parents, support gender equality or other objectives.

Given international trends and the increasing costs and prices we observe in the childcare sector in Australia, the ACCC can see substantial benefit in a detailed consideration of supply-side models, the role of market stewardship and direct price controls for childcare services.

Summary of draft findings and draft recommendations

The ACCC has made a total of 18 draft findings and 7 draft recommendations in this report.

Draft Findings

Costs

1. Labour is the main driver of cost for supplying childcare, accounting for 69% at centre based day care and 77% at outside school hours care. Labour costs have increased significantly for large centre based day care providers over the last 5 years.
2. Land and related costs are the other significant driver of cost for centre based day care providers.
3. Not-for-profit providers appear to face lower land costs than for profit providers, but these savings are invested into labour.
4. Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.

Competition

5. Parents' and guardians' demand for centre based day care is driven by a complex combination of factors. Parents look to prevailing market prices, however informal measures of quality are key considerations.
6. Providers' supply decisions are influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location.
7. Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets.
8. The nature of competition reflects the unique demand and supply factors in childcare markets; price plays a less influential role once households have chosen how much childcare to use and providers compete on quality to attract and retain children and families.

Profitability, viability and quality

9. On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.
10. Occupancy is a key driver of revenue and therefore profits and viability.
11. On average, margins are higher:
 - for for-profit providers of centre based day care than not-for-profit
 - in Major Cities and more advantaged areas
 - for services with higher quality.
12. The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service.

Price regulation mechanisms

13. The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and limiting the burden on taxpayers.
14. Childcare providers are optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.
15. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.
16. More information is important for parents and guardians, yet the comparator website StartingBlocks.gov.au is not widely used by parents and guardians and can contain outdated information.

International childcare costs and price regulation mechanisms

17. Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.
18. Many OECD countries are moving toward greater regulation of childcare fees such as low fees or free hours for parents and guardians, supported with supply-side subsidies to cover providers' costs of provision.

Draft Recommendations

The ACCC has outlined a number of draft recommendations as part of this September interim report in response to our analysis and findings to date about the childcare market in Australia.

As part of our consultation with stakeholders (refer to section below, '**Call for submissions**'), we seek feedback on these proposals. The ACCC will use this feedback when considering findings and recommendations for our final report.

Existing regulatory arrangements – areas for further consideration

Recommendations 1 to 4 set out refinements that we propose could be made to the existing regulatory arrangements for the childcare market. Recommendations 5 to 7 relate to potential broader design changes to the childcare system.

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

Draft recommendation 1

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

As outlined above there are a range of objectives that governments can seek to achieve in supporting the provision of childcare services in Australia. These different objectives can at times be complementary and at other times involve trade-offs when designing policy and

regulatory frameworks. The factors the Australian Government seeks to prioritise (including their relative priority) will determine which regulatory options are most suitable.

Draft recommendation 2

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

- (a) determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs as well as the additional costs associated with providing childcare services in remote areas and to children with disability and/or complex needs
- (b) changing the hourly rate cap to align with the relevant pricing practice for the service type. This could include consideration of a daily fee cap for centre based day care. Consideration will need to be given to setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality
- (c) removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care
- (d) including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.

Draft recommendation 2(a)

As discussed in chapter 1, labour is the main driver of cost for supplying childcare, and labour costs have increased significantly over the past 5 years, much faster than inflation. Indexing the rate cap to a measure that considers wage growth would better reflect the factors that influence supply of childcare services. Of course, the potential inflationary effects of applying a particular method of indexation would also need to be considered.

We also find in chapter 1 that there are higher costs associated with supplying centre based day care in Remote Australia, as well as potential additional costs associated with supporting First Nations children and families, culturally and linguistically diverse children and families, and children with disability and/or complex needs. Adjustments to reflect the additional costs of serving these households would be appropriate, particularly where supporting educational and development outcomes is a high priority.

As noted in chapter 5, introducing increasingly complex methodologies may lead to unintended consequences or other administrative costs, and this would need to be considered in developing a new index or adjustment. One option could be for Australian Bureau of Statistics to develop a cost index for the childcare sector, for use as part of the existing Child Care Subsidy. The ACCC would be able to assist the Australian Bureau of Statistics, using information obtained in building our cost database.

Draft recommendation 2(b)

Centre based day care fees are generally advertised at a daily rate, while the Child Care Subsidy is calculated and capped on an hourly basis, and the number of hours in a daily session can vary between services. This makes it difficult for households to calculate their out-of-pocket expenses and the benefit they may receive from returning to, or entering, the workforce. It has also enabled providers to optimise session lengths and hourly rates to shift most of the increasing cost and price burden on to taxpayers, limiting the scope for the hourly rate cap to act as a price discipline and put downward pressure on taxpayer burden.

A *daily fee* cap for centre based day care may remove some of this complexity by enabling parents to more easily compare the advertised fee to the maximum fee that is subsidised. However, a daily fee cap may create incentives for services to open for shorter hours or lower other aspects of quality. As such, appropriate conditions should also be considered.

We note that a daily rate cap may not be appropriate for other service types where fees are not generally advertised at a daily rate.

Draft recommendation 2(c)

In chapter 4, we find that, in 2022, households with lower activity test entitlements tend to have a lower median household income than those with higher entitlements, and households with the 2 lowest levels of approved hours under the activity test tended to use the most hours of unsubsidised care.

We also find in chapter 2 that providers are prioritising supply to areas in which there is low unemployment and high female workforce participation as this indicates areas of highest demand in part due to the higher likelihood of a greater number of subsidised hours under the activity test. This is also in areas of relatively socio-economic advantage, where the capacity and willingness to pay for childcare is higher. In contrast, there is limited supply and reduced incentives to operate in remote and disadvantaged areas.

These observations suggest that the activity test is regressive in effect for low income households and may result in those cohorts of children missing out on the educational and developmental benefits of childcare as well as creating a barrier to workforce participation.

By removing the activity test, some parents and guardians may face fewer barriers to using childcare and providers may have a greater incentive to supply to more disadvantaged and remote areas of Australia, as more households in these areas will be able to access the Child Care Subsidy. This would support educational and development outcomes for children, particularly those facing social or economic disadvantage.

Draft recommendation 2(d)

We find, in chapter 1, that the average costs to supply childcare do not differ greatly except in the areas of most remoteness and advantage (and to meet the needs of some children with additional support requirements). In chapter 3 we find that on average in 2022, centre based day care and outside school hours care services had a positive profit margin.

However, the profit and operating margins of providers vary by location, and when averaged over 2018 to 2022, are higher in Major Cities and areas of greater advantage for centre based day care. In our June 2023 report, we also found that average prices were higher the more advantaged the geographic area.

In chapter 4 we find that the price regulation mechanism provides limited downward pressure on prices, and historically, studies have observed that when the government has

made demand-side subsidies for childcare more generous, the savings for households have been quickly diminished by increasing fees. We also discuss, in chapter 3, how centre based day care providers align annual fee increases with increases in the Child Care Subsidy, and how this may help maintain profit margins for some providers.

Public monitoring and reporting of prices of individual providers and services combined with a credible threat of further intervention (such as direct price control) could support the indirect price discipline of the hourly rate cap, and form part of a market stewardship role for government, which is also discussed in recommendation 6.

Draft recommendation 3

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

- (a) considering the frequency, granularity and accuracy of information collected and published, to ensure currency for parents and guardians
- (b) focusing on publishing information that assists parents to accurately estimate out-of-pocket expenses and relevant information to assist parents assess quality factors
- (c) incorporating input and advice from the Behavioural Economics Team of the Australian Government
- (d) ensuring information is appropriately and effectively publicised to parents and guardians.

The StartingBlocks.gov.au website is intended help parents and guardians find services and learn about their quality ratings, fees, vacancies and inclusions when comparing between services within their local market. However, as noted in chapter 4, there is limited awareness of StartingBlocks.gov.au and information on the website can be outdated and difficult to compare between services.

If information included on StartingBlocks.gov.au was up to date and included detailed information parents and guardians use in making decisions about childcare (for example, session lengths for centre based day care for individual providers alongside session or daily fee information), this may increase the use of the StartingBlocks.gov.au and assist parents and guardians in their decision making.

Equally relevant, more targeted and accessible use of National Quality Framework information may help parents and guardians' decision making in respect of childcare services. We note the costs of doing this should be weighed against potential benefits, given our analysis shows childcare has 'experience' and 'credence' good characteristics. For these reasons, the Behavioural Economics Team of the Australian Government may be well placed to determine the most useful measures to use and publish on StartingBlocks.gov.au. It is also likely to require consideration of the frequency of information collection and publication, to ensure relevance.

In any redesign and continuation of StartingBlocks.gov.au, the ACCC recommends further consideration of the resourcing required to collect, publish and maintain the information as described above in points (a) and (d), and to further publicise and raise awareness about the website to households.

Draft recommendation 4

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

Workforce shortages and exit within the childcare sector are key issues that impact the adequate supply of childcare and the sector's ability to achieve government objectives.

In chapter 1 we find that labour costs have increased significantly from 2018 to 2022 and contributing to this increase are current workforce shortages, particularly in remote parts of Australia. In chapter 2 we also find that competition for staff is increasing labour costs in areas which have more childcare services as those providers must offer higher wages to attract staff, diminishing the impact that having many competing services normally has on prices.

In chapters 1 and 2 we report that staffing constraints appear to be having a material impact on the supply of childcare services, and means some providers are offering fewer places than they are licenced for.

In chapter 3 we observe that educators and staff have a significant impact on the quality and reputation of the service, which influences profit margins and viability. As a result, current staff shortages and educators leaving the sector creates risks for profitability, long-term viability and service quality.

From our inquiry to date the following factors appear to be contributing to workforce pressures, and would be relevant considerations for government⁴:

- status and recognition of educators and early childhood teachers
- pay discrepancies with other relevant sectors, such as primarily school teaching
- provision of time for planning and reporting
- the impact of training requirements on childcare educators and early childhood teachers, and whether paid placements and scholarships would be appropriate
- the impact of regulatory reporting and record keeping on educators, teachers and directors.

⁴ The ACCC notes that, from July 2023, early childhood education and care services can get a [subsidy](#) to support early childhood teachers to complete the practicum components of their degree. In addition, the [National Children's Education and Care Workforce Strategy](#) outlines several initiatives including professional recognition, attraction and retention to the sector and career pathways.

Broader policy considerations for more fundamental change

Recommendations 5, 6 and 7 set out potential broader changes to the regulatory and funding landscape for the childcare market.

Draft recommendation 5

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

As discussed in our June interim report and this September interim report, childcare markets can be highly localised local area markets, and supply childcare services for children and households in significantly different situations – from highly urbanised, highly advantaged households to children in very remote locations. A single policy approach that achieves desired outcomes for all children and households may not be possible and a mix of different measures and supports may be required.

Aboriginal Community Controlled Organisations can deliver tailored services, including wrap around services, for their communities. We note that Expansion of the Community Child Care Fund-Restricted aims to support Aboriginal Community Controlled Organisations delivering 20 new Early Childhood Education and Care services. Furthermore, the Early Childhood Care and Development Policy Partnership is working towards developing new funding model options for Aboriginal Community Controlled Organisations that deliver early childhood education and care.⁵

Draft recommendation 6

A market stewardship role should be considered for both Australian and state and territory governments, in identifying under-served areas and vulnerable cohorts, along with intervention whether through public or private provision. A competitive tender process is one tool that could be used by governments to facilitate delivery in these areas.

We find costs to supply childcare are significantly higher in the most remote areas of Australia (chapters 1 and 2) and more broadly, we find providers' supply decisions are influenced by expectations of viability. While this market model is delivering childcare services in many local area markets, we have observed areas where there appears to be undersupply.

⁵ See Australian Government Department of Education, Community Child Care Fund – Restricted non-competitive grant opportunity guidelines (<https://www.grants.gov.au/Go/Show?GoUuid=e9955a15-b565-4d14-ad15-2af67bd02951>), *GrantConnect*, 17 June 2022, accessed 20 September 2023; and Early Childhood Care and Development Policy Partnership, Meeting Three Outcomes (<https://www.education.gov.au/closing-gap/resources/outcomes-summary-meeting-three>), *Australian Government Department of Education*, 30 August 2023, accessed 20 September 2023.

In local area markets where there is difficulty in relying on competition to deliver adequate supply that achieves government objectives, there may be a need for government to take on a market stewardship role. This role would involve monitoring community needs, necessary inputs (such as staff) and outcomes, and intervening to deliver unmet needs.

A competitive tender process could be used to select a private provider, determine the operating grant needed to support the service, set a regulated fee, and minimise the cost burden for taxpayers. Where a competitive tender process is unable to generate private supply, it may be necessary for direct provision by government.

The level of government best placed to meet undertake a market stewardship role may require further consideration and agreement between the Australian Government and states and territories.

Draft recommendation 7

The ACCC supports further consideration of supply-side subsidies and direct price controls. Some changes to the policy settings are likely to reduce the impact of the hourly rate cap as an indirect price control, and may warrant a shift to direct price controls supported by operating grants for regulated childcare providers.

Chapter 5 notes that any significant changes to policy settings for the sector could further reduce the indirect price impact of the hourly rate cap on fees. This may require a shift to direct price controls and supply-side subsidies to better control the taxpayer burden. This would be consistent with international trends. The Productivity Commission's inquiry into Early Childhood Education and Care is likely to consider these types of policy options and outcomes.

Call for submissions

There is a broad range of stakeholders with a strong interest in the ACCC's Childcare Inquiry, including providers, peak bodies, parents and guardians, educators and teachers, consumer advocacy groups and governments.

The ACCC invites written submissions from interested parties on the draft findings and recommendations outlined in this September interim report by **29 October 2023**. As our final report is due to the Treasurer by 31 December 2023, unfortunately we are unlikely to be able to consider submissions received after this date. Submissions will inform the final report.

You can make a submission via the [ACCC website](#).

Further information gathering

For the final months of the Childcare Inquiry, we will complete our information gathering activities, including by:

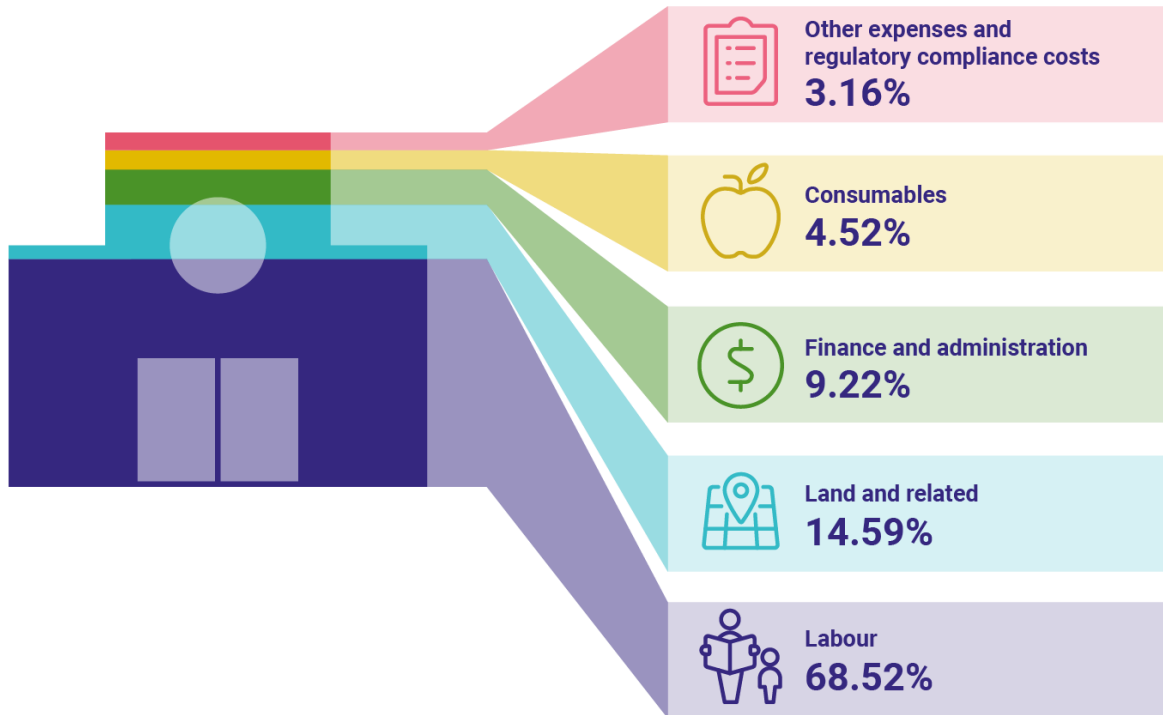
- inviting and reviewing [written submissions](#)
- reviewing information regarding price changes since the increase to the Child Care Subsidy in July 2023
- reviewing further information provided by large centre based day care providers, including regarding demand for centre based day care for different age groups of children and educator wages
- considering views raised in roundtable discussions held between August and September 2023 and publishing summaries on our [website](#)
- reviewing responses to the in language parents and guardians surveys published on 4 September 2023. The [surveys](#) are available in Simplified Chinese, Traditional Chinese, Vietnamese, Arabic and Korean and are open until **8 October 2023**.

Final report

The final report is due to the Treasurer by 31 December 2023 and will focus on consideration of views raised in submissions, analysis of price changes since the increase to the Child Care Subsidy rate in July 2023, and further analysis conducted between now and the end of the year.

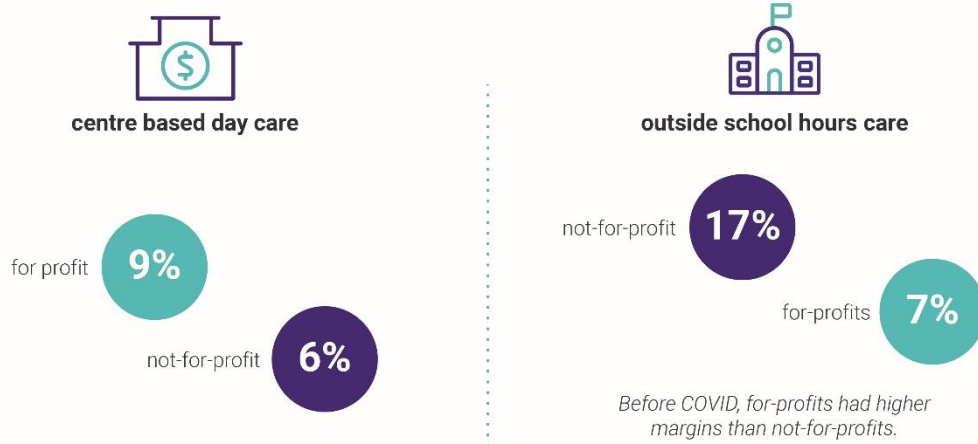
Key cost and profit highlights

CENTRE BASED DAY CARE COSTS



KEY PROFIT STATISTICS

In 2022, the average profit margin, at a provider level for large providers of



On average, over 2018 to 2022, the average operating margin for centre based day care was



On average in 2022, centre based day care services with:



1. Costs of providing childcare services

Key points

- Labour is the main driver of cost for supplying childcare, accounting for 69% or more of total costs, depending on various factors. Labour costs have increased significantly for large providers of centre based day care over the past 5 years, while for large providers of outside school hours care, the increase was more modest.
- Land and related costs are the other key driver of cost for providers of centre based day care (15%), while for providers of outside school hours care it is consumables (7.9%).
- Large not-for-profit providers have lower land and related costs than for-profit providers. However, these savings appear to be invested into labour.
 - Large not-for-profit providers of centre based day care pay a higher share of their staff above award wage relative to for-profit providers.
 - Not-for-profit providers also have a much greater share of full-time primary contact staff than for-profit providers.
- There do not appear to be significant benefits from economies of scale that are observable by way of lower costs. However, on a service level, there were clear economies of scale.
- Small and medium not-for-profit providers incur the highest costs in delivering centre based day care.
- Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, the costs to supply different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness or most advantage.
- Centre based day care services with more competitors, and in the upper half of socio-economic advantage, tend to face higher labour, and land and related costs. This is potentially due to providers competing for these inputs.
- Costs increase for centre based day care services with higher shares of children below 3 years old. Most services had between 30% and 60% of their charged hours delivered to children under 3 years old, highlighting that services are tightly controlling enrolments of this cohort in order to control costs.
- Services with higher ratings under the National Quality Framework have higher labour costs than lower rated services.

Draft findings relevant to this chapter

- **Draft finding 1:** Labour is the main driver of cost for supplying childcare, accounting for 69% at centre based day care and 77% at outside school hours care. Labour costs have increased significantly for large centre based day care providers over the last 5 years.
- **Draft finding 2:** Land and related costs are the other significant driver of cost for centre based day care providers.

- **Draft finding 3:** Not-for-profit providers appear to face lower land costs than for profit providers, but these savings are invested into labour.
- **Draft finding 4:** Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.

The ACCC has examined the costs incurred by childcare providers using information collected from large providers of centre based day care services and outside school hours care services using our compulsory information gathering powers, and voluntary information collected from small and medium providers. Information pertaining to the costs associated with delivering family day care and in home care services has also been examined.

In this chapter, we examine the costs incurred by providers in delivering childcare services, including the costs associated with labour, land use, finance and administration costs, regulatory compliance costs and costs of consumables. We also examine how costs differ by factors such as geographic location, type and size of provider, type of service, age and characteristics of the child, number of services in the market and by quality.

- Sections 1.1 and 1.2 present an overview of costs faced by childcare services and providers.
- Section 1.3 examines how cost differs between not-for-profit and for-profit providers.
- Section 1.4 explores whether childcare providers or services experience any economies of scale.
- Section 1.5 observes how location and service characteristics impact on costs.
- Section 1.6 explores if and how costs vary based on the children in care.
- Section 1.7 examines how expenses affect quality of childcare services.

Box 1.1: The different types of cost categories

Labour is the total expenditure for employing staff, including remuneration, recruitment, and workforce development.

Land and related refers to all expenses associated with acquiring, leasing or licencing a given piece of property.

Finance and administration represent the necessary costs to maintain a service's daily operations and administer its business, but these costs are not directly attributable to the operation of services.

Regulatory compliance refers to expenses incurred to adhere to industry regulations (for example, licensing registered software to access the Child Care Subsidy System), other than those attributable to other categories (for example, costs associated with meeting educator-to-child ratios will be attributable to labour).

Consumables are the costs associated with items that are consumed in providing childcare services (for example, nappies or food).

Other expenses capture any additional costs not included in the above.

Box 1.2: Cost dataset and methodology

Cost dataset

The ACCC obtained its childcare cost dataset from large providers of centre based day care and outside school hours care services using compulsory information gathering powers, and voluntarily from small and medium providers across all relevant childcare services.

The cost dataset is heavily skewed towards large providers, as using our compulsory information powers to gather information from these providers enabled the ACCC to obtain detailed cost information on many services across various locations from a relatively small number of providers. To supplement large provider cost information, the ACCC carried out extensive one-to-one engagement with small providers across Australia, including remote areas. We also obtained information from medium providers through virtual meetings.

Cost information obtained by, and provided to, the ACCC varied significantly. This likely reflects variability in costs in providing childcare services across different markets, differences in record keeping practices across providers and providers' different interpretations of cost allocations, and differences in providers' operating strategies.

Additionally, as small and medium providers provided cost information on a voluntary basis, there is a self-selection bias in the small and medium provider cost dataset. Medium providers also only provided detailed information on a subset of services, with aggregated cost information for the remaining services. Medium providers chose which services to provide this detailed cost information on.

The cost information presented in this report is not intended to be comprehensive, but rather represent typical costs incurred by providers of different service types, size and profit status. We obtained cost information in a manner that would best facilitate this analysis in the limited 12-month time period we have to report. We note that due to the significant number of providers of childcare services in Australia, and the differences in record keeping and cost allocation noted above, obtaining a comprehensive, detailed, and consistent cost dataset is an extremely significant and time-consuming exercise.

If governments see benefit in obtaining this type of information, this may best be achieved through reporting obligations included as part of accessing Child Care Subsidy revenue.

Methodology:

The ACCC examined and cleaned cost information prior to analysis, to ensure consistency and comparability.

Our approach to analysing cost information included the following:

- Head-office and group costs have been allocated to services based on the number of hours charged for each service.
- Expense items have been allocated to cost categories identified in our Terms of Reference.
- Total expenses once allocated to cost categories have been compared relatively to develop 'cost stacks'.
- Costs have been converted to a dollar value per charged hour and averages are weighted towards services with more charged hours to develop a 'cost per charged hour'.

- Charged hours were obtained from the Department of Education administrative Child Care Subsidy data.

The following items have been excluded from analysis:

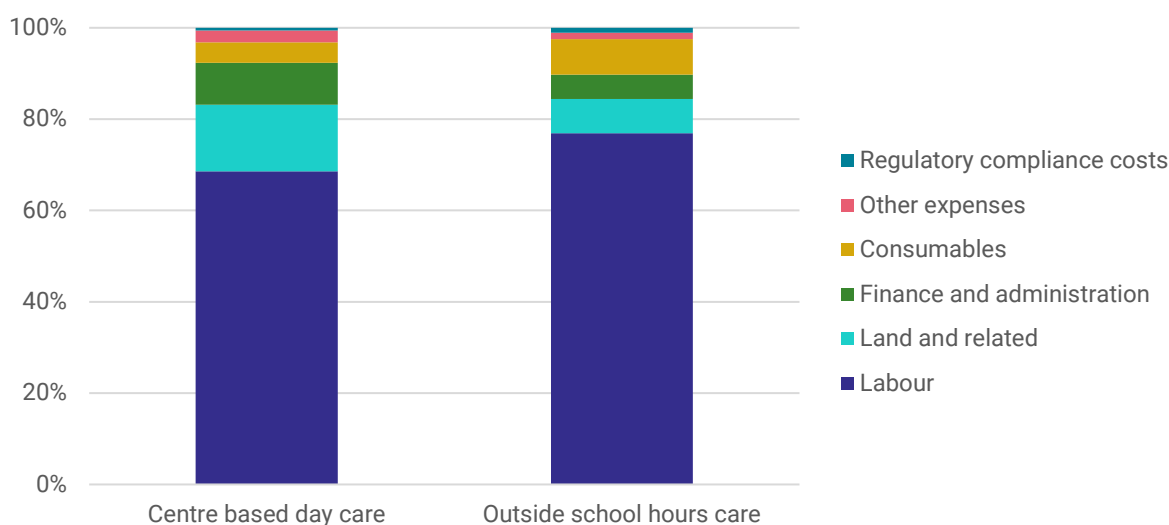
- Outliers at either the provider, service or expense item level depending on analysis.
- Capital expenses as associated expenses are captured under depreciation and amortisation (included in Finance and Administration costs).
- Expenses items reported to the ACCC as 'Other' that are either unexplained or unrelated to the core business of delivering childcare.
- Data prior to 2022 is available for large providers only.
- Where service numbers are too low, aggregation is applied at a higher level.

1.1. Labour is the main driver of cost for supplying childcare

Childcare is a service-based industry, reliant on skilled and dedicated educators and teachers to deliver quality education and care.

Our analysis shows that labour accounts for the greatest share of costs for both centre based day care (69%) and outside school hours care (77%) (figure 1.1).

Figure 1.1: Share of costs for centre based day care and outside school hours care, by cost category, 2022

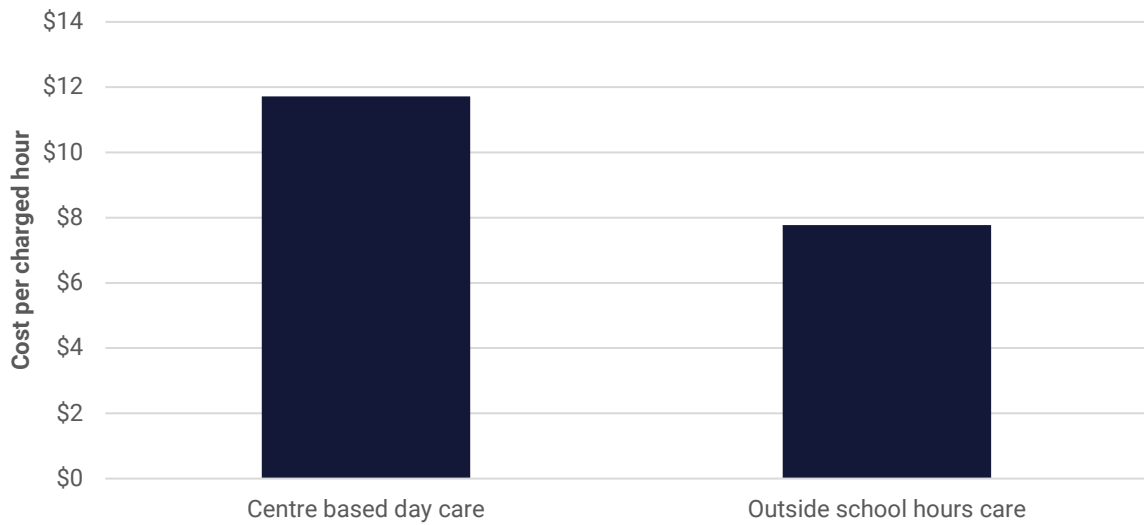


	Labour	Land and related	Finance and administration	Consumables	Other expenses	Regulatory compliance costs
Centre based day care	68.55%	14.58%	9.21%	4.50%	2.57%	0.59%
Outside school hours care	76.92%	7.50%	5.32%	7.83%	1.39%	1.05%

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

While centre based day care and outside school hours care both have significant labour cost components, we find centre based day care costs are significantly higher than outside school hours care. Centre based day care costs were an average \$11.72 per charged hour in 2022, compared to \$7.77 per charged hour for outside school hours care (figure 1.2).

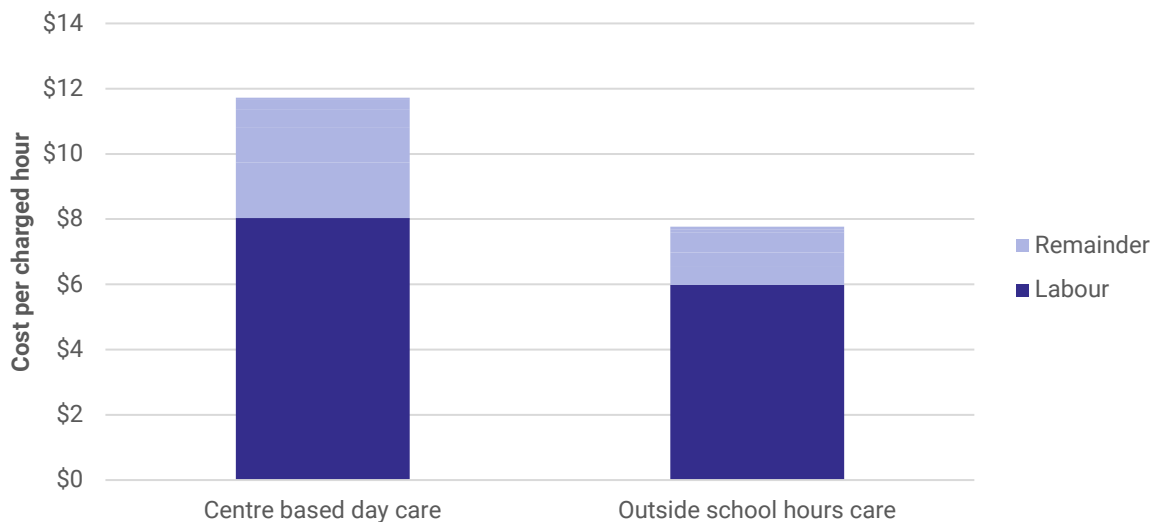
Figure 1.2: Average costs for centre based day care and outside school hours care, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The difference in costs between centre based day care and outside school hours care likely reflects differences in educator-to-child ratios, where centre based day care services are required to have more educators per child than outside school hours care services. Section 1.6.3 further discusses the effects of age on labour costs. Labour costs for centre based day care were on average \$8.03 per charged hour in 2022, while an average \$5.98 per charged hour for outside school hours care (figure 1.3).

Figure 1.3: Average labour costs for centre based day care and outside school hours care, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Providers have frequently cited labour as their major expense, and staff ratios and qualifications have been the major drivers of labour costs, coupled with the need to use casual and contract staff due to current staffing shortages (see chapter 2 for more information on current staffing constraints). Providers of centre based day care have taken steps to address the growing cost through the use of improved rostering measures and software to ensure staff are rostered efficiently around child attendance.

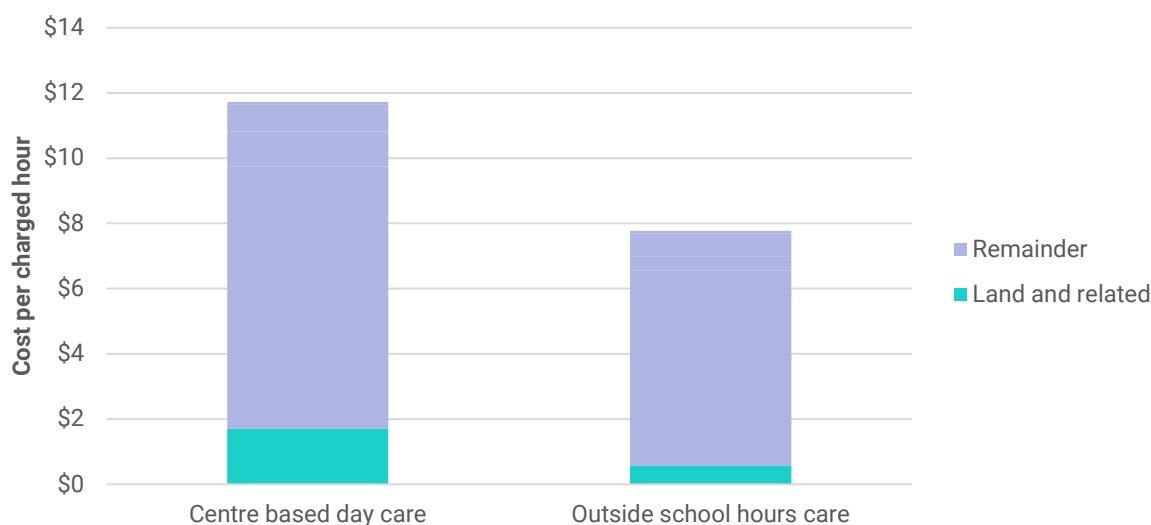
However, while labour is the main driver of cost for providers of childcare, educators and teachers have told us they are overworked and underpaid. Attendees at the ACCC’s educator roundtable noted that while educators are driven to the sector through passion for educating and caring for young people, issues with salaries and conditions are compounding to cause workforce attrition. Particular reasons included:

- burnout caused by staff shortages where more work is expected of fewer people
- better pay, conditions and support are available elsewhere such as in schools, administration roles, or policy work in peak body
- a lack of professional recognition and opportunities for professional development.

1.1.1. Land and related costs are the other key driver of cost for centre based day care providers

Land and related costs are the second largest expense category for centre based day care (15%). However, for outside school hours care land and related costs only account for 7.4% of total costs, and average land costs per hour (\$0.58) are considerably lower than centre based day care (\$1.71), as shown in figure 1.4 below.

Figure 1.4: Average land and related costs for centre based day care and outside school hours care, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

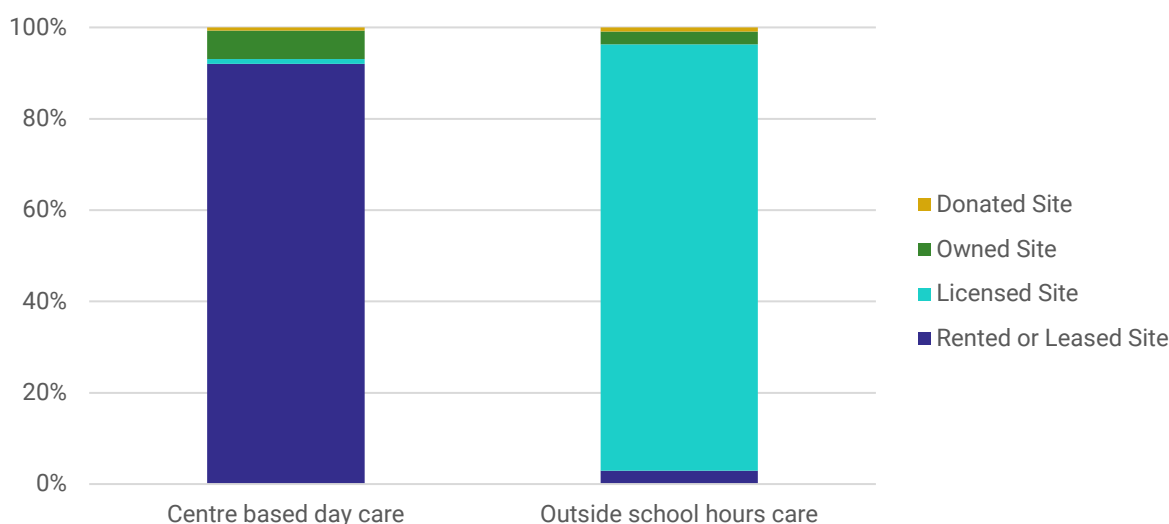
For outside school hours care, land and related costs are mostly included in license fees charged to providers to provide outside school hours care services on site at schools. As noted in chapter 2, licence fees can vary significantly between schools, are short-term, and may not reflect the value of the land or the location of the premises, but instead the competitive dynamics of the bidding process (including demand for the site from providers, and demand for the service from parents and guardians) and the priorities of the tenderer (which may include reducing licence fees to better facilitate lower outside school hours care fees for parents and guardians). Licence arrangement may also not provide exclusive use of the property, such as where an outside school hours care service is co-located on a school site.

However, for centre based day care services, location is a vital component of both demand and supply decisions (chapter 2). Providers will predominantly enter into long-term lease

arrangements, or purchase centres outright, to ensure certainty of supply, and costs directly reflect land value and competition for sites between providers. Location within an area and the presentation of the centre are also considered by large providers to be important indicators of quality for centre based day care, and providers will be more willing to incur higher costs for these 2 factors to increase demand and occupancy, than providers of outside school hours care.

The 2 different approaches to securing land to provide services is shown in figure 1.5, where most outside school hours care services are provided on licensed sites, while most centre based day care services are provided on rented or leased sites.

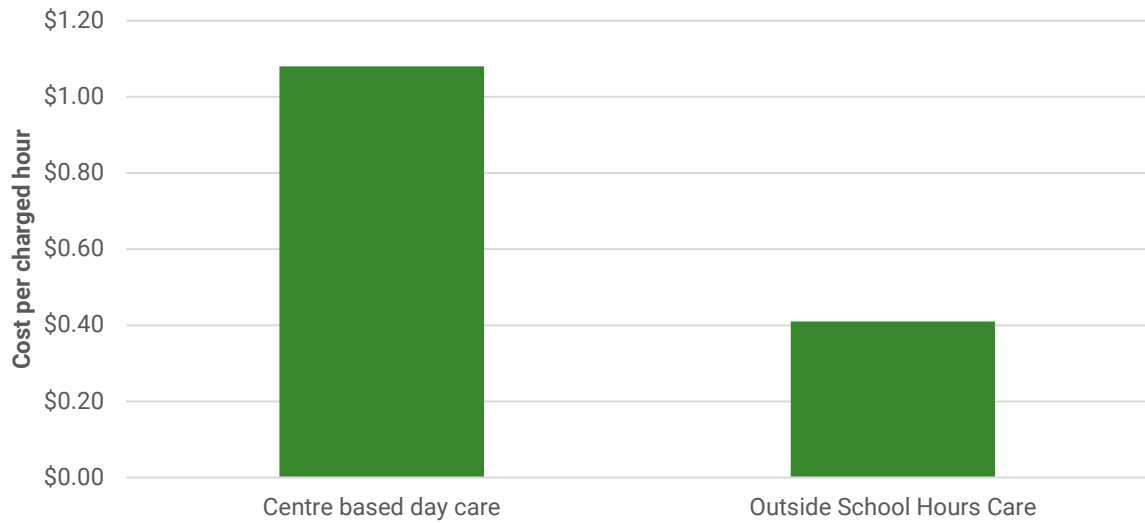
Figure 1.5: Share of centre based day care and outside school hours care services engaging in different land arrangements, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Our analysis found finance and administration costs can also be significant for providers of centre based day care, accounting for \$1.08 per charged hour. It is much lower for outside school hours care accounting for only \$0.41 per charged hour (figure 1.6). This likely reflects the capital intensity of centre based day care relative to outside school hours care, especially when providers of centre based day care are seeking to expand through acquisition or developing greenfield sites.

Figure 1.6: Average finance and administration costs for centre based day care and outside school hours care, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

We also find the average cost per hour of consumables is similar for both centre based day care (\$0.53 per hour) and outside school hours care (\$0.61 per hour). However, it is a much higher share of total expenses for outside school hours care (7.9%) than for centre based day care (4.5%).

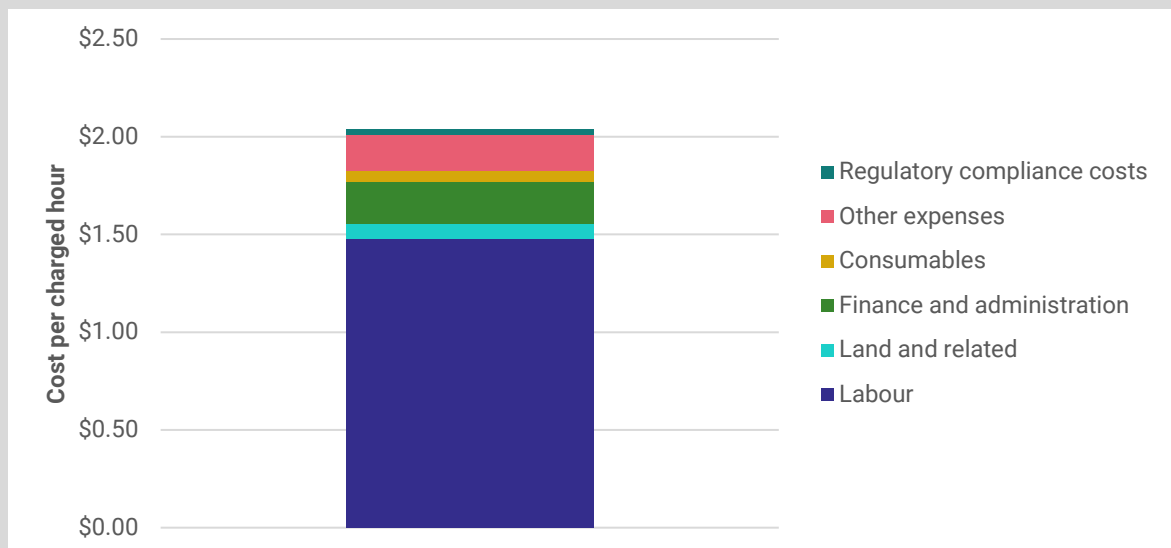
We find regulatory compliance costs are low for both service types. However, we note that many regulatory compliance activities are completed by employees, which will be included in labour costs. At our educator roundtable, educators noted regulatory compliance with the National Quality Framework is important, however, the focus on quality assessments, ratings documentation and reporting may mean that educators cannot give enough attention to other important matters. The burden of this responsibility can be particularly pronounced in small workplaces. In addition, while centre directors should be focussed on compliance, they must often perform other roles due to staff shortages.

Box 1.3: Family day care

Family day care services predominantly operate on a contractor model for their educator workforce, where the vast majority of family day care educators are classified as self-employed. This means the labour costs presented for family day care services will not include the payments to family day care educators, however it does include the salaries of coordinators, administrative and finance staff who are directly employed by the service. Family day care services responded to voluntary information requests while educators were invited to fill out a survey on their expenses. The 2 data sets could not be linked as the educators were not necessarily linked to the services we engaged with. As such, the service costs remain independent of the educators.

Family day care services spent on average \$2.04 per charged hour in 2022. Family day care services spent the most on labour at \$1.48 per charged hour, regardless of the fact this excludes educator costs (figure 1.7). Family day care coordinators, as required under the National Quality Framework, as well as office staff, would be covered by this labour expense. Other major expenses were finance and administration costs at \$0.22 per charged hour and other expenses at \$0.19 per charged hour.

Figure 1.7: Average costs of family day care, by cost category, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

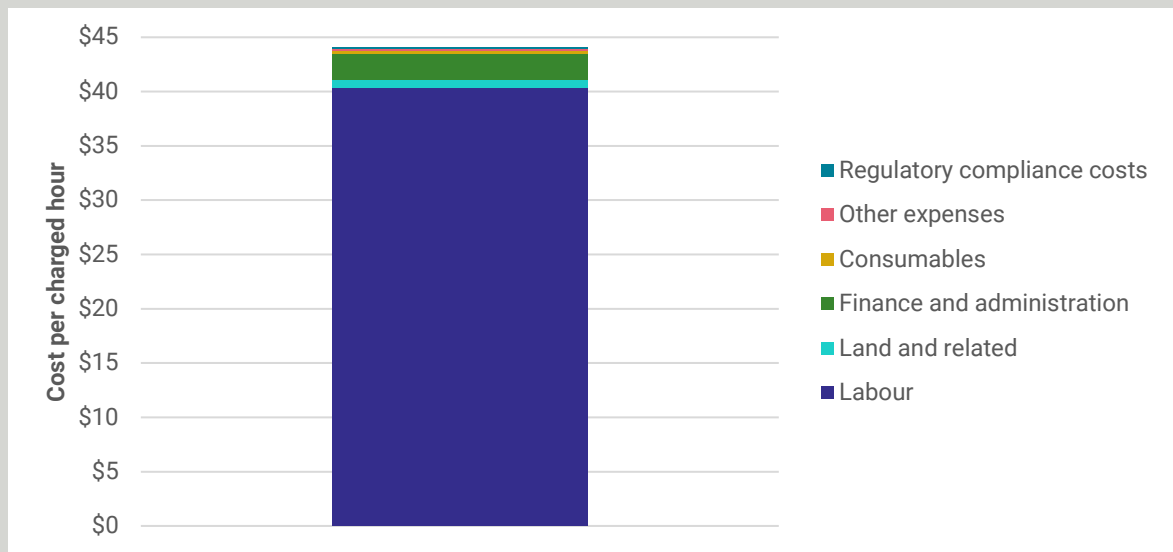
The ACCC has conducted a survey of family day care educators to consider the costs incurred by educators to provide family day care services, and analysis of this will be included in our final report.

Box 1.4: In home care

In home care providers vary in the share of the workforce they choose to contract. Some providers use only contractors as educators, some directly employee all their educators, while others may use a mix. The ACCC's analysis looks at in home care providers who only employ their educators directly.

In home care providers with employee models spent on average \$44.10 per charged hour in 2022. In home care providers costs were mostly on labour at \$40.32 per charged hour, followed by finance and administration costs at \$2.46 per charged hour (figure 1.8).

Figure 1.8: Average cost for in home care, by cost category, 2022



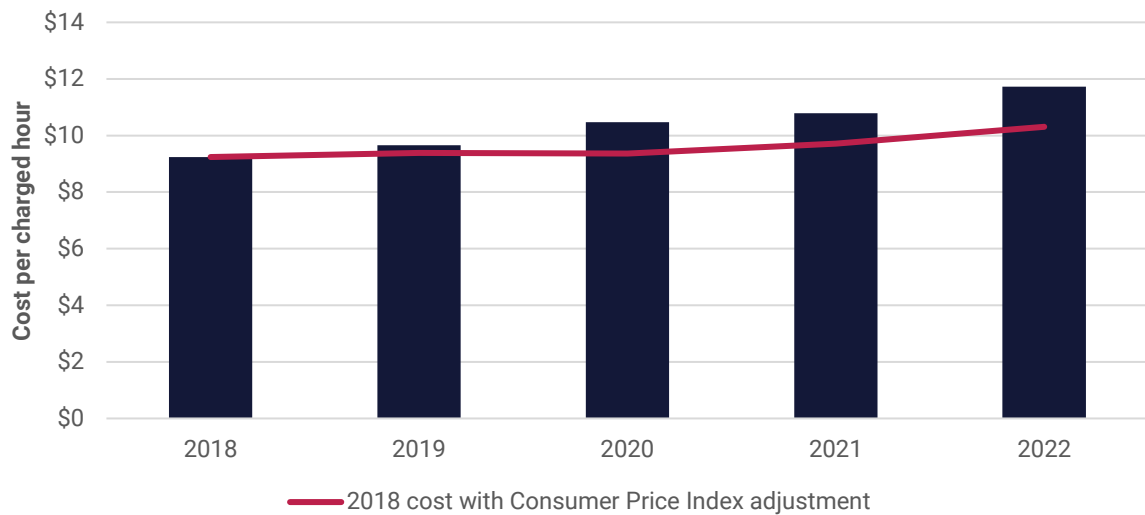
Note: Cost for in home care services have been calculated on a per family basis, as per how in home care charges customers.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.2. Labour costs have increased significantly over the past 5 years

The average cost for large providers providing centre based day care services has grown faster than inflation, growing 27% between 2018 and 2022 (figure 1.9).

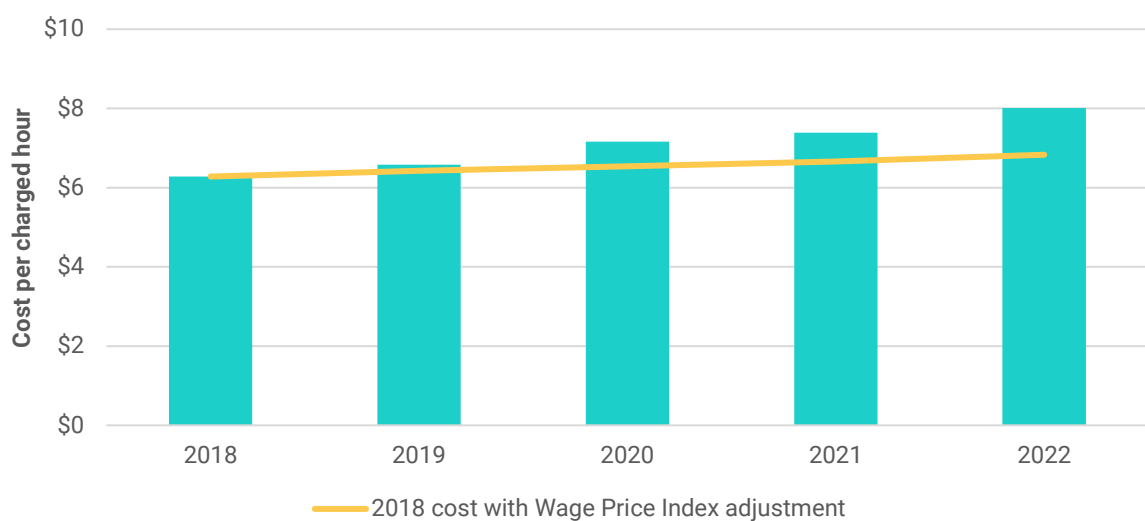
Figure 1.9: Average costs for large providers of centre based day care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The increase in costs over time has primarily been driven by labour. Labour costs have increased 28% for large centre based day care providers since 2018, greater than the Wage Price Index over the same period.

Figure 1.10: Average labour costs for large providers of centre based day care, 2018 to 2022

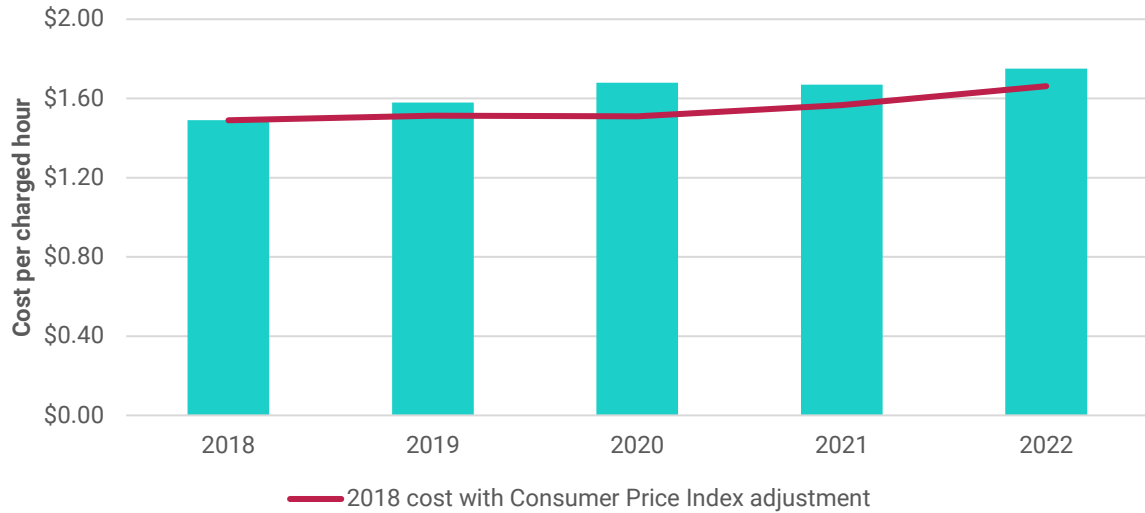


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Land and related costs have also increased slightly faster than inflation, increasing by 15% since 2018 (figure 1.11). This is largely driven by increases in rent costs, which are

largely controlled in long term lease agreements with landlords that tie increases to either Consumer Price Index or a fixed amount that exceeds the Consumer Price Index.

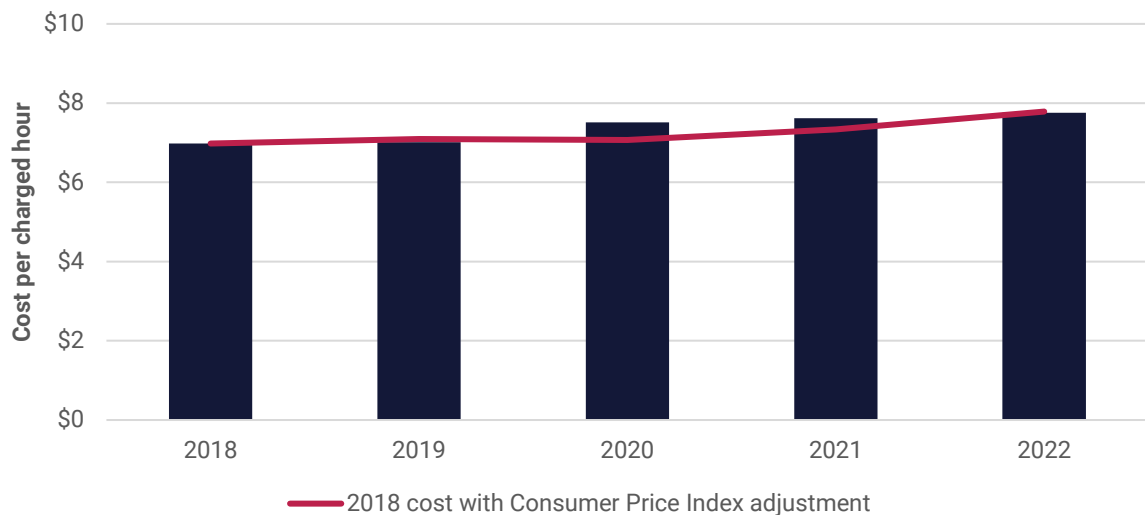
Figure 1.11: Average land and related costs for large providers of centre based day care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Similarly, costs have increased for large providers of outside school hours care (figure 1.12). However, unlike centre based day care, the increase has been generally commensurate to inflation.

Figure 1.12: Average costs for large providers of outside school hours care, 2018 to 2022

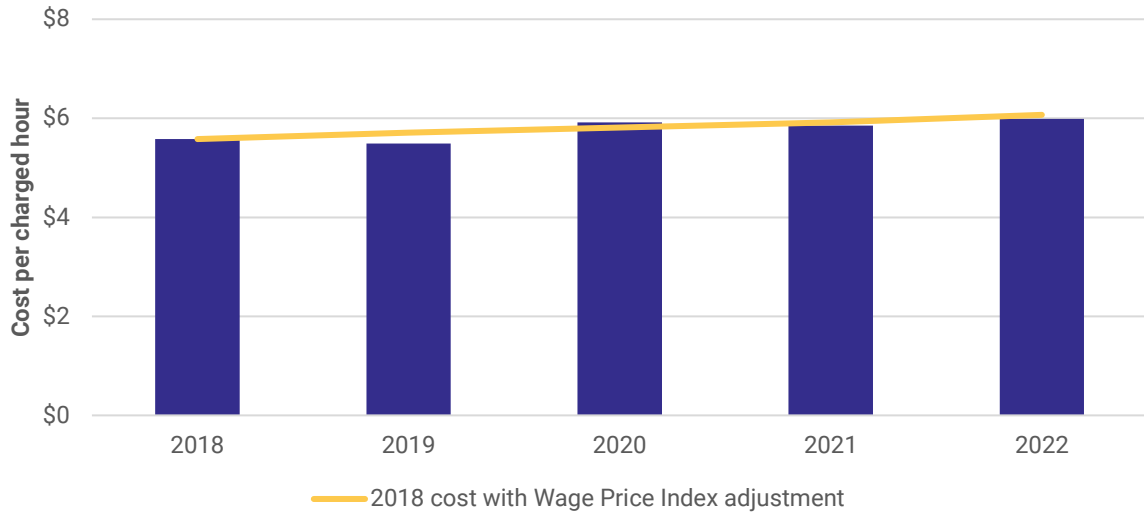


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Again, this increase in costs for outside school hours care is primarily driven by labour. Since 2018, labour costs for outside school hours care have increased 7%, with a notable increase between 2019 and 2020 (figure 1.13). This increase coincides with the COVID-19 pandemic and is likely related to a reduced skilled migration resulting in a staff shortage, and

greater reliance upon casual and contract staff. Several providers also noted general workforce issues arising from the visa system.

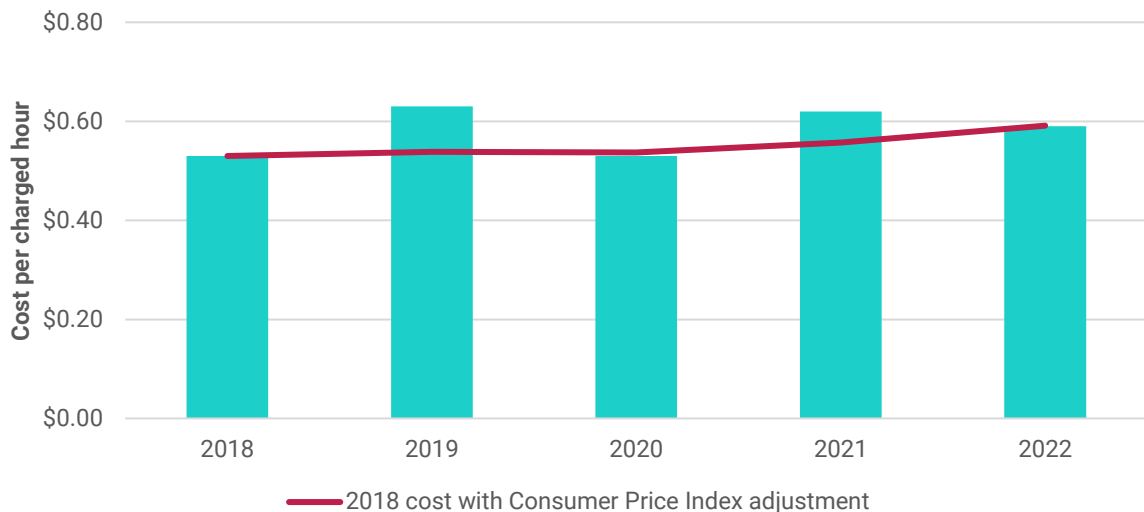
Figure 1.13: Average labour costs for large providers of outside school hours care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

However, land and related expenses have remained relatively stable for large providers of outside school hours care over the same period (figure 1.14), likely due to the flexible nature of licensing arrangements, such as the ability in obtaining licence fee reductions or shorter term agreements.

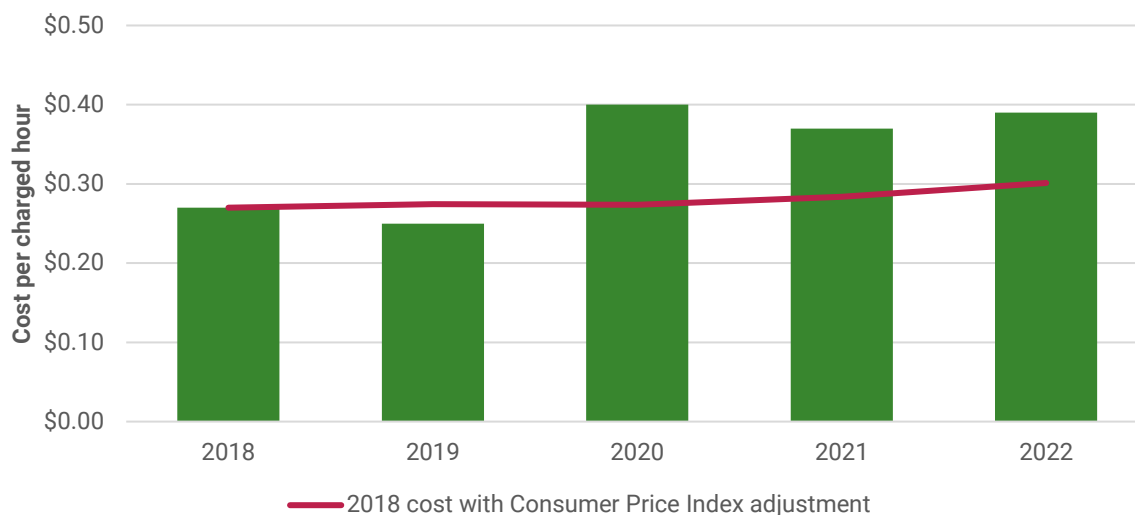
Figure 1.14: Average land and related costs for large providers of outside school hours care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Finance and administration expenses for large centre based day care providers have also been increasing, indicating larger investment, acquisition and debt in the sector that started in 2020 (figure 1.15).

Figure 1.15: Average finance and administration costs for large providers of centre based day care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

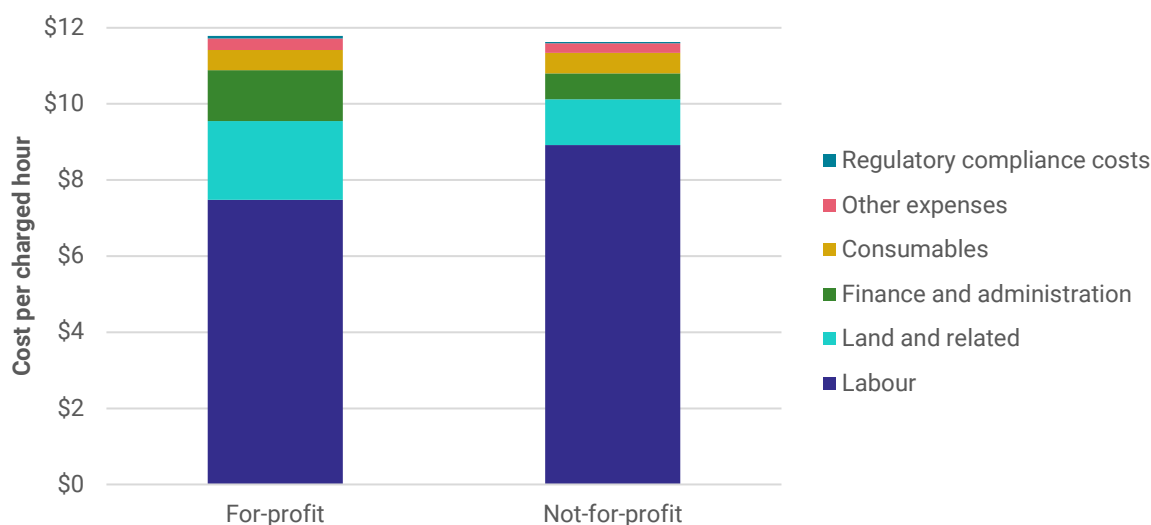
1.3. Not-for-profit providers of centre based day care had higher labour costs

While the cost to supply centre based day care is similar for both large for-profit and not-for-profit providers, large not-for-profit providers have higher labour costs. Large not-for-profit providers of centre based day care benefit from lower land costs and appear to invest their cost advantages into staff wages, translating towards higher quality care, low staff vacancies and turnover. In contrast, small and medium providers have much higher costs to deliver care. Not-for-profit providers of outside school hours care have lower costs.

1.3.1. The cost to supply centre based day care is similar for both for-profit and not-for-profit large providers, however costs are distributed differently

Large for-profit and not-for-profit providers incur similar average costs in operating centre based day care services. The average cost was \$11.78 per charged hour for for-profit providers and \$11.64 per charged hour for not-for-profit providers in 2022 (figure 1.16). However, the costs are distributed differently across expense categories.

Figure 1.16: Average costs for large providers of centre based day care, by provider type and cost category, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Large not-for-profit providers spend significantly more on labour on both a relative and absolute basis. Labour costs for large not-for-profit providers accounted for around 77% of total expenses in 2022 or \$8.92 per charged hour, whereas for for-profit providers this was around 63% of total expenses or \$7.48 per charged hour. Discussion on how investing in labour may improve quality can be found in chapter 3.

However, land costs for centre based day care services appear lower for large not-for-profit providers than for-profit providers. In 2022, land costs for large not-for-profit providers accounted for around 10% of total expenses whereas this was around 18% of total expenses for for-profit providers.

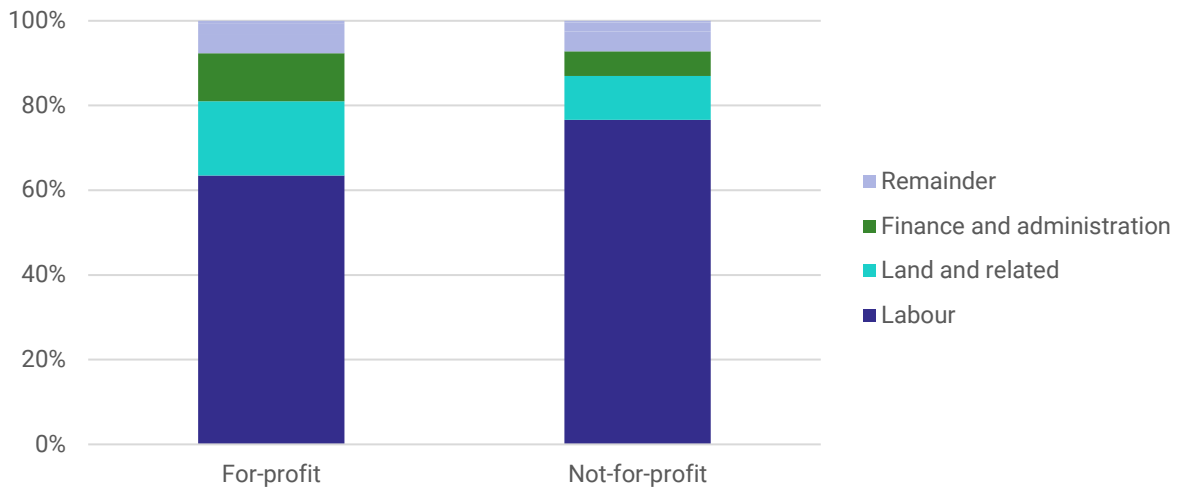
Large for-profit providers also have a significantly larger finance and administration expense. This may be due to payroll tax concessions available to some not-for-profit providers,⁶ as well as for-profit provider's greater ability to secure loans and capital for acquisition and investments which attract interest and depreciation expenses.

1.3.2. Large not-for-profit providers of centre based day care are investing cost advantages into staff wages

In 2022, around 29% of costs for large for-profit providers was on land and related costs and finance and administration costs. For not-for-profit providers, these 2 costs accounted for around 16% of total expenses (figure 1.17). This difference in land and related costs and finance and administration costs (13%) is similar to the difference in total labour expenses between not-for-profit (77%) and for-profit providers (63%). This indicates that not-for-profit providers are investing cost advantages in land and tax into labour, in turn the investment in labour is reflected in better staff retention. We discuss further in section 1.7 how labour investment also impacts the quality of childcare.

⁶ Australian Charities and Not-for-profits Commission, [Charity Tax Concessions](#), Australian Charities and Not-for-profits Commission website, n.d., accessed 24 August 2023, Queensland Revenue Office, [Charitable institutions](#) Queensland Government website, n.d., accessed 25 August 2023, NSW Government Revenue, [Payroll tax charitable exemption: meaning of exclusively](#), NSW Government website, n.d., accessed 25 August 2023.

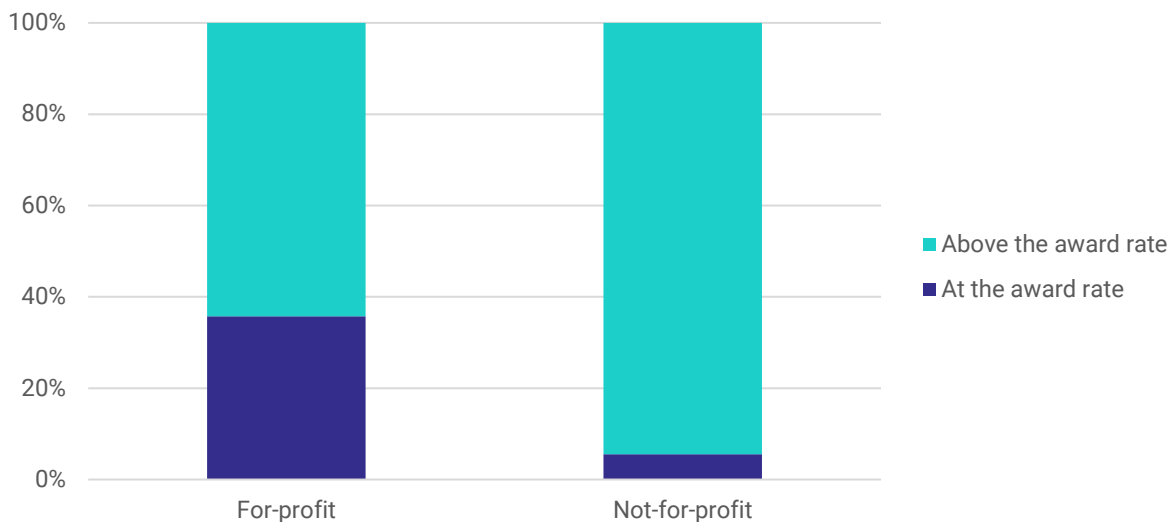
Figure 1.17: Average labour, land and related, and finance and administration costs for large providers of centre based day care by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

One area these cost advantages appear to be invested into is wages. Our analysis finds that 94.5% of not-for-profit centre based day care staff were paid above award in 2022, compared to 64.3% of staff at for-profit providers (figure 1.18).

Figure 1.18: Share of staff paid at and above award rate wages for large providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Not-for-profit providers also had a much greater share of full-time primary contact staff (47%) than for-profit providers (25%) in 2022 (figure 1.19), with for-profit providers using a greater share of part-time primary contact staff (51%).

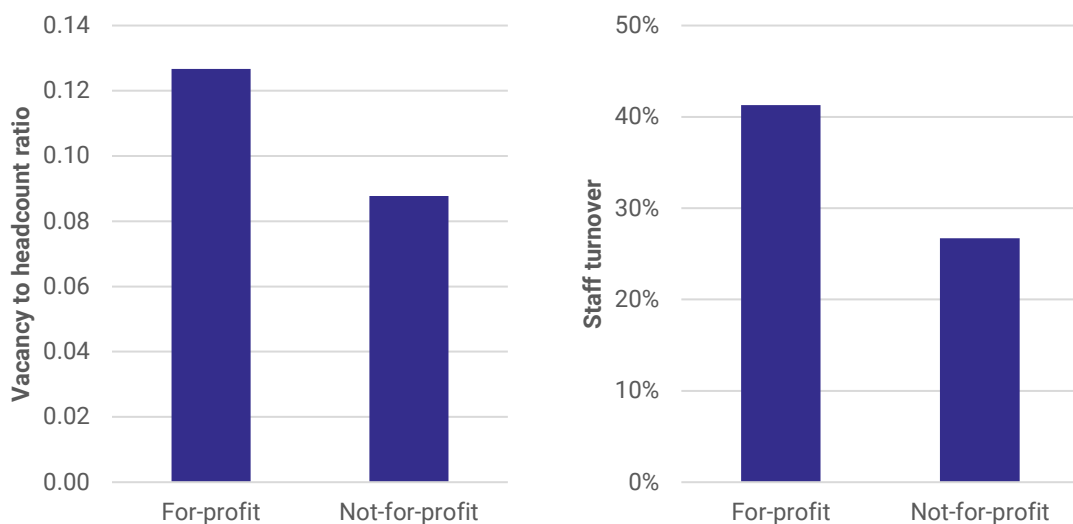
Figure 1.19: Share of staff employment type for large providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The higher tendency to pay above award and the greater use of employing staff full-time by not-for-profit providers of centre based day care services appears to minimise employee turnover and vacancies, where staff vacancies as a share of staff headcount was lower, 9.7% compared to 22% at large for-profit providers, and turnover of 27% and 41% respectively (figure 1.20). This may better enable not-for-profit providers to minimise the impacts of current staffing constraints noted in chapter 2.

Figure 1.20: Vacancy to staff headcount ratio and staff turnover (%) at large providers of centre based day care, by provider type, 2022

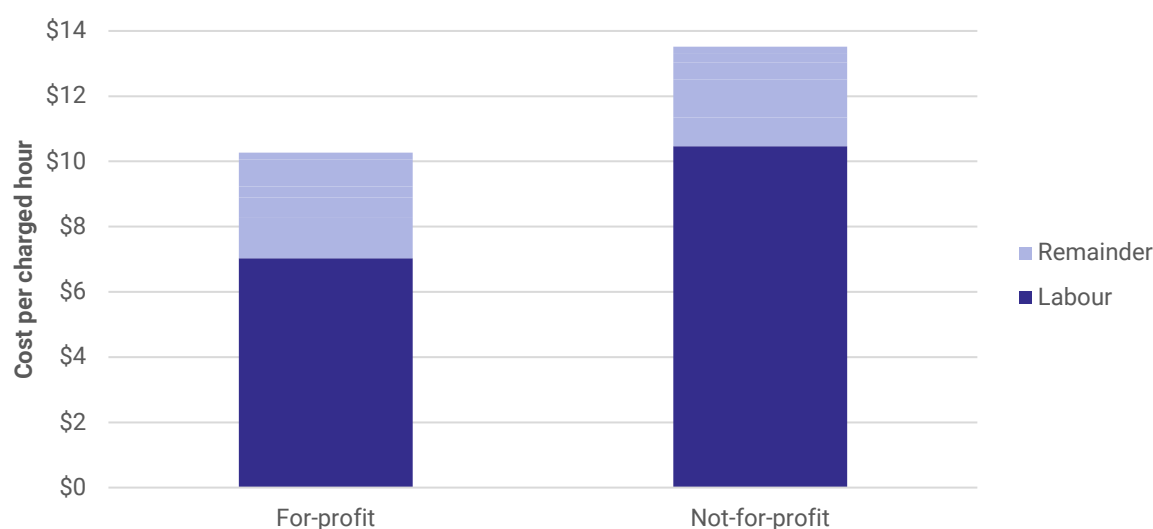


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.3.3. Small and medium not-for-profit providers have far higher costs to deliver centre based day care

In contrast to large providers, the cost to supply centre based day care was much higher for small and medium not-for-profit providers (\$13.52 per charged hour) than small and medium for-profit providers (\$10.27 per charged hour) as shown in figure 1.21. The difference in average cost is predominantly due to a much higher labour cost for not-for-profit small and medium providers.

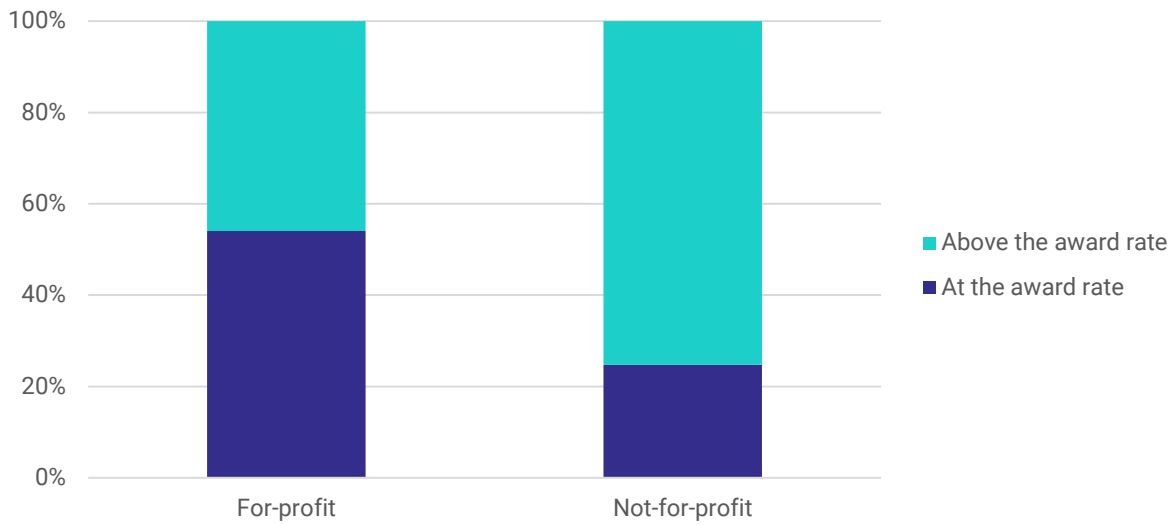
Figure 1.21: Average labour costs for small and medium providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Small and medium not-for-profit providers were also more likely to pay centre based day care staff above the award wage than for-profit providers, with 75.3% of staff at these services paid above award, compared to 45.9% for small and medium for profit providers (figure 1.22). However, despite large not-for-profit providers having a lower overall labour cost per charged hour, they were more likely to pay above award wage than small and medium not-for-profit providers.

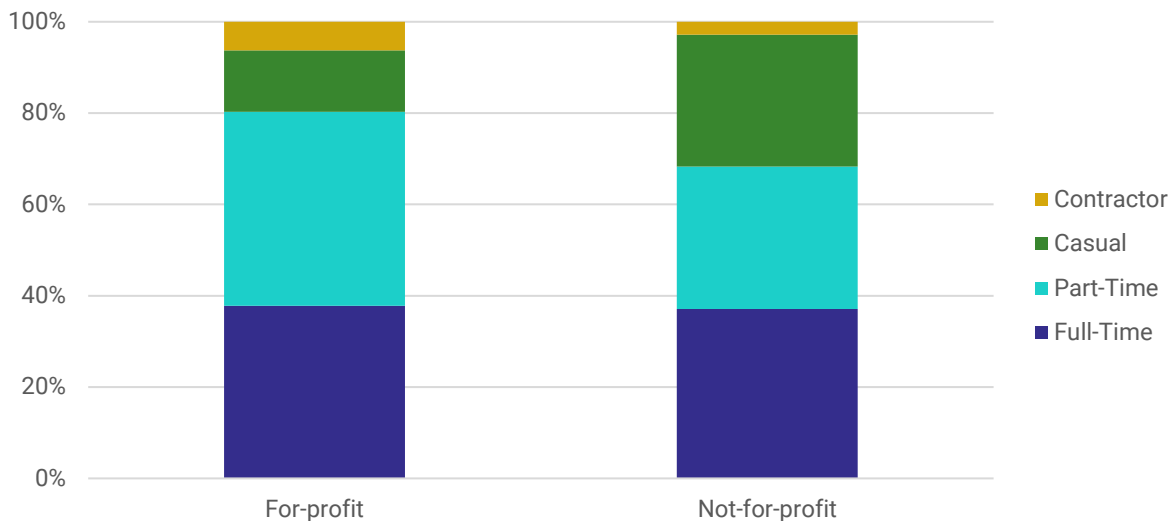
Figure 1.22: Share of staff paid above the award wage for small and medium providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Small and medium not-for-profit providers also had a higher share of casual staff for centre based day care services, 28.9% compared to 13.5% for small and medium for-profit providers (figure 1.23). While roster efficiency may provide some benefits to casual staff at large providers, at smaller providers it may serve to only increase labour costs due to casual loadings.

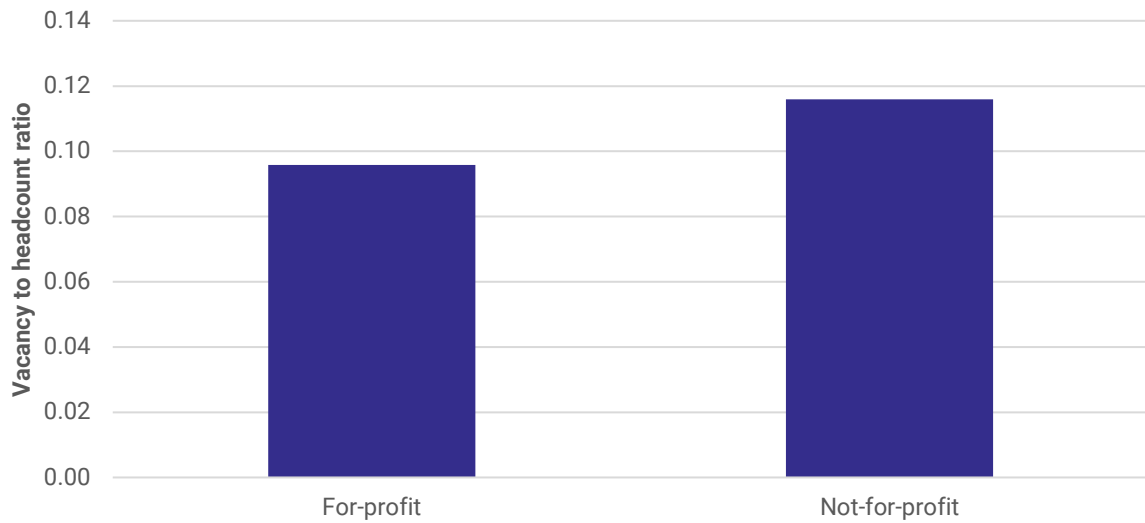
Figure 1.23: Share of staff employment type at small and medium providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Unlike large not-for-profit providers, their small and medium counterparts had higher vacancy rates, despite higher rates of paying above the award wage (figure 1.24).

Figure 1.24: Vacancy to staff headcount ratio at small and medium providers of centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.3.4. Not-for-profit providers have lower costs delivering outside school hours care

For-profit providers had higher costs operating outside school hours care services than not-for-profit providers, incurring \$8.36 per charged hour and \$7.00 per charged hour, respectively (figure 1.25). Unlike centre based day care, not-for-profit providers invest less toward labour, spending \$5.57 per charged hour on labour at outside school hours care whereas for-profit providers spent \$6.28 per charged hour.

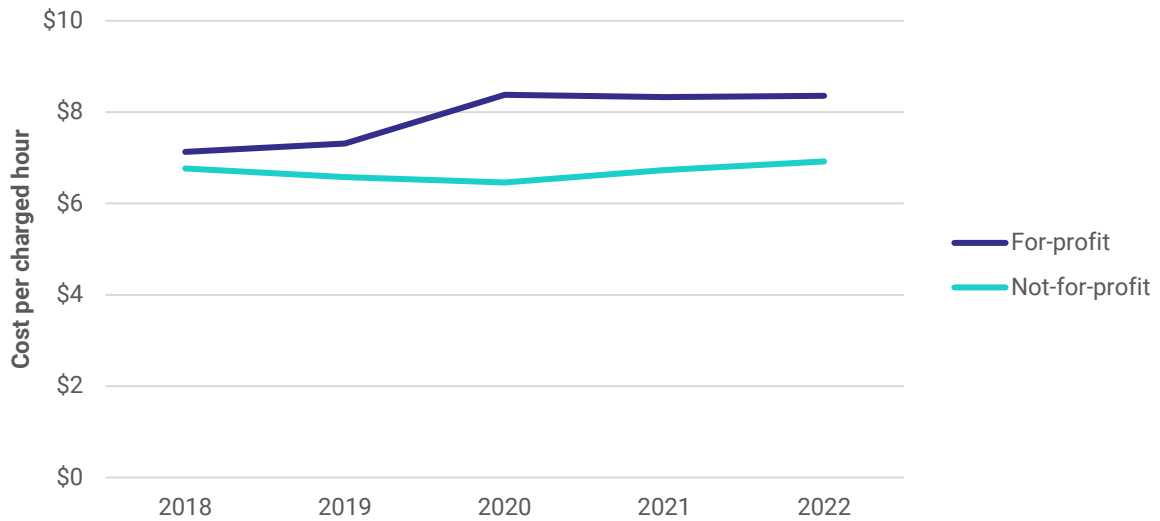
Figure 1.25: Average labour costs for outside school hours care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Outside school hours care costs have increased by 17% for large for-profit providers over the last 5 years, however, costs for not-for-profit providers have remained relatively flat at only 3% (figure 1.26).

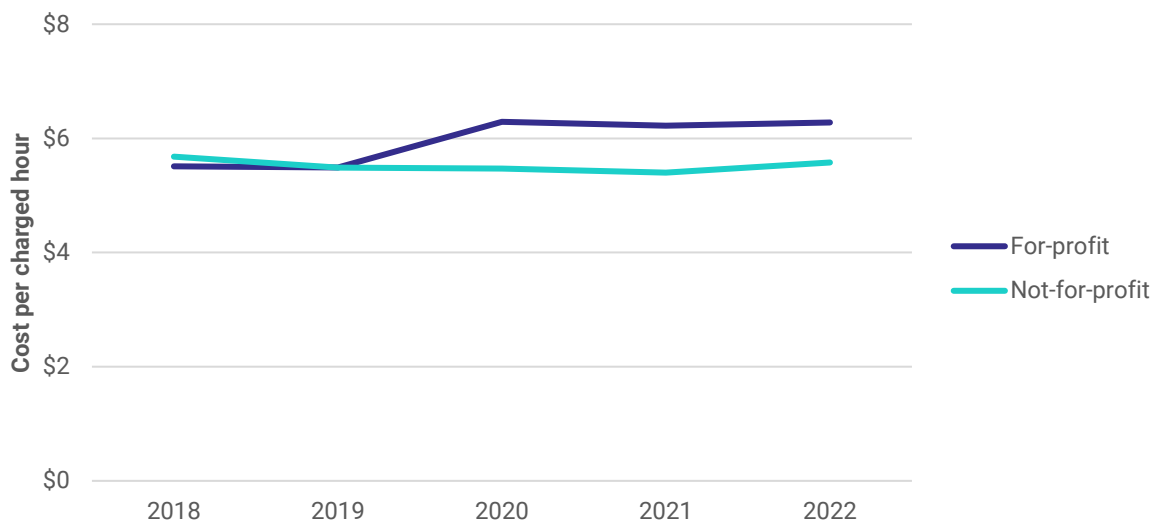
Figure 1.26: Average costs for large providers of outside school hours care, by provider type, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Of the 17% increase in total costs for large for-profit between 2018 and 2022, 11% of this increase was driven by labour costs that occurred between 2019 and 2020 (figure 1.27). Meanwhile, labour costs for large not-for-profit providers have remained relatively flat since 2018.

Figure 1.27: Average labour costs for large providers of outside school hours care, by provider type, 2018 to 2022

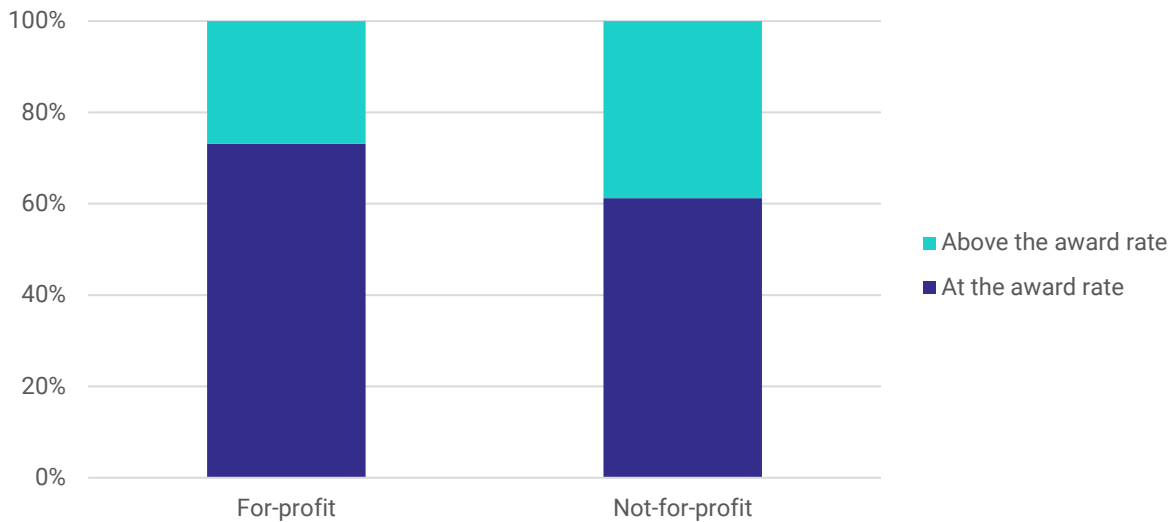


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The increase in labour costs for large for-profit providers of outside school hours care coincides with the COVID-19 pandemic and could be related to a reduced skilled migration creating a staff shortage and greater reliance upon casual and contract staff. Several providers have expressed more general workforce issues arising from the visa system currently in place such as certain working visas requiring educators to spend an amount of time each year in a specified industry, such as horticulture, resulting in the providers periodically losing staff.

Not-for-profit providers of outside school hours care pay a higher share of their staff above the award wage than for-profit providers (figure 1.28). However, unlike centre based day care, most staff are paid at award, and the difference in the share of staff being paid above award wage between provider types is much smaller in outside school hours care than for centre based day care (12% compared to 29%). Therefore, the impact on total labour costs is less pronounced.

Figure 1.28: Share of staff paid at and above award wages for outside school hours care, by provider type, 2022

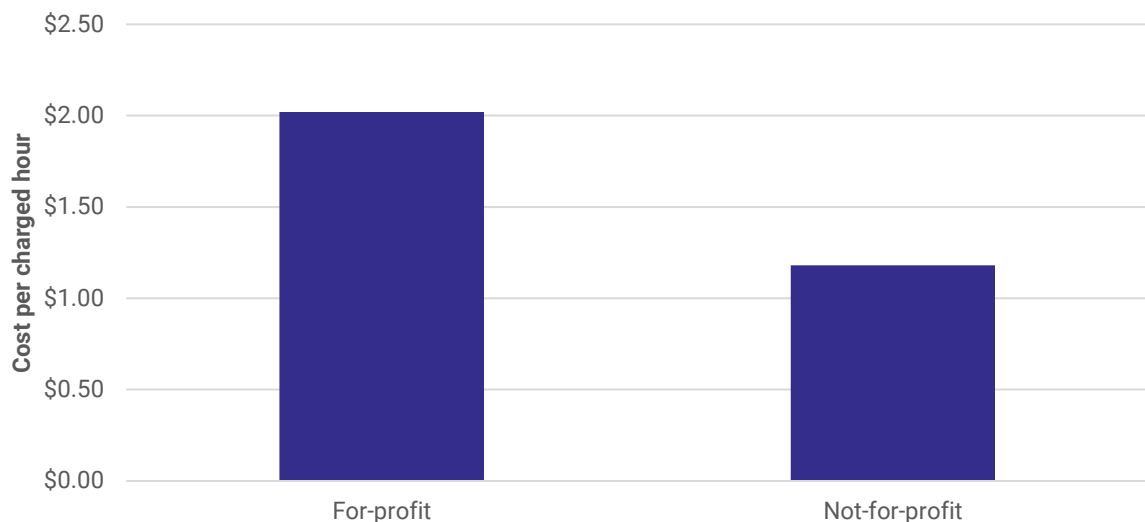


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.3.5. Not-for-profit providers benefit from lower land costs, although this is not driven by peppercorn rents

For centre based day care, land and related costs are the second largest category of expense for providers. In 2022, for-profit providers spent more on land (17.1% or \$2.02 per charged hour) than not-for-profit providers (10.2% or \$1.18 per charged hour) as shown in figure 1.29.

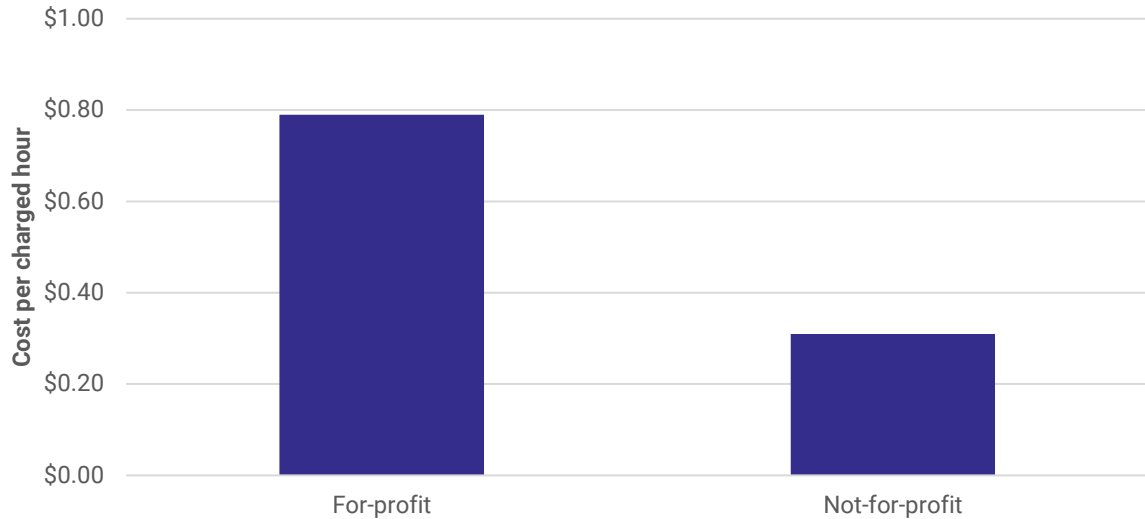
Figure 1.29: Average land and related costs for centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The same trend is seen for outside school hours care, where land costs across for-profit providers (\$0.79 per charged hour) are over 150% higher than land costs for not-for-profit providers (\$0.31 per charged hour) as shown in figure 1.30.

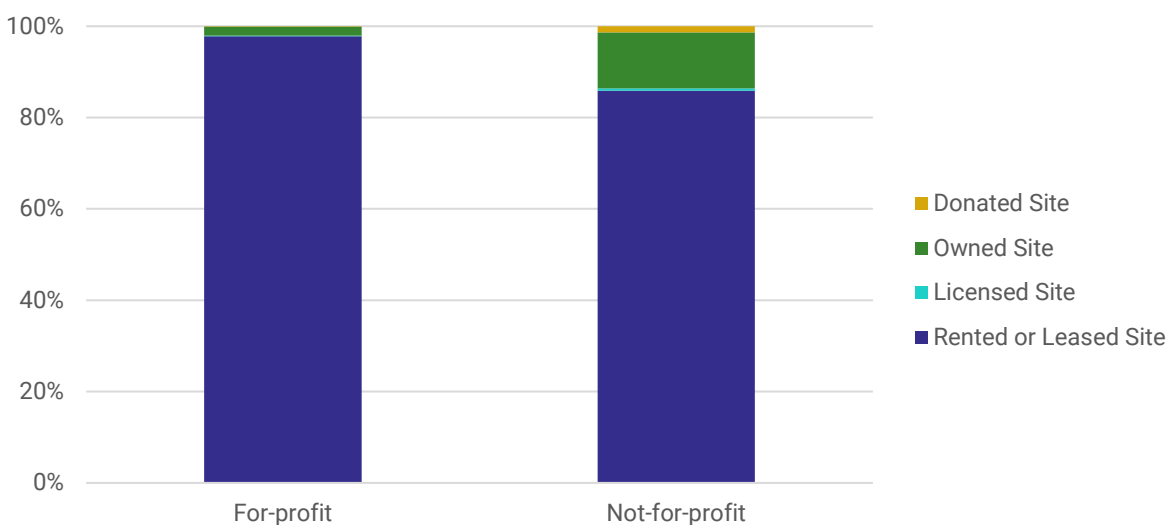
Figure 1.30: Average land and related costs for outside school hours care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Some of the difference in land and related expenses may be explained by whether a provider owns or rents the property. While the vast majority of centre based day care services rented the service site in 2022, regardless of not-for-profit status, not-for-profit providers had a much higher share of owned (12%) and donated (1.4%) sites than for-profit providers. This could keep some costs low where property is owned without a mortgage, however maintenance costs might be higher for owned or donated sites (figure 1.31).

Figure 1.31: Share of land ownership type for centre based day care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Most for-profit outside school hours care providers licensed their site in 2022 (99% of for-profit providers and 77% of not-for-profit providers) (figure 1.32). The nature of licencing agreements may explain why land costs make up a smaller share of total cost for outside school hours care providers relative to centre based day care providers. Where a school contracts an outside school hours care service, there is a mutual benefit as a service is delivered for the school, likely leading to reduced costs for land.

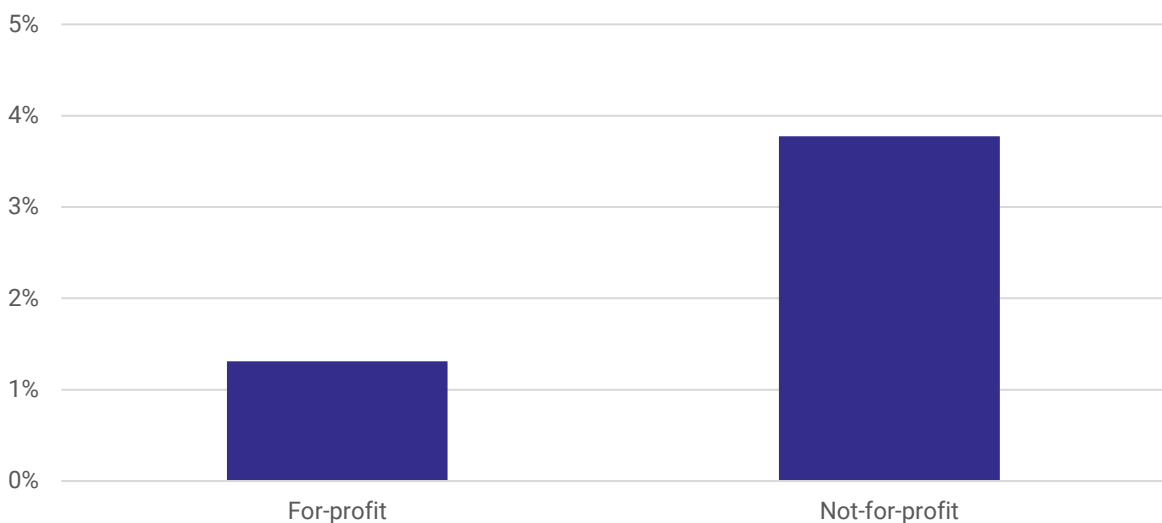
Figure 1.32: Share of land ownership type for outside school hours care, by provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

As land costs are lower for not-for-profit providers, this may indicate not-for-profit providers are more likely to benefit from nominal or nil rents. Analysis of centre based day care services with land costs less than \$10,000 in the 2022 calendar year revealed there are more services operated by not-for-profit providers in this category; however, this is not a common occurrence (figure 1.33).

Figure 1.33: Share of centre based day care services with yearly rent below \$10,000, by provider type, 2022

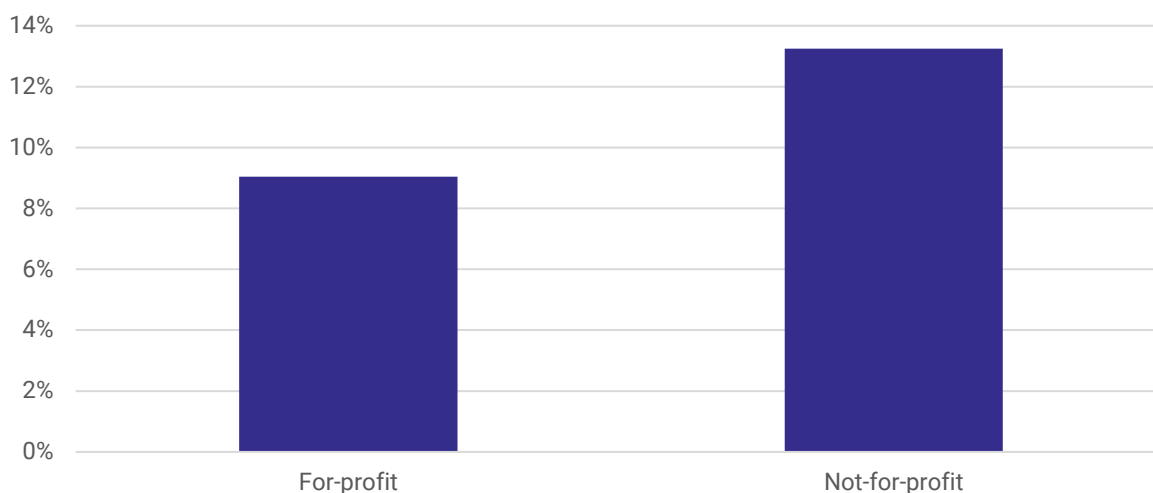


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Despite higher average licencing fees, outside school hours care services delivered by for-profit providers had a greater number of nominal licensing fees than not-for-profit providers, and a significant number in contrast to for-profit providers of centre based day care. One provider had a licence agreement covering multiple services, some with nominal licence fees for the first 2 to 3 years with the amount reverting to market rates for the balance of the contract term. Other agreements consisted of licence fees that were exclusively nominal. Yet other agreements consisted of 2 separate services bundled together, where one had nominal fees fully or partly for the term for one service while the other service that had the fee set at market rates for the entire term.

While for-profit outside school hours care providers had a greater number of nominal licence fees, there was a greater share of not-for-profit providers with nominal licensing fees than for-profit providers in 2022 (figure 1.34). However, the difference is not significant enough to solely explain the difference in land costs between provider types.

Figure 1.34: Share of outside school hours care services with yearly rent below \$1,000, by provider type, 2022



Note: A smaller threshold is used for nominal rents for outside school hours care due to the lower land and related costs.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Despite for-profit providers having overall higher land cost, all providers appear to be seeking to reduce their land costs, and many providers made submissions that they have negotiated with landlords for lower or deferred rents.

1.4. There do not appear to be benefits from economies of scale at the provider level

Our analysis does not find any significant benefits from economies of scale that are observable by way of lower costs, and small centre based day care services tended to have the lower costs. However, there are economies of scale at the service level for both centre based day care and outside school hours care. In our analysis we define a large provider as a provider operating 40 or more services.⁷ Land costs tend to increase for both providers of centre based day care and outside school hours care. Consumables are higher for large

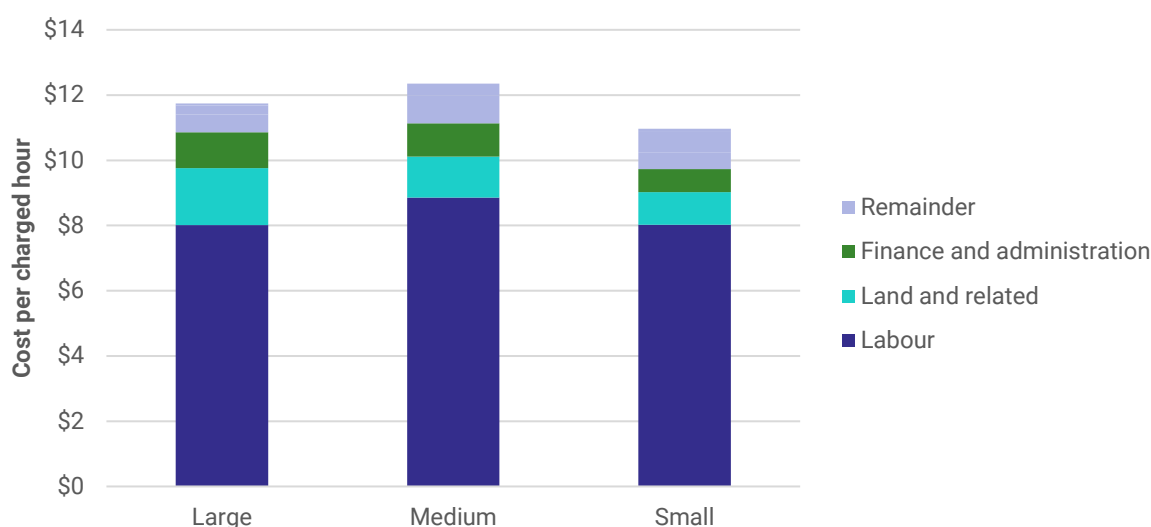
⁷ Small provider is defined as 1 to 4 service and medium provider is 4 to 39 services. Noting data limitations with medium providers in box 1.2, results may not be representative of the sector.

providers of outside school hours care, while finance and administration costs are higher for large centre based day care.

1.4.1. Larger providers of centre based day care have greater costs

Larger providers of centre based day care and outside school hours care incurred higher overall costs in 2022. In absolute terms, large providers of centre based day care spent \$11.73 per charged hour, while medium providers spent \$12.33 per charged hour⁸ and small providers spent \$10.97 per charged hour (figure 1.35). Costs for centre based day care services are relatively similarly distributed regardless of provider size. The largest categories of spending followed similar trends, with most centre based day care service spending the largest share of their total costs on labour, followed by land and finance and administration costs.

Figure 1.35: Average costs for centre based day care, by provider size, 2022



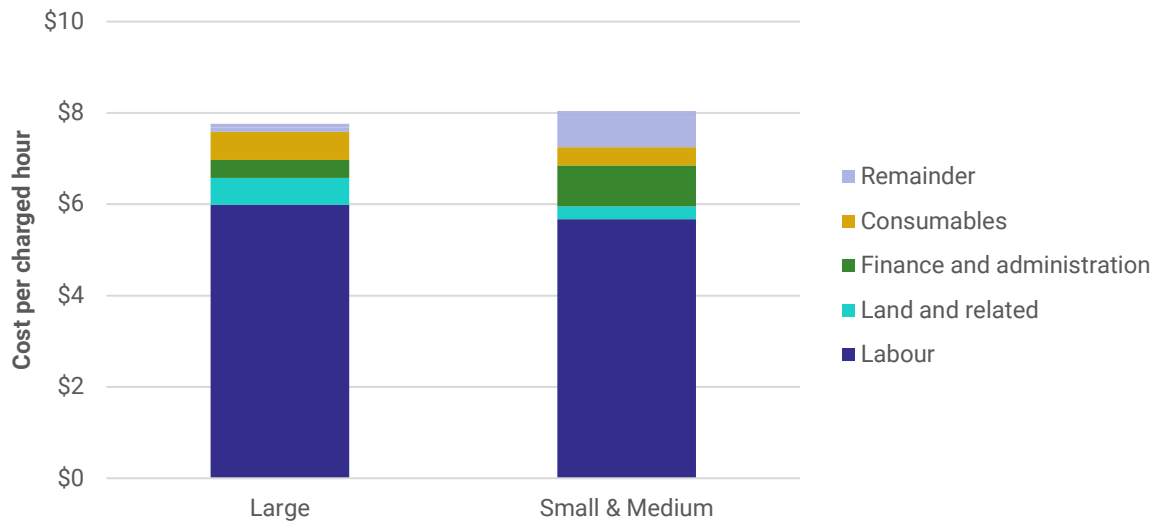
Note: Analysis results for medium providers may not be fully representative of sector, as noted in box 1.2.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

For providers of outside school hours care, large providers spent \$7.76 per charged hour, while small and medium providers spent \$8.05 per charged hour (figure 1.36). Costs for outside school hours care are distributed differently across large providers compared to small and medium providers of this service type. The largest 2 categories of spending by share are labour and land and related costs for large providers, and labour and finance and administration for small and medium providers.

⁸ Noting data limitations with medium providers in box 1.2, results may not be representative of the sector.

Figure 1.36: Average costs for outside school hours care, by provider size, 2022



Note: Analysis results for medium providers may not be fully representative of sector, as noted in box 1.2. Due to sample size, small and medium provider results for outside school hours care were combined.

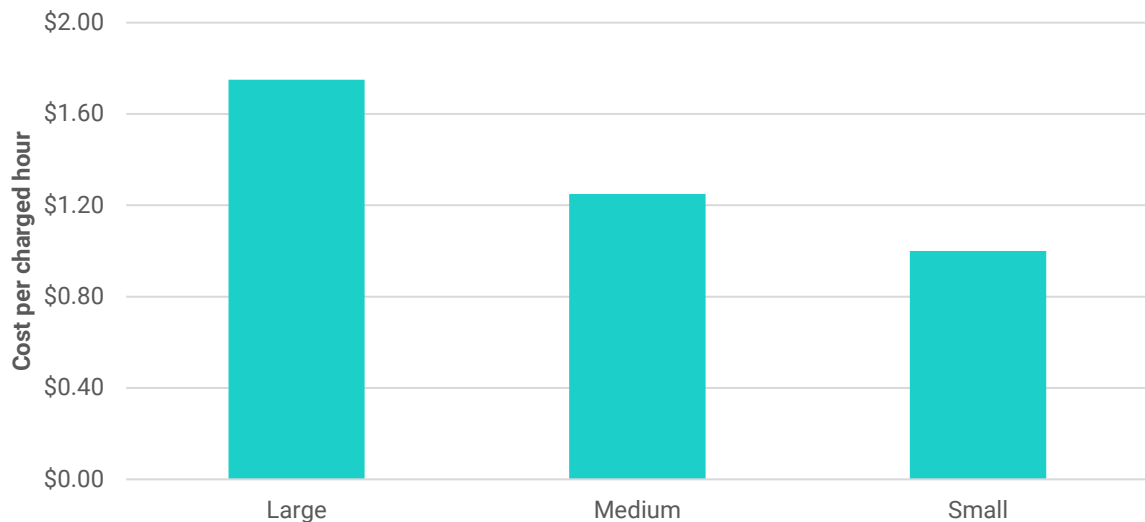
Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Smaller providers of outside school hours care appear to have had higher costs in 2022 compared to large providers. This suggests the magnitude of spending and expansion for providers may need to reach a certain scope before costs begin to decrease for outside school hours care services.

1.4.2. Larger providers have higher land costs

After labour costs, land costs are the second largest category of spend on both an absolute and relative basis across all provider sizes. In absolute terms, large providers of centre based day care spent \$1.75 per charged hour (14.9%), compared to medium providers (\$1.25 per charged hour or 10.1%) and small providers (\$1 or 9.1%), as seen in figure 1.37. The trend of labour costs being greater the larger the provider is, is also true on a relative basis.

Figure 1.37: Average land and related costs for centre based day care, by provider size, 2022

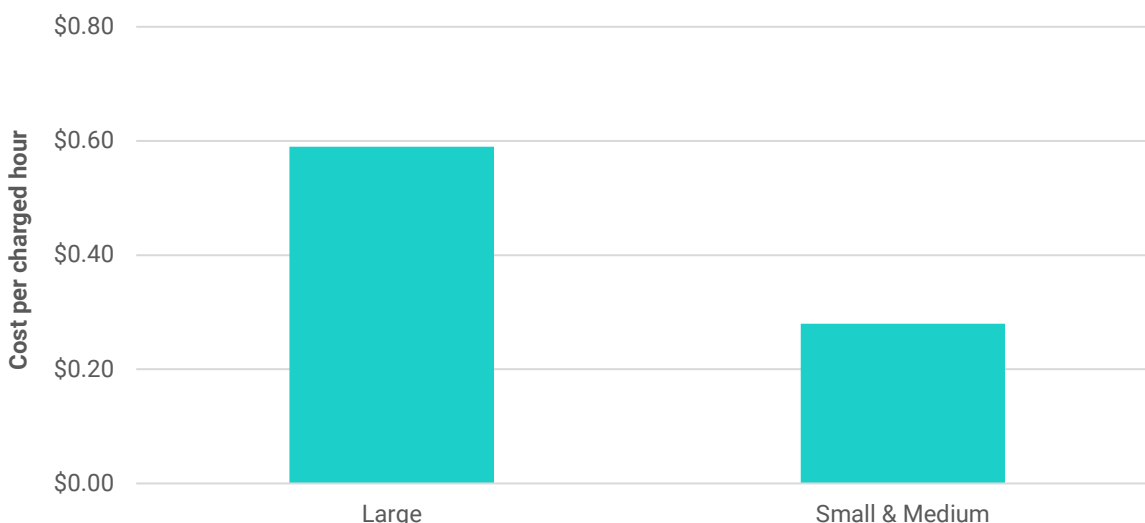


Note: Results for medium providers may not be fully representative of sector, (box 1.2).

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

For outside school hours care, large providers spent \$0.59 per charged hour (7.6%) on land while small and medium providers spent \$0.28 (3.5%), as seen in figure 1.38.

Figure 1.38: Average land and related costs for outside school hours care, by provider size, 2022



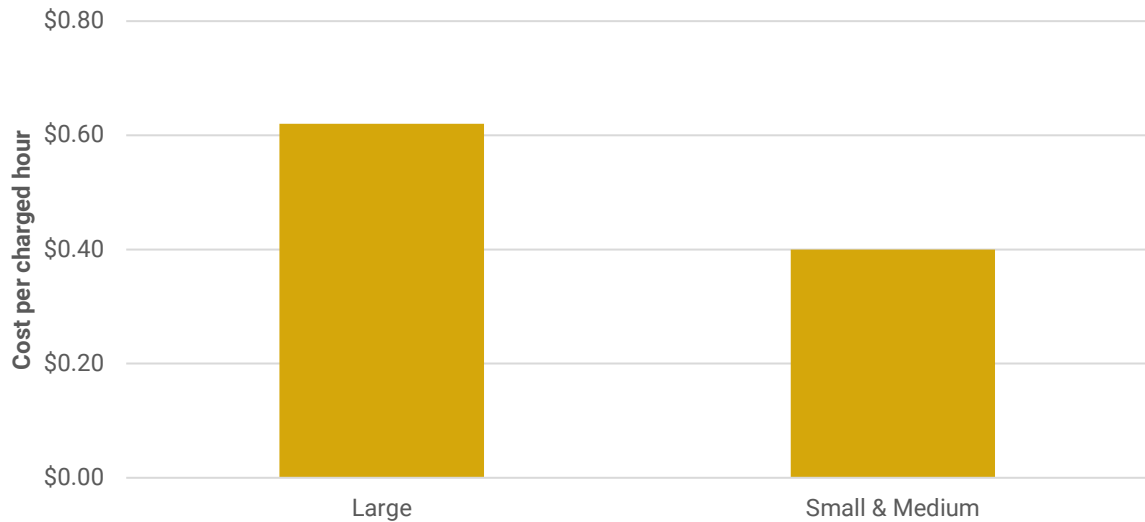
Note: Results for medium providers may not be fully representative of sector (box 1.2). Due to sample size, small and medium provider results for outside school hours care were combined.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.4.3. Large providers of outside school hours care have higher costs for consumables

Consumables are a significant cost for providers of outside school hours care, along with labour and land costs. The magnitude of spending on consumables increases as the size of the provider increases. In 2022, large providers of outside school hours care spent \$0.62 per charged hour or 8% on consumables compared to small and medium providers, who spent \$0.40 per charged hour or 5% (figure 1.39). This may suggest large providers invest more into enrichment activities for children as they increase in scale.

Figure 1.39: Average consumables costs for outside school hours care by provider size, 2022



Note: Results for medium providers may not be fully representative of sector (box 1.2). Due to sample size, small and medium provider results for outside school hours care were combined.

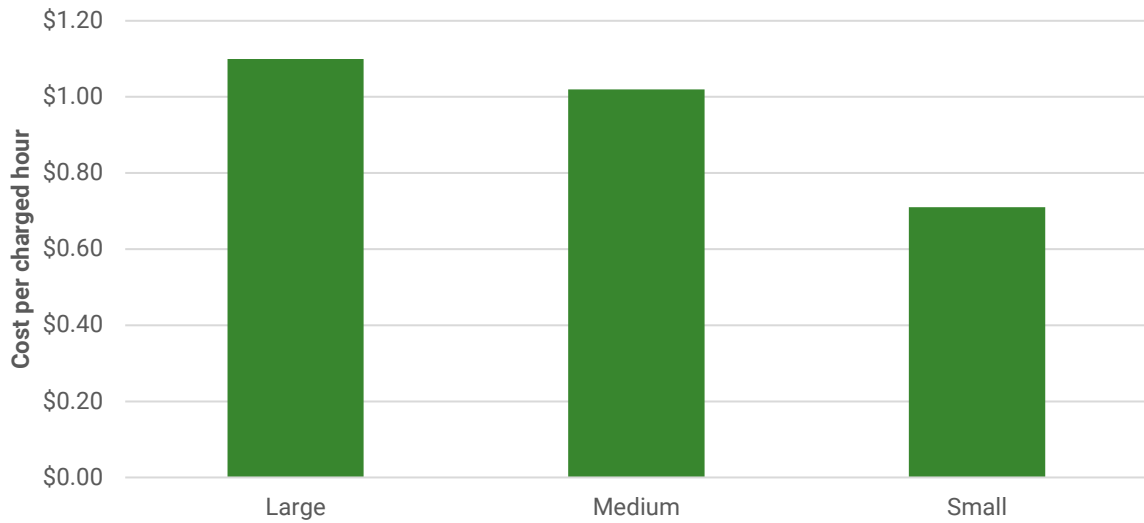
Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.4.4. Large providers of centre based day care have higher finance and administration costs

Large providers of centre based day care services spent more on finance and administration costs in 2022. This likely reflects costs that rise with an operation of greater size and scale (both larger and a higher number of centres) such as higher capital intensity relative to smaller providers, including where large providers engage in expansions and acquisitions. In addition, greater costs could also include company taxes (for example, payroll taxes), head office expenses, utilities, and insurance costs.

Large providers spent \$1.10 per charged hour (9%) on finance and administration costs, compared to medium providers (\$1.02 per charged hour or 8%) and small providers (\$0.71 per charged hour or 6%) into the provision of centre based day care (figure 1.40).

Figure 1.40: Average finance and administration costs for centre based day care, by provider size, 2022

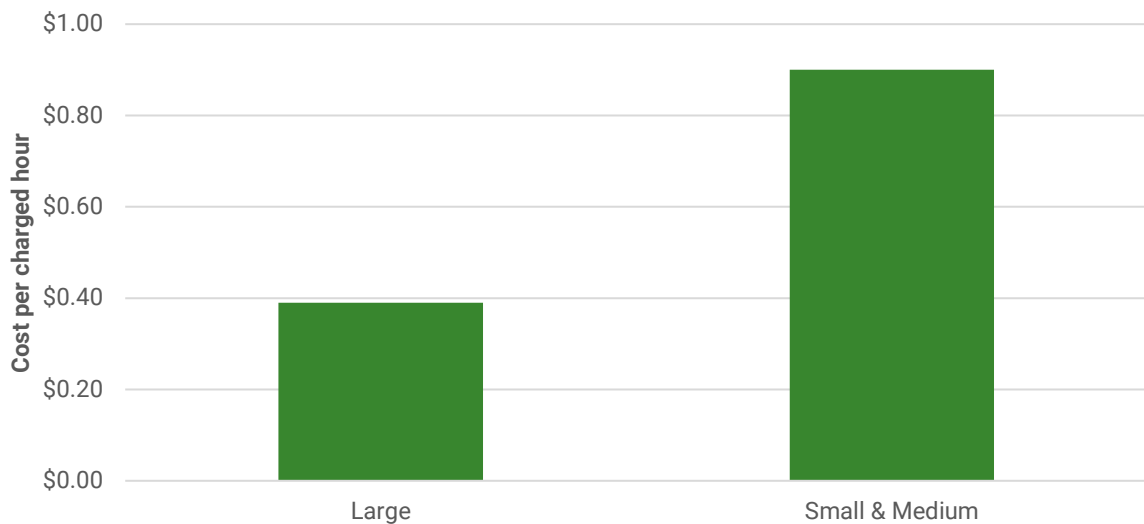


Note: Results for medium providers may not be fully representative of sector (box 1.2).

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

In outside school hours care, we observe the opposite trend for large providers. Large providers spent less on finance and administration costs (\$0.39 per charged hour or 5%) whereas small and medium providers spent more (\$0.90 per charged hour or 11%) (figure 1.41).

Figure 1.41: Average finance and administration costs for outside school hours care, by provider size, 2022



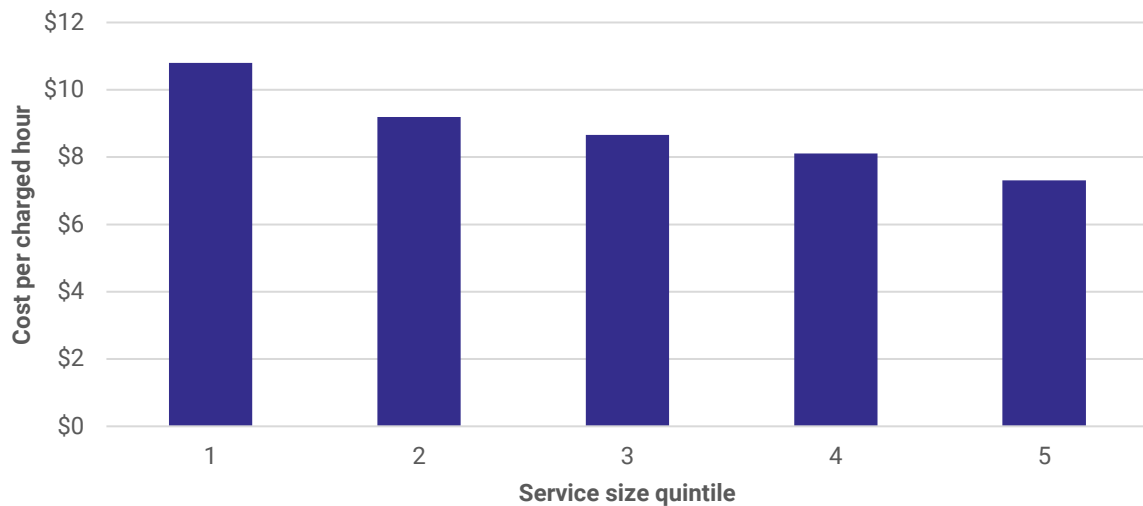
Note: Results for medium providers may not be fully representative of sector (box 1.2). Due to sample size, small and medium provider results for outside school hours care were combined.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.4.5. There are economies of scale for large services

Centre based day care services had some clear economies of scale for labour expenses. Smaller services (quintile 1) had the highest labour costs (\$10.80) by a significant margin for centre based day care, whilst larger services (quintile 5) had the lowest (\$7.31). Labour costs trended down with increased service size (figure 1.42).

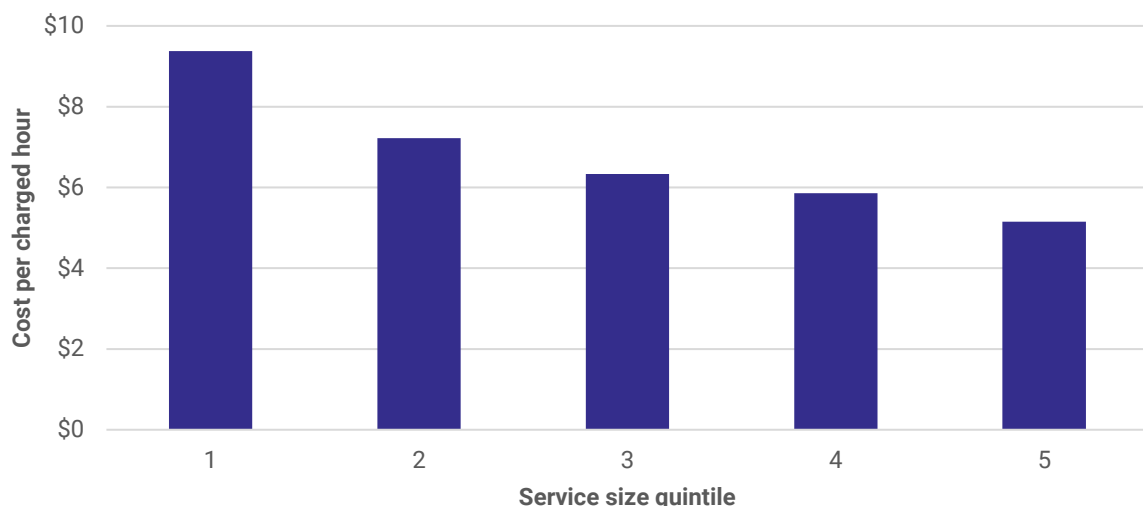
Figure 1.42: Average labour costs for centre based care, by service size, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

We observe a similar trend for outside school hours care services with smaller services incurring higher labour expenses (figure 1.43).

Figure 1.43: Average labour costs for outside school hours care, by service size, 2022

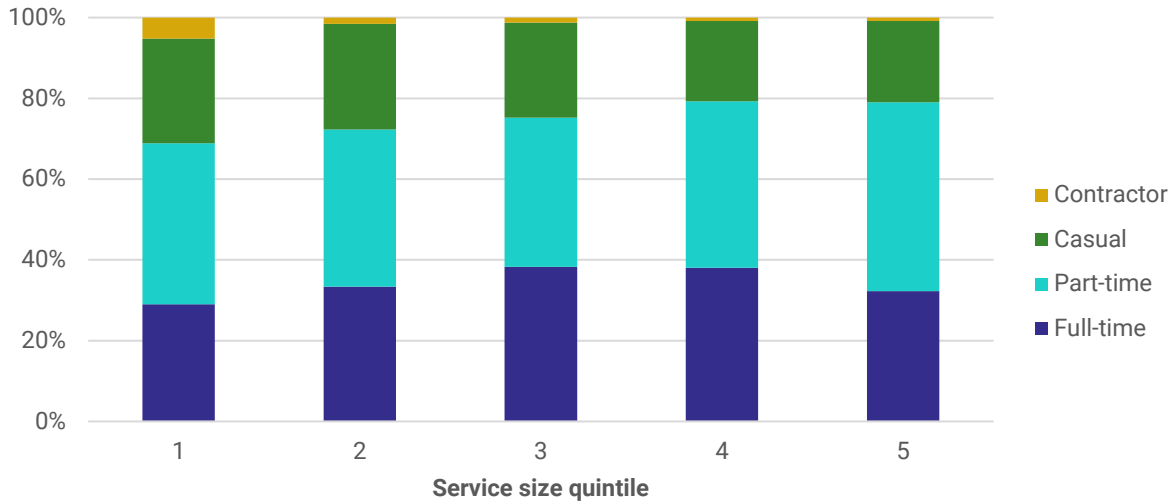


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

These trends were not explained through differences in above award wages. For centre based day care, there was higher use of contractors in the smallest quintile of service size, which would lead to higher labour costs (figure 1.44). It is possible that small services have

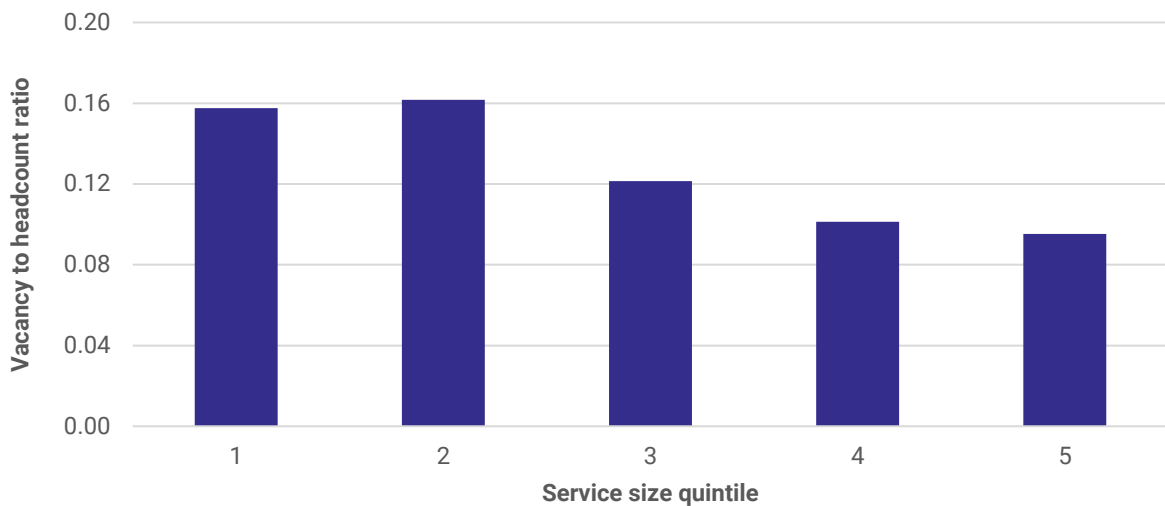
difficulty recruiting and retaining staff. Difficulty recruiting is consistent with the vacancies reported by smaller services (figure 1.45).

Figure 1.44: Share of centre based day care staff, by employment type and service size, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

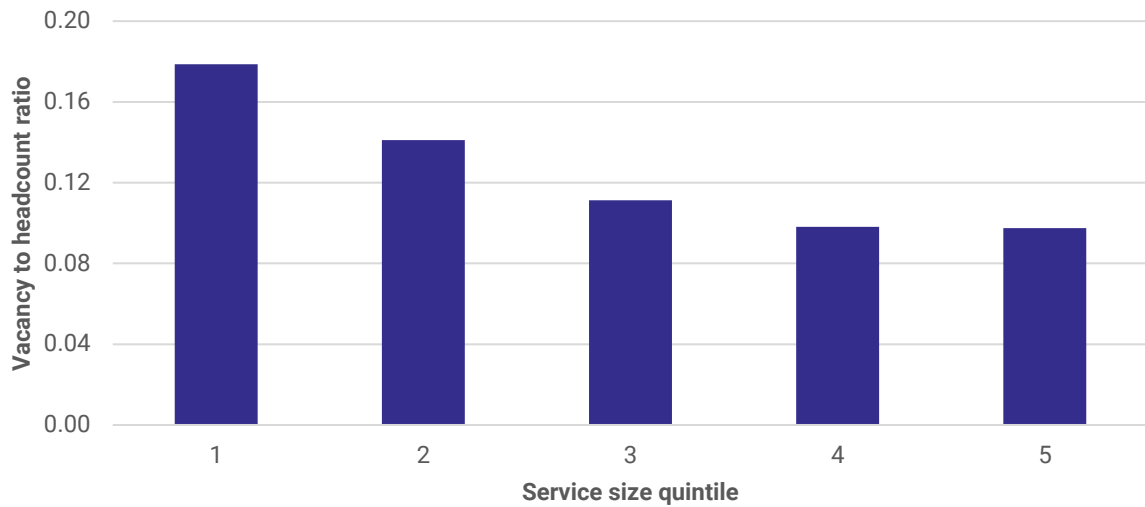
Figure 1.45: Vacancy to staff headcount ratio at centre based day care, by service size, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The same trend of increased vacancies for small sized services was also evident for outside school hours care (figure 1.46).

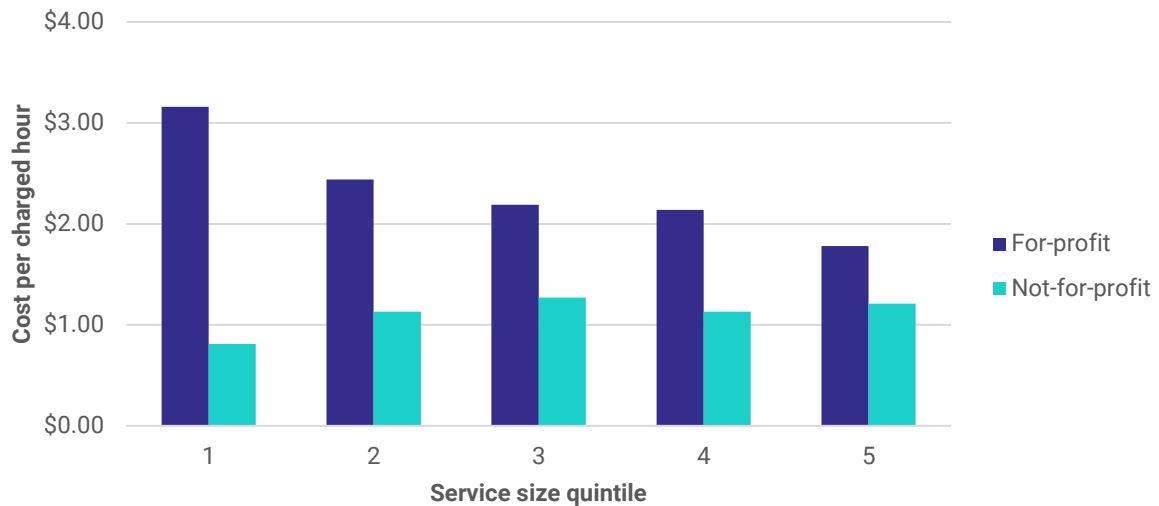
Figure 1.46: Vacancy to staff headcount ratio at outside school hours care, by service size, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Centre based day care services also had economies of scale for their land expenses (figure 1.47). However, this trend did not hold for not-for-profit providers, for which smaller services had lower land and related costs.

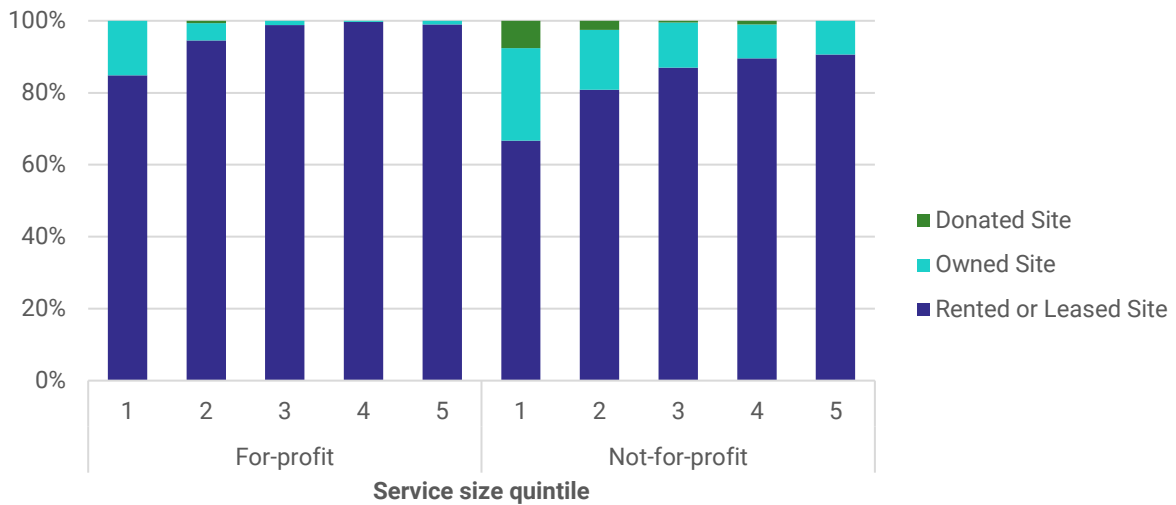
Figure 1.47: Average land and related costs for centre based day care, by provider size and provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Examining the ownership of sites, it appears the smaller not-for-profits had somewhat higher rates of ownership along with licenced and donated sites (figure 1.48). Ownership and donated sites would create significant savings for services with these arrangements. However, this is unlikely to fully explain the differences, and it could be that the smaller services were able to secure cheaper rental agreements.

Figure 1.48: Share of land ownership for centre based day care, by service size and provider type, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Service size for outside school hours care services did not exhibit any economies of scale for land costs.

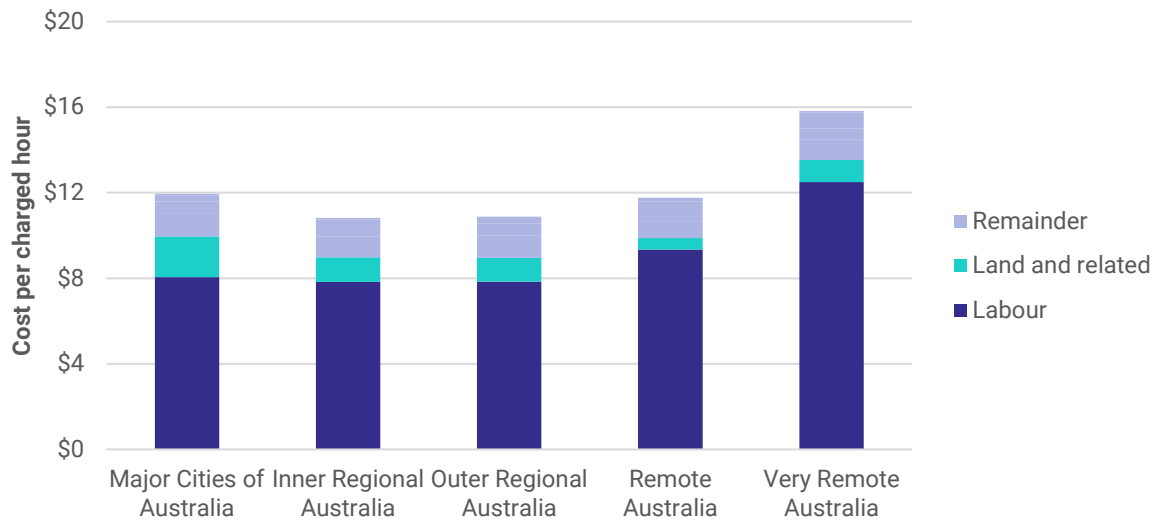
1.5. Geographic location has an influence on the cost to supply

Overall, costs to supply different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most advantage. However, we find the differences in labour as well as land and related costs across geographic location are significant.

1.5.1. Remote areas have increased costs for centre based day care but not outside school hours care

Centre based day care services in remote areas had significantly higher costs than those based in Major Cities or regional Australia in 2022 (figure 1.49). The costs for services in different remoteness categories ranges from the highest at \$15.82 per charged hours for Very Remote and lowest at \$10.82 per charged hours for Inner Regional.

Figure 1.49: Average hourly costs for centre based day care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Outside school hours care services in Remote and Very Remote Australia incurred slightly lower costs than those based in Inner and Outer Regional areas, and Major Cities of Australia in 2022 (figure 1.50). Labour and land costs were lower for Remote areas, but unclassified other expenses were significantly higher in Remote and Very Remote Australia at \$0.93 per charged hours, compared to \$0.16 per charged hours in Inner and Outer Regional Australia, and \$0.09 per charged hours in Major Cities of Australia.

Figure 1.50: Average hourly costs for outside school hours care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

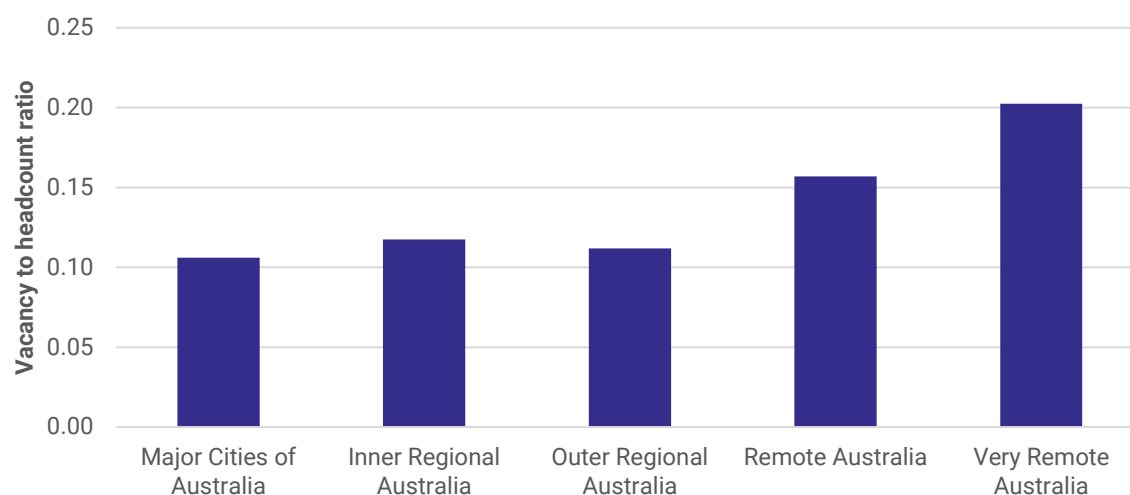
Based on information provided to the ACCC, examples of other types of expenses Remote and Very Remote areas may incur include shipping costs due to the difficult nature of receiving supplies, costs to translate documents for staff and families from culturally and linguistically diverse backgrounds, excursion costs including hiring buses and costs associated with security patrols and the cost associated with paying the rent for staff housing. Further, training and costs related to that training such as travel costs and sundry items were sometimes included in this expense category.

1.5.2. Staff shortages drive up labour costs in Remote Australia

Higher labour costs were primarily driven by staff shortages, reaching \$12.50 per charged hour in Very Remote Australia, greater than the overall costs in all other remoteness categories for centre based day care services. Land costs were highest in Major Cities and generally decrease with remoteness, although Very Remote services have higher land costs than Remote services.

Labour expenses tend to grow with more remote centre based day care services, which is consistent with higher wages and recruitment activity in areas of staff shortage. Providers have identified the cost challenges of staff shortages, which include the increase of wages to attract and retain workers, the increase in recruitment fees due to a smaller number of applicants and an increase in employee benefits to attract staff to relocate to remote areas. Centre based day care services in Remote and Very Remote Australia had far higher vacancies, with Major Cities having the lowest vacancy to staff headcount ratio (figure 1.51).

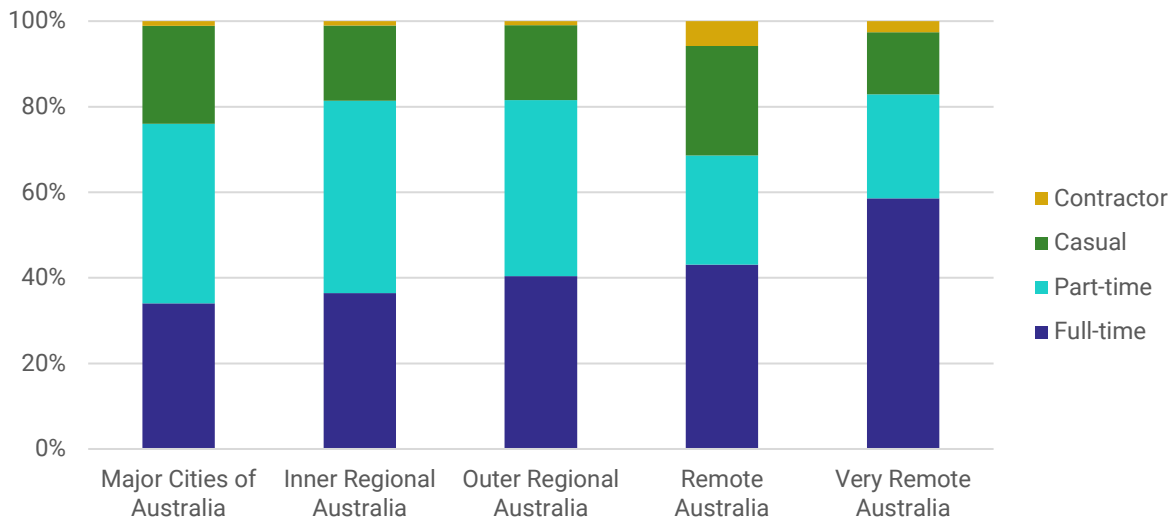
Figure 1.51: Vacancy to staff headcount ratio for centre based day care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Contractor usage was higher in Remote and Very Remote centre based day care services, as was the share of full-time employees (figure 1.52). Casual usage was also high in Remote Australia, perhaps reflecting the lack of staffing options.

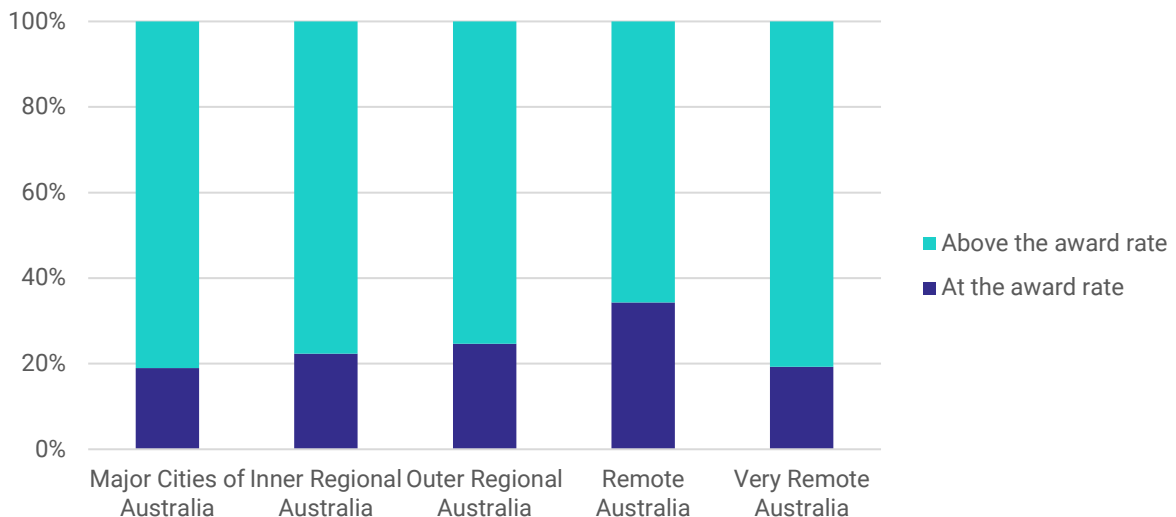
Figure 1.52: Share of staff employment type for centre based day care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Higher wages do appear to play a part in high labour costs for centre based day care in Very Remote Australia. Centre based day care services in Very Remote Australia have a high share of staff paid above the award, which was most likely to aid recruitment and retention of staff. This was not the case in Remote Australia, which have the highest share of staff paid at the award wage (figure 1.53).

Figure 1.53: Share of centre based day care staff paid at and above the award rate, by remoteness, 2022

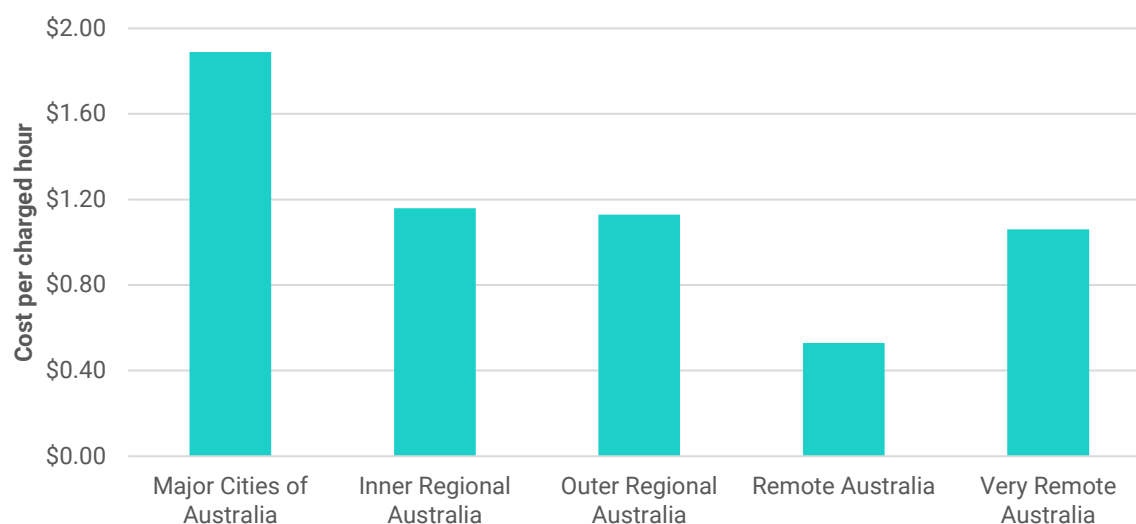


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.5.3. Land costs are higher in cities and in areas of high advantage

Centre based day care services have the highest land costs in Major Cities, consistent with real estate prices (figure 1.54).⁹ While Remote Australia have the lowest land costs (\$0.53 per charged hours), this increases for Very Remote services (to \$1.06 per charged hours).

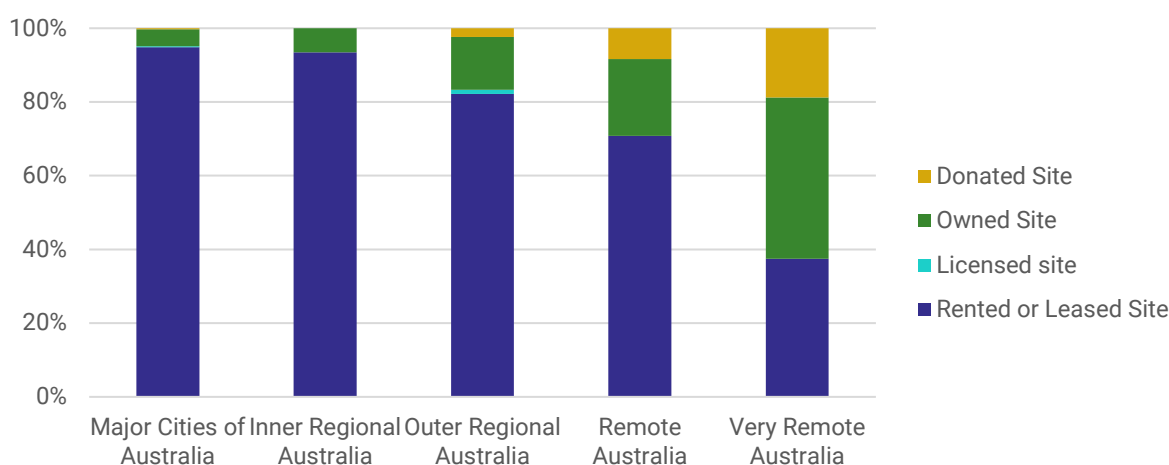
Figure 1.54: Average land and related costs for centre based day care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Site ownership and donated sites are more prevalent for services in Remote and Very Remote Australia, which are likely to reduce costs overall (figure 1.55). This suggests that high land costs in Very Remote Australia could be due to high upkeep and construction costs.

Figure 1.55: Share of land ownership for centre based day care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

⁹ D Butkovich, [Where property prices have reached record highs, www.realestate.com.au](https://www.realestate.com.au), accessed 6 September 2023.

Similar trends are noted for outside school hours care, with land costs highest in Major Cities (figure 1.56). Remote and Very Remote Australia have significantly lower land expenses and, unlike for centre based day care, there are not high rates of site ownership in these regions.

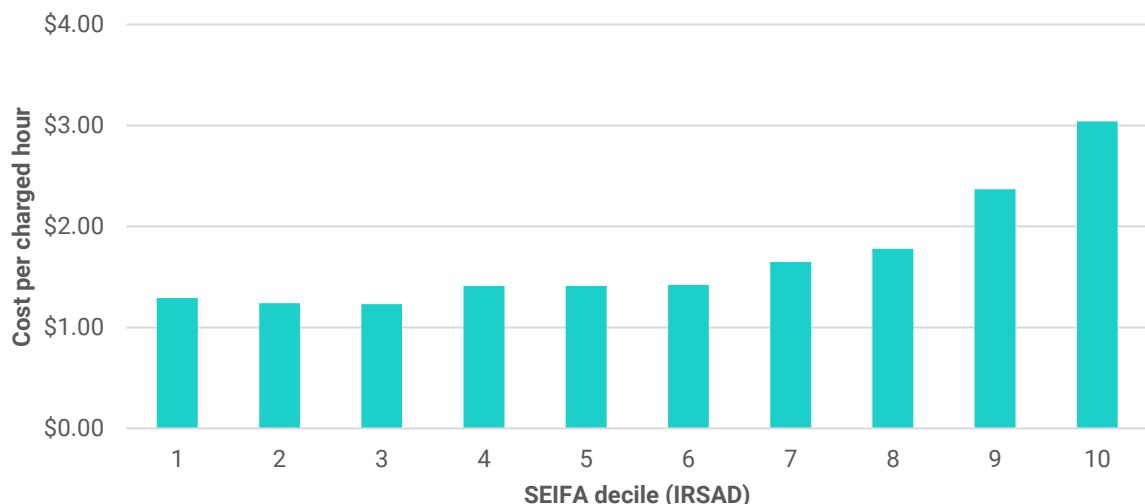
Figure 1.56: Average land and related costs for outside school hours care, by remoteness, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

There is a significant association between land costs and areas of socio-economic advantage. Centre based day care services in areas of high advantage have significantly higher land costs (figure 1.57). This is consistent with the expected trend given real estate prices are significantly higher in areas with more advantage.

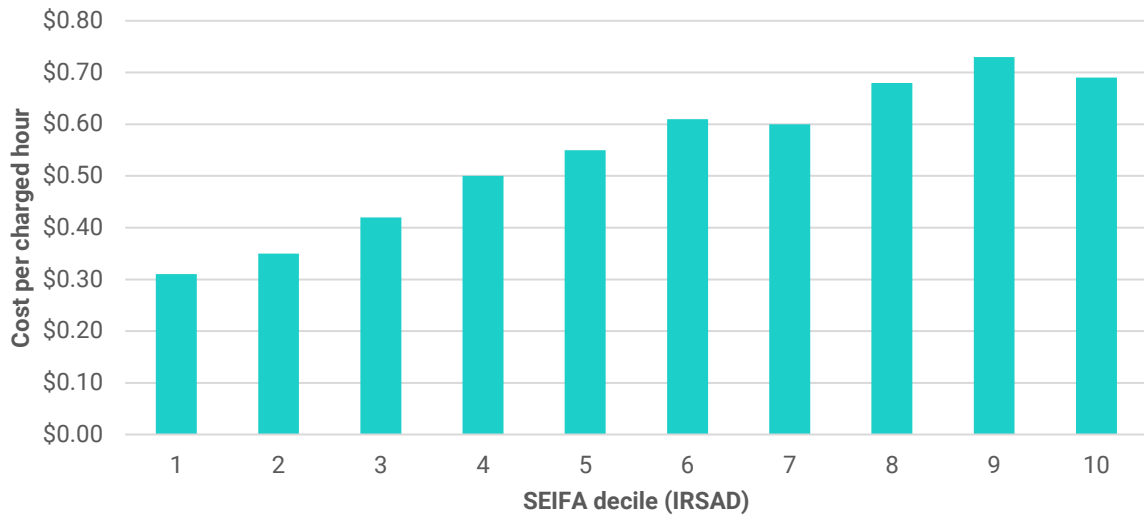
Figure 1.57: Average land and related costs for centre based day care, by SA2 SEIFA decile, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The same trend is also true for outside school hours care, despite the prevalence of licencing over renting in the sector (figure 1.58).

Figure 1.58: Average land and related costs for outside school hours care, by SA2 SEIFA decile, 2022

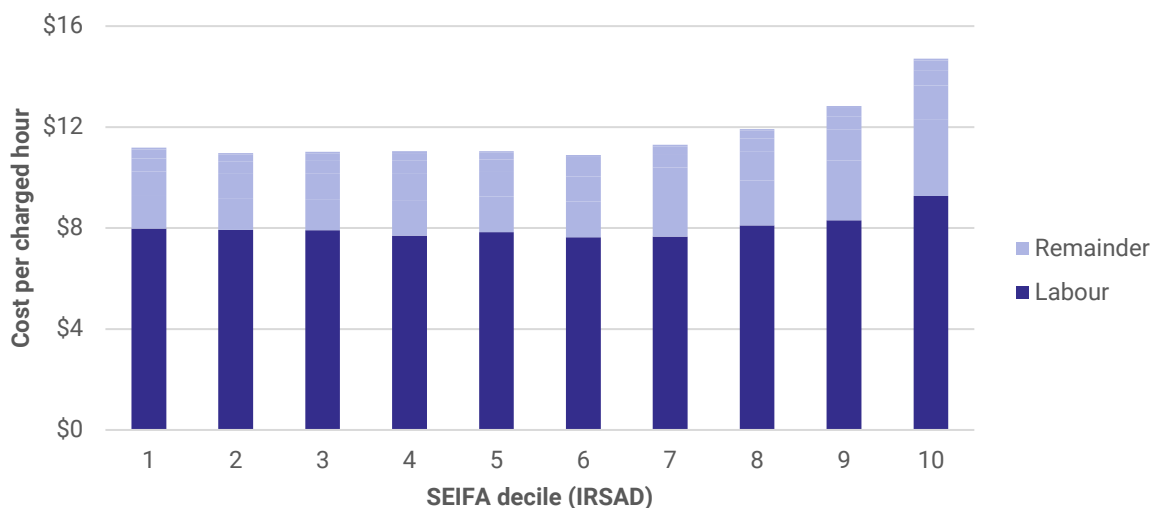


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.5.4. Higher socio-economic areas have higher costs, driven by labour and land

Areas with higher socio-economic advantage also have significantly higher cost of operating their services, with services in the highest decile costing \$14.68 per charged hour (figure 1.59). This is driven by increasing labour and land costs, with services in the lower deciles also attracting slightly higher labour costs than those in the middle deciles.

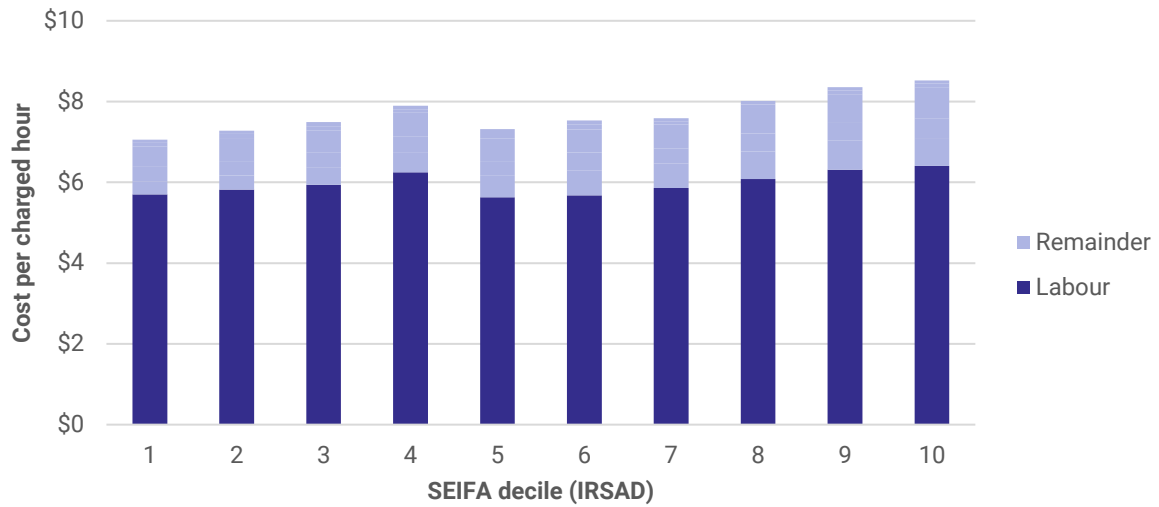
Figure 1.59: Average labour costs for centre based day care, by SA2 SEIFA decile, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Similar trends are apparent for outside school hours care services, with generally higher costs in areas of socio-economic advantage, driven by labour and land expenses (figure 1.60).

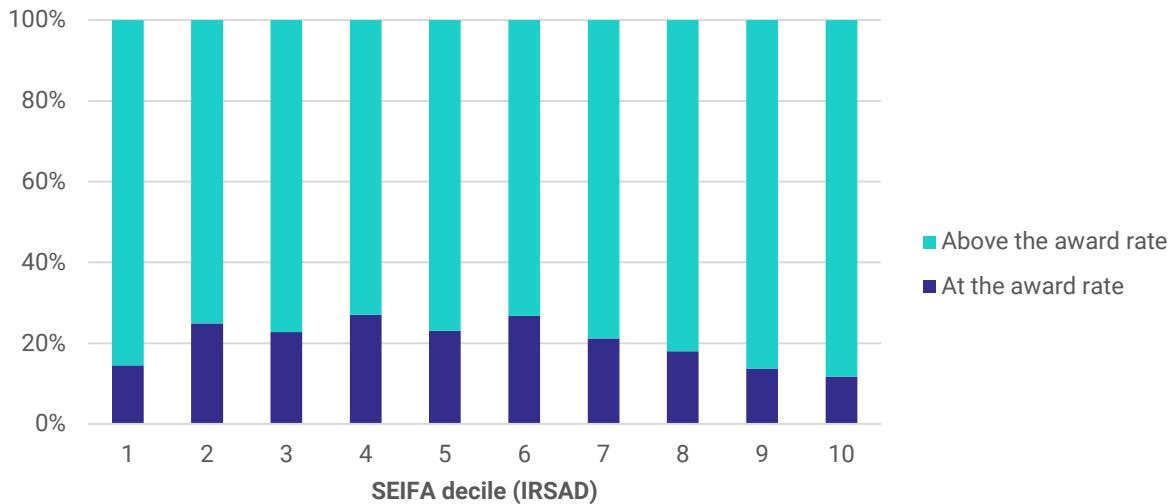
Figure 1.60: Average labour costs for outside school hours care, by SA2 SEIFA decile, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

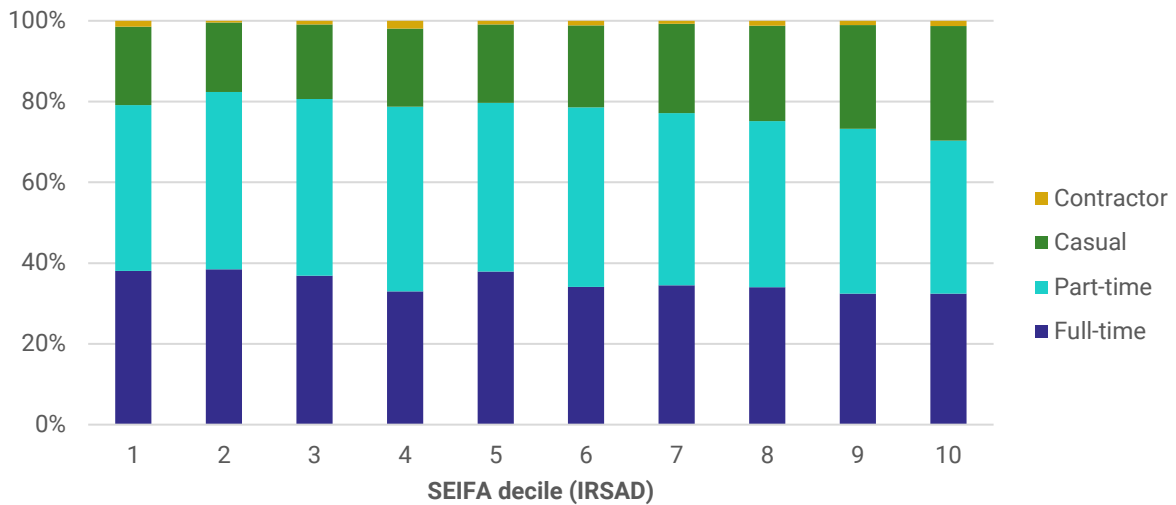
Areas of higher socio-economic advantage have increased rates of paying above the award wage (excluding decile 1) for centre based day care services, which translates to increased labour costs in higher socio-economic areas (figure 1.61). There are also higher rates of casualisation in more advantage areas, which could mean higher expenses if ineffective rostering is used (figure 1.62).

Figure 1.61: Share of centre based day care staff paid at and above award wage rate, by SA2 SEIFA decile, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Figure 1.62: Share of staff employment type for centre based day care, by SA2 SEIFA decile, 2022

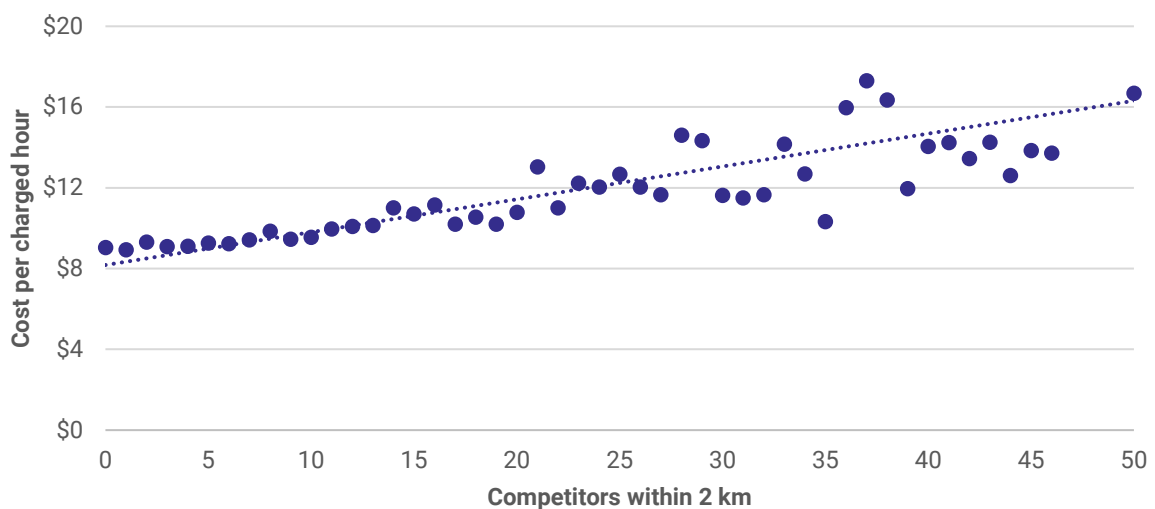


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.5.5. Centre based day care services appear to compete for labour and land, but only in areas of higher socio-economic advantage

Beyond competing for customers, we also see evidence that centre based day care services compete on labour and land, reflecting higher wages being offered to attract and retain staff and higher rents. We observe that as the number of competitors within a 2 kilometre radius increased, labour and land costs tend to increase (figure 1.63).

Figure 1.63: Average combined labour, and land and related costs for centre based day care by number of competitors within a 2km radius, 2022

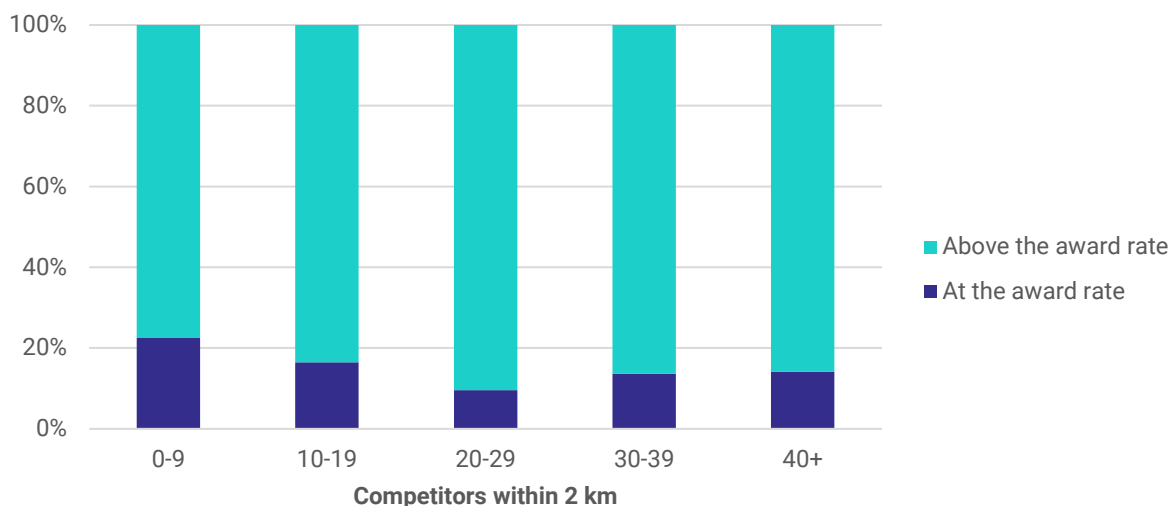


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

We observe the relationship between costs and number of competitors exists only in the upper half socio-economic areas, however, it is not explained by the increased costs in high socio-economic areas.

Some of the increased wages appears to be associated with competing for staff. As the number of competitors in a 2 kilometre radius increase, the share of staff being paid above award wages increases, with 77.5% paid above award with less than 10 competitors nearby compared to 88.6% where more than 20 competitors are nearby (figure 1.64).

Figure 1.64: Share of centre based day care staff paid at and above award rate wage, by number of competitors in 2km radius, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

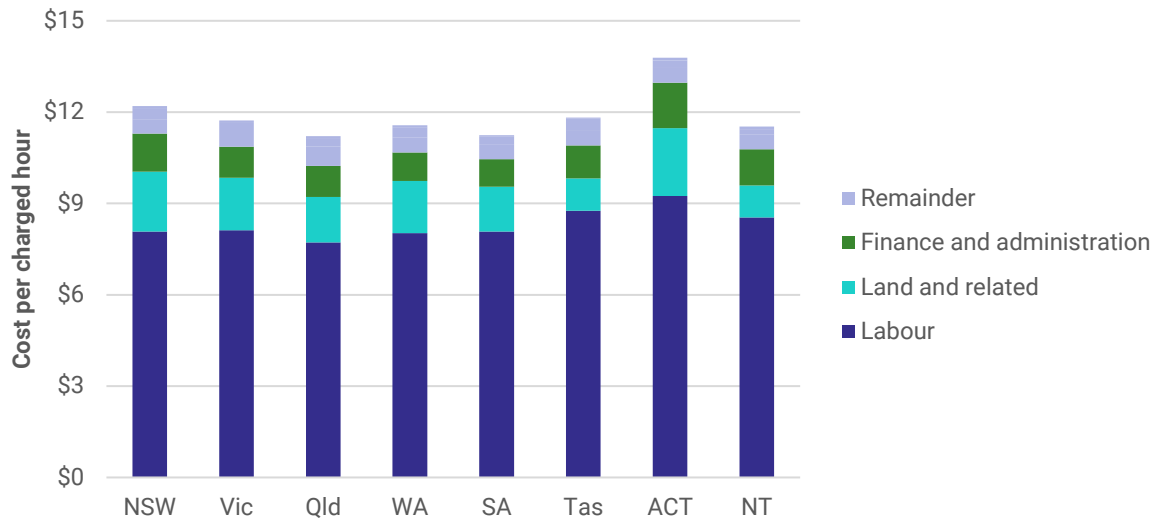
While land and related costs increase with more competitors, this does not translate to a change in the share of providers renting or owning the land on which they operate.

1.5.6. Costs are highest in the Australian Capital Territory

There are small variations of costs between states and territories for centre based day care. Services in the Australian Capital Territory have the highest costs (figure 1.65), largely driven by labour and land costs, which is consistent with the finding from the June interim report where the Australian Capital Territory had the highest average daily fee.¹⁰ Centre based day care services in Queensland have the lowest overall costs, as well as the lowest labour costs. Interestingly, state and territory specific ratio requirements do not appear to have a meaningful effect on labour costs at an aggregate level.

¹⁰ ACCC, [Childcare Inquiry – June interim report](#), June 2023, p 84.

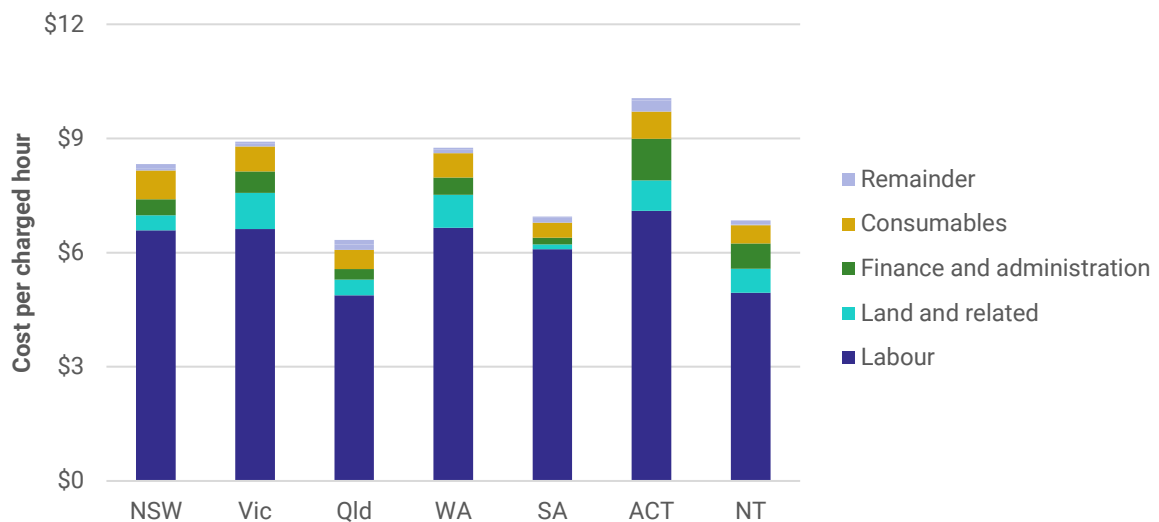
Figure 1.65: Average labour, land and related, and finance and administration costs for centre based day care, by state and territory, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Outside school hours care services have more varied costs between states and territories (figure 1.66). Victorian services have higher expenses on a per charged hour basis driven by labour, land, finance and administration as well as consumables. As with centre based day care, Queensland has the lowest costs to operate outside school hours care. Neither the high costs in Victoria nor low costs in Queensland are easily explained by either state-specific ratios or qualification requirements.

Figure 1.66: Average labour, land and related, finance and administration, and consumables costs for outside school hours care, by state and territory, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.6. Child and household characteristics affect costs

The characteristics of children in care can have a significant effect on the costs of a childcare service. Childcare services may alter their offering to meet the particular needs of children in their care. Providing support for First Nations children and, children with disability and/or complex needs means a provider supporting these children is incurring higher costs. Children below 3 years old will require providers to secure additional labour due to educator-to-child ratios. Our analysis of services with different shares of various age groups showed an increasing trend for costs for services with higher shares of children below 3 years old. We discuss the cost impacts of minimum educator-to-child ratios on fees in chapter 4.

1.6.1. First Nations households

Childcare services may adjust their offerings to provide culturally informed care for First Nations children in their service, which in turn may have an impact upon overall costs. An analysis of costs against the share of First Nations households using childcare did not yield meaningful or significant results due to other variances in costs for services.

Our examination of internal provider documents shows providers try to ensure that services are open and welcoming places for First Nations children, families, and staff. The additional expenses associated with this can include the costs to engage with local community elders to attend events and activities, purchases of resources such as display materials (artwork and flags), language books and play materials. Providers were also providing additional training to staff to increase cultural competency, as well as upskill staff so they have capabilities in trauma-informed caring practices. Labour costs were also identified in relation to developing and maintaining Reconciliation Action Plans which support cultural inclusiveness.

A key criticism of the 2018 Child Care Package from First Nations services and families has been the increase in complexity and requirement to engage with Services Australia.¹¹ This has led to service staff providing additional guidance and support to parents, guardians, and other carers on engagement with Services Australia to access the Child Care Subsidy and other supports (for example, the Additional Child Care Subsidy), taking up significant staffing resources outside the core business of providing early childhood education and care.

Some services are run with a focus on First Nations families and children. Historically, many of these services have received grant funding to either provide additional support to vulnerable and disadvantaged First Nations families and kinship carers or operate in otherwise unviable areas. These services have their own distinct cost pressures related to their service offerings, including staff shortages in Remote and Very Remote Australia, particularly hiring First Nations educators, and how to fund the provision of wrap around services to best support their communities.

1.6.2. Culturally and linguistically diverse households

Services may provide some additional support and engagement to households where English is not the primary language spoken at home and where there may be difficulties in understanding, and therefore accessing childcare. While providers did not identify significant costs associated with this cohort, they did note a range of additional supports offered. These

¹¹ SNAICC – National Voice for our Children, [Submission to the Australian National Audit Office examination of the design and implementation of the Child Care Package](#), May 2019, pp 2–3.

supports include labour costs to develop staff in supporting children from culturally and linguistically diverse backgrounds with interactions and supervision, costs to hold information sessions to assist these households and the purchase of additional resources such as language books and play materials.

1.6.3. Younger children cost more to care for

The National Quality Standards set out minimum educator-to-child ratios depending on the age of children in care (table 1.1). Given the role educator labour plays in the overall service cost, lower ratios, as required for children under 3 years, will have significant impacts on centre based day care service costs. Once children reach 3 years old, the number of children an educator can care for is doubled, or even more. While childcare services have employees other than educators (such as head office staff for large providers), most staff are educators. We could expect that labour costs to care for children under 3 years old would be close to double the cost of children over 3 years old.

Table 1.1: Educator-to-child ratios for centre based day care and outside school hours care

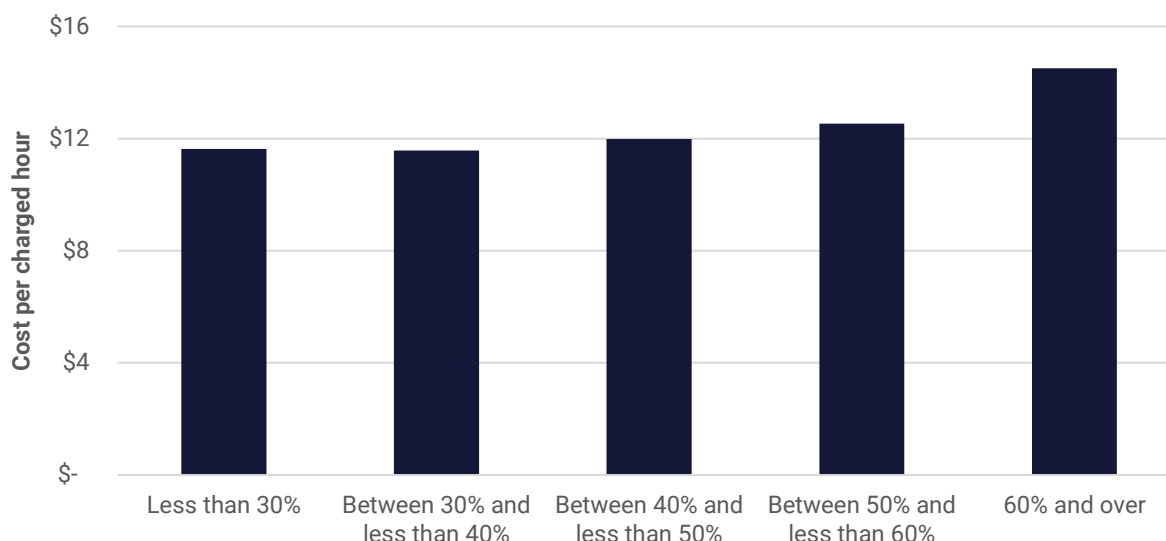
Age	Educator-to-child ratio	Jurisdiction
Birth to 24 months	1:4	All states and territories
Over 24 months and less than 36 months	1:5	All states and territories excluding Vic
	1:4	Vic
36 months up to and including preschool age	1:11	Vic, Qld, SA, NT, ACT
	1:10	NSW
	1:10	Tas
	2:25 for children attending a preschool program	
	1:10	WA
Over preschool age (outside school hours care)	1:15	NSW, Vic, Qld, SA, Tas, NT
	1:11	ACT
	If no Kindergarten children present	WA
	1:10 for first 12 children then 1:13	

Source: ACECQA, [Educator to child ratios | ACECQA](#), accessed 30 August 2023.

Centre based day care services with more than 60% of charged hours for children under the age of 3 had higher total costs of \$14.51 per charged hour compared to services with less than 30% of charged hours for children under the age of 3 (\$11.63 per charged hour) (figure 1.67). While a small relationship was found, the variation between services due to other factors was greater than the anticipated effect, which likely had the effect of hiding the true size of the relationship. Most services had between 30% and 60% of their charged hours delivered to children under 3 years old, highlighting that services are tightly controlling enrolments for this cohort in order to control costs. Another possible explanation could be

that some services are relatively inflexible in their staffing and are unable to accommodate changes to educator-to-child ratios when the share of children under 3 years old changes.

Figure 1.67: Average cost for centre based day care, by share of children under the age of 3, 2022



Note: Services with costs of over \$30 per charged hour were excluded.

Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Providers also indicated that additional equipment and purpose-fit rooms are required for babies, including changing tables and cots. These items also increased costs for the younger cohort.

Most states and territories have a further relaxing of educator-to-child ratios for school aged children, except for the Australian Capital Territory. This can be seen in the difference in labour costs between centre based day care and outside school hours care in section 1.1, as the majority of children school age children exclusively attend outside school hours care.

1.6.4. Children with disability and/or complex needs

Providers have indicated that additional support is required for children with disability and/or complex needs, and we have explored the cost implications for childcare services to provide the support required. The key additional cost is engagement of additional staff to support these children and ensure there is adequate care for all children at the service. These labour costs are driven by wages, staff training and development to ensure staff are equipped to provide appropriate care and staff support such as the Employee Assistance Program. One provider noted that they had higher staff turnover at services with multiple children with complex needs, increasing recruitment and retention costs.

The Australian Government has also acknowledged these costs through the Inclusion Support Program, which provides support for eligible mainstream early childhood education and care services to build their capacity and capability to provide care to children with additional needs (including children with disability and/or complex needs), so all children have genuine opportunities to access, participate and achieve positive learning outcomes as per the National Quality Framework and Approved Learning Frameworks.¹² This funding support is available to centre based day care, outside school hours care and family day care,

¹² Australian Government Department of Education, [Inclusion Support Program Guidelines](#), n.d., accessed 30 August 2023.

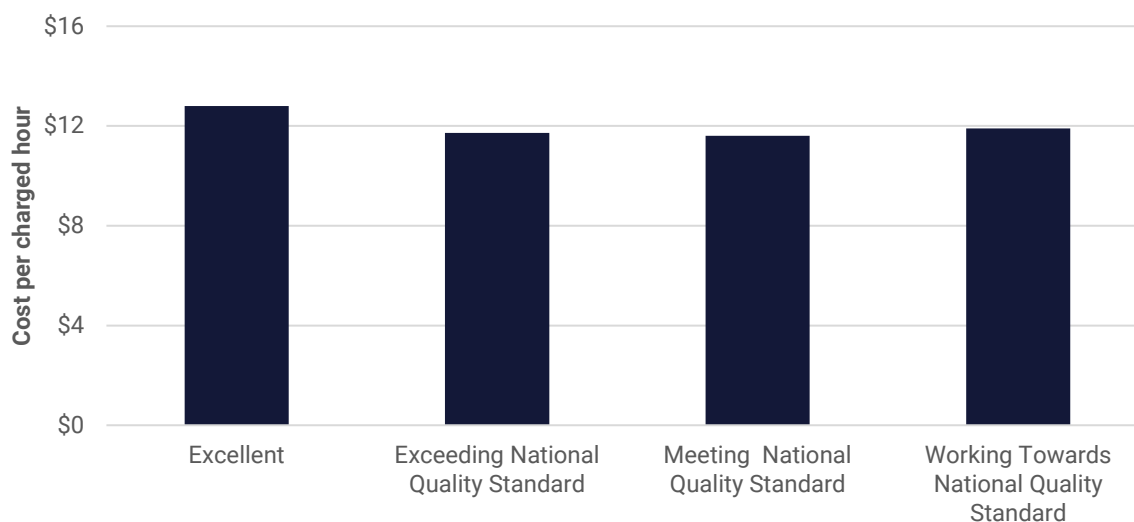
although some limitations apply based on care type. The in home care program is also available for children who cannot find appropriate care. Box 1.4 provides more information on the costs of operating in home care.

Other costs associated with providing additional support to children with a disability and/or complex needs include use of Allied Health services (for example occupational therapists, speech pathologists, child and family practitioners). These supports can be funded through the Inclusion Support Program, or where government supports do not fully meet associated costs, funded by providers.

1.7. Higher quality childcare costs more

An expected outcome of investing in a childcare centre would be an uplift in quality. When looking at costs for centre based day care services, we observed the highest expenses are incurred by services rated 'Excellent' under the National Quality Standard. However, the next highest set of costs are incurred for services rated as 'Working Towards', averaging \$11.90 per charged hour, while services 'Meeting' the National Quality Standard have the lowest cost at \$11.60 per charged hour (figure 1.68). This highlights that investment must be well placed to improve quality.

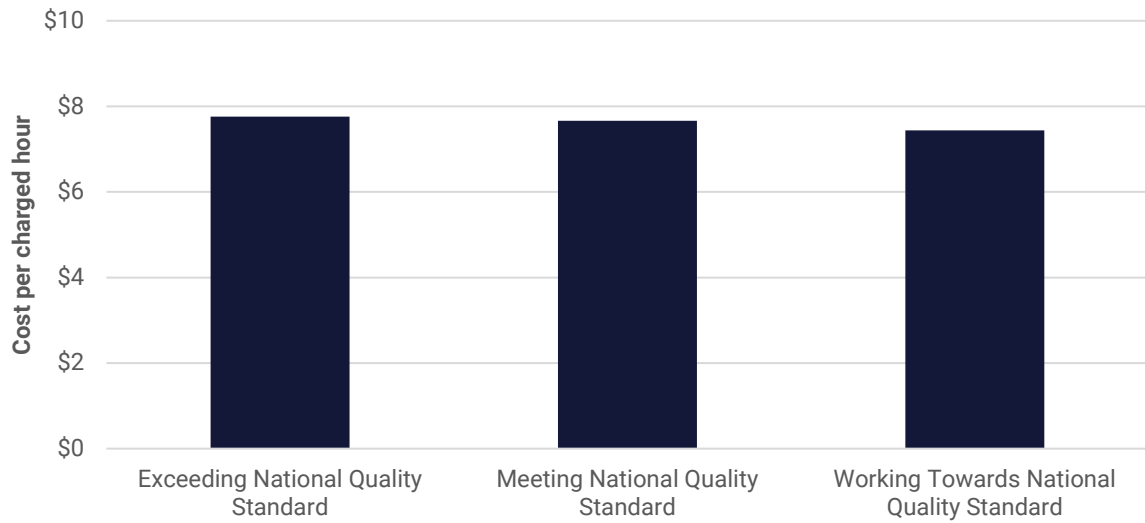
Figure 1.68: Average costs for centre based day care, by National Quality Standard rating, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

However, for outside school hours care, higher costs are incurred for services rated as 'Exceeding' the National Quality Standard (\$7.76 per charged hour), with services 'Working Towards' the National Quality Standard recording the lowest costs (figure 1.69).

Figure 1.69: Average costs for outside school hours care, by National Quality Standard rating, 2022

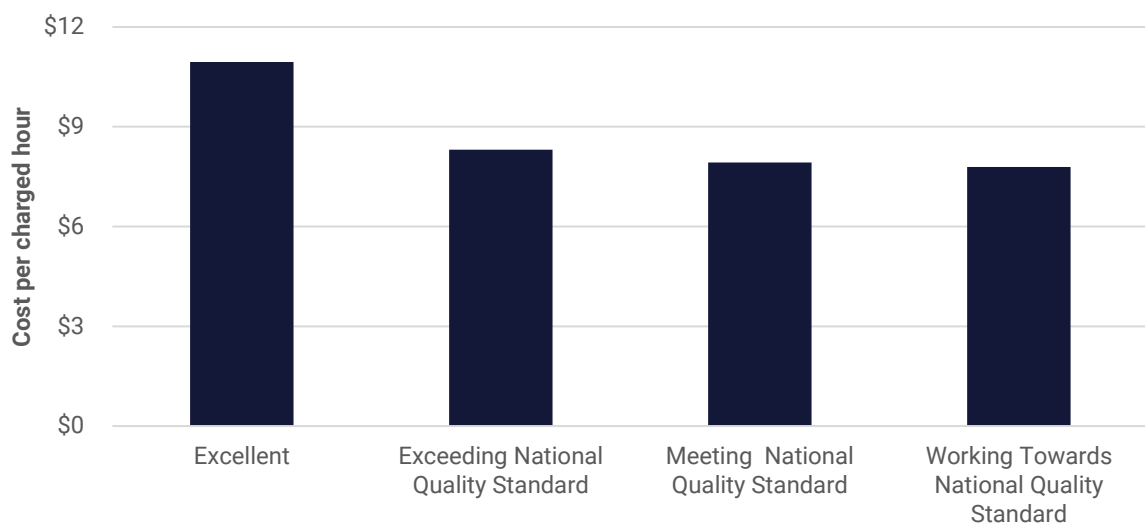


Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

1.7.1. Labour investment is key to improving quality

While investment in quality is key, investment must be well targeted to improve quality under the National Quality Framework. Both centre based day care and outside school hours care services with higher ratings have the highest labour costs, whereas services rated ‘Working Towards’ have the lowest labour costs, indicating investment in labour is well placed to improve quality (figure 1.70). Costs in other areas did not have the same effect upon improving quality.

Figure 1.70: Average labour costs for centre based day care, by National Quality Standard rating, 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

2. Competition in markets for childcare services

Key points

Centre based day care

- Childcare is a human service with highly emotive and personal considerations and values influencing parents' and guardians' decisions. While we can generalise about households' decision-making process in relation to childcare, in practice decisions will be strongly influenced by personal circumstances.
- Affordability, location and availability are important threshold considerations that parents and guardians use to narrow down the centre based day care services they will consider and compare.
- Quality is critical when parents and guardians compare centre based day care services, and they consider a wide range of quality indicators. The quality of educators and educator-child relationships is particularly important to parents and guardians.
 - Childcare is an 'experience good', so it is difficult for parents and guardians to accurately determine quality of a service without having used it.
 - Rather than formal quality ratings, parents and guardians prefer to determine quality based on their own experiences with a service (either firsthand from visiting or based on reputation and third-party recommendations and reviews).
- The price of childcare plays an important and influential role in parents' and guardians' decision making in determining *how* much childcare to use:
 - Parents and guardians will consider prevailing market prices in their local area and their own willingness to pay and will make a decision on whether to use childcare, and how much, so long as the benefits of childcare exceed the cost.
- However, despite how important the overall cost of childcare is to parents and guardians, childcare users are generally less sensitive to small variations in price compared to many other markets.
- Once parents and guardians have determined how much childcare to use and are choosing between similarly priced services within their local area, price plays a less influential role and providers compete more on quality to attract and retain children and families:
 - The influence of price in choosing between services is softened by the impact of the Child Care Subsidy on out-of-pocket expenses, and the importance parents and guardians place on quality.
 - Rather than looking for the cheapest service, parents and guardians appear to look for a service that is priced around the prevailing market price (not too high or too low) and which delivers value for money, taking into account quality.
 - As a result, there is little variance of prices *within* local markets, although prices can have high variance *between* markets.

- Centre based day care providers' supply decisions are usually influenced by expectations of viability. This influences both where a provider chooses to operate, as well as how to supply their services (including at what price).
 - The local demographics of an area's population and workforce are a critical consideration for providers, as these influence demand and parents' and guardians' willingness to pay. An area's female workforce participation rate is a particularly important consideration, as this is tied to the proportion of children likely to use formal childcare services.
 - Staffing shortages, and associated high labour costs, are having a significant impact on providers' ability to supply childcare services. These impacts are particularly pronounced in regional and remote areas.
- In some cases, providers choose to support the continued operation of loss-making services for reasons of social responsibility. This is often in areas of low socio-economic advantage, areas where there are otherwise disadvantaged or vulnerable cohorts, or areas with a high proportion of children from First Nations households.
- Parents and guardians do switch between centre based day care providers, but this is usually on the basis of quality rather than price. In addition, each year a portion of children in a service will age out, and some children leave for standalone preschools. As such, providers compete to attract and retain children and households.

Outside school hours care

- Children generally attend the outside school hours care associated with their school. As such, demand for outside school hours care is primarily price driven, and parents decide between using the service or not using it.
 - As children age and require less supervision, informal care options may become more viable alternatives to outside school hours care. Opportunities to rely on informal care appear to be more prominent after the COVID-19 pandemic, due in part to long-term changes in working patterns.
- Providers compete through tender processes for the right to operate a service. This encourages providers to compete on both price and quality. License agreements limit providers' ability to increase fees over the term of a contract, and the need to recontract may encourage ongoing competitive pricing.
- While price variation among outside school hours care services in an SA2 local area is still relatively low, it is more significant than for centre based day care. This likely reflects that parents and guardians have limited or no choice of service, and that providers compete on price.
- The design of a tender process may influence the nature of supply in a market. For example, for-profit providers may be more likely to operate in jurisdictions with more competitive tender processes.

Draft findings relevant to this chapter

- **Draft finding 5:** Parents' and guardians' demand for centre based day care is driven by a complex combination of factors. Parents look to prevailing market prices, however informal measures of quality are key considerations.
- **Draft finding 6:** Providers' supply decisions are influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location.

- **Draft finding 7:** Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets.
- **Draft finding 8:** The nature of competition reflects the unique demand and supply factors in childcare markets; price plays a less influential role once households have chosen how much childcare to use and providers compete on quality to attract and retain children and families.

This chapter considers the factors that influence demand, supply and competition in markets for childcare services.

The first 3 sections of this chapter focus on childcare services for children below school-age. This is primarily centre based day care, though we have considered family day care services at a high level.¹³

- Section 2.1 builds on the June interim report's consideration of factors that drive demand.
- Section 2.2 examines the factors that influence providers' supply decisions.
- Section 2.3 explores the way in which competition operates in local markets, including the extent to which price plays a role.

Section 2.4, focuses on outside school hours care. These services operate in a different competitive environment to other childcare services because of the way in which providers are selected to run these services, and because they are generally connected to a school.

This chapter does not consider in home care services, due to limited information available to inform our analysis and in light of the Department of Education's recent review of in home care services.

2.1. Parents' and guardians' demand for childcare is driven by a complex combination of factors

On the basis of preliminary results from the ACCC's voluntary parents and guardians survey, and consistent with existing research, our June interim report noted that decisions about childcare usage are influenced by a range of factors. While affordability is important when deciding how much formal childcare to use, once that choice is made, non-price factors such as location and quality are key considerations.

Drawing on compulsory information and documents provided by large providers, voluntary engagement with small and medium providers and further analysis of the results from the ACCC's voluntary parents and guardians survey, this section builds on the demand analysis presented in the June interim report.

2.1.1. Childcare is a human service, with highly emotive and personal considerations influencing demand

It is important to consider the demand analysis in the section that follows in the context of the unique role that childcare plays in society.

¹³ We have had engagement with family day care services as part of outreach and through roundtables. However, the majority of information and documents that have informed this chapter have been supplied by large providers of centre based day care and outside school hours care.

Like many human services, childcare services play a multifaceted and important role with many dimensions beyond just being a business. In particular, childcare:

- facilitates parents' return to work, which can have long term economic implications for both households and society
- provides care, education and developmental opportunities to children – the benefit of which can be difficult to measure in a quantitative or timely way, and which may be particularly important for vulnerable cohorts of children.

For most parents and guardians, the decision to use childcare is tied to the decision to enter or remain in the labour force.¹⁴ This means that willingness to pay for childcare is driven by the opportunity cost to parents and guardians of not returning to work, which not only includes forgone wages in the present, but also negative impacts on future wealth (due to missed opportunities for career development and compound impacts of lost superannuation). A number of respondents to our parents and guardians survey made this observation:

“Access to good childcare is incredibly important to maximise parent participation in the workforce. The ability for parents to access childcare while they have young children is important for career continuity and better career opportunities.”

“Having a partner that exceeded the childcare subsidy meant that one salary went to childcare fees. I only went back to work for professional stimulation and super.”

“Paying for childcare means many mothers are out of the workforce and delaying being back to work, which puts them at a disadvantage when back in the workforce.”

As such, the choice to use childcare may arise in a context where parents and guardians do not necessarily wish to place their child in the care of others, however recognise that doing so has current and future benefits for them and their child, and on balance choose to do so. This emotional dimension to decisions around childcare is likely to be a key reason why – as discussed both in the June interim report and the section that follows – non-price factors such as quality are so important to parents and guardians.

2.1.2. Non-price factors are important to parents and guardians

After affordability, location and availability are threshold considerations

The June interim report found that once a decision about affordability is made, parents and guardians consider services located close to their home. As a result, most children travel a relatively short distance (between 2 and 3 kilometres) to centre based day care. Consistent with this, large providers' internal analysis of parent demand confirms that location is a key consideration for parents and guardians, who mostly consider services located within close proximity to their home.

After location, availability was the second most important consideration for respondents to our parents and guardians survey.¹⁵ Comparing services on factors such as quality is only a valuable exercise for parents and guardians if those services are viable options; accordingly, if demand exceeds supply in an area and vacancies are hard to come by, parents' and guardians' decision-making process may be influenced by little more than what is available.

¹⁴ Almost all respondents (97%) to the ACCC's parents and guardians survey indicated they use formal childcare so they are able to work.

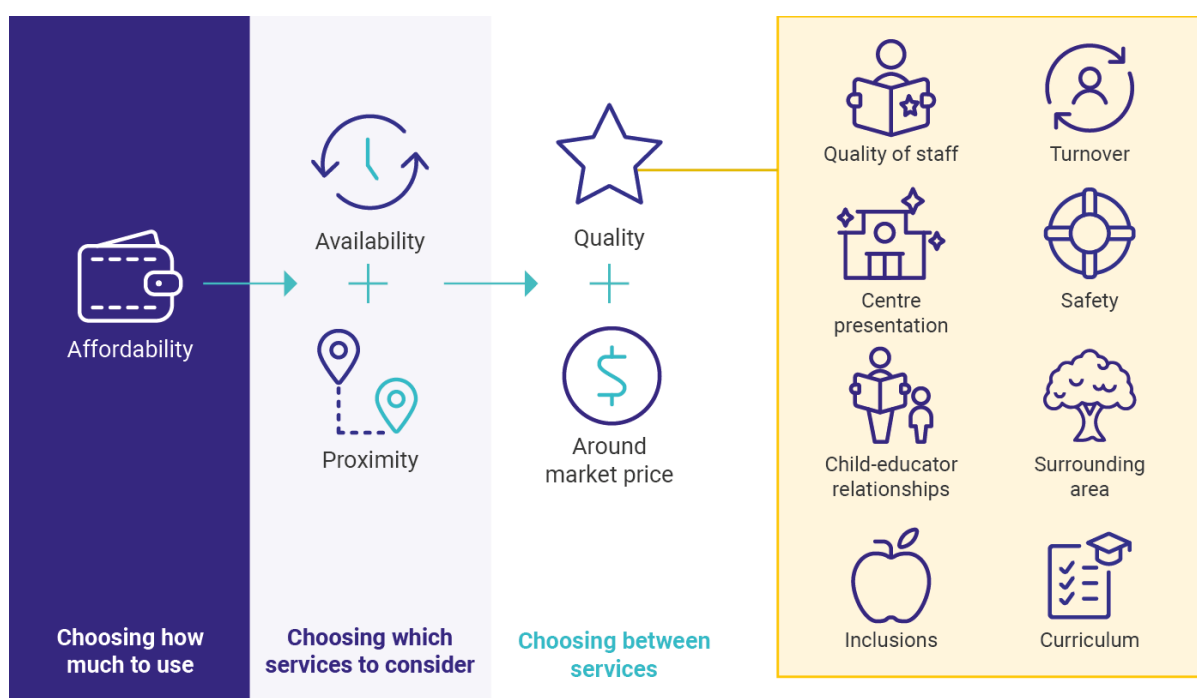
¹⁵ ACCC, Childcare inquiry [June interim report](#), p 58.

Where availability is so limited that no places are available in a local area, parents and guardians may not have the option to use formal childcare at all.¹⁶

Parents and guardians focus on the quality of services within close proximity

Once parents and guardians have identified the services located close by, and which are available or likely to be available, quality appears to become the most critical factor that parents and guardians consider when comparing and choosing a service. This decision-making process is depicted at figure 2.1.

Figure 2.1: Parents' and guardians' decision-making process when choosing childcare



A service's occupancy rate (that is, the number of enrolments as a proportion of approved places in the service) is a meaningful indicator of demand for that service. As set out in chapter 3, the occupancy rate is also directly related to a service's profitability and viability, so providers often focus on strategies to increase their occupancy rate or maintain it at a target rate. These strategies require a service to attract new parents and guardians (increase demand) or keep existing parents and guardians satisfied (maintain the existing level of demand).

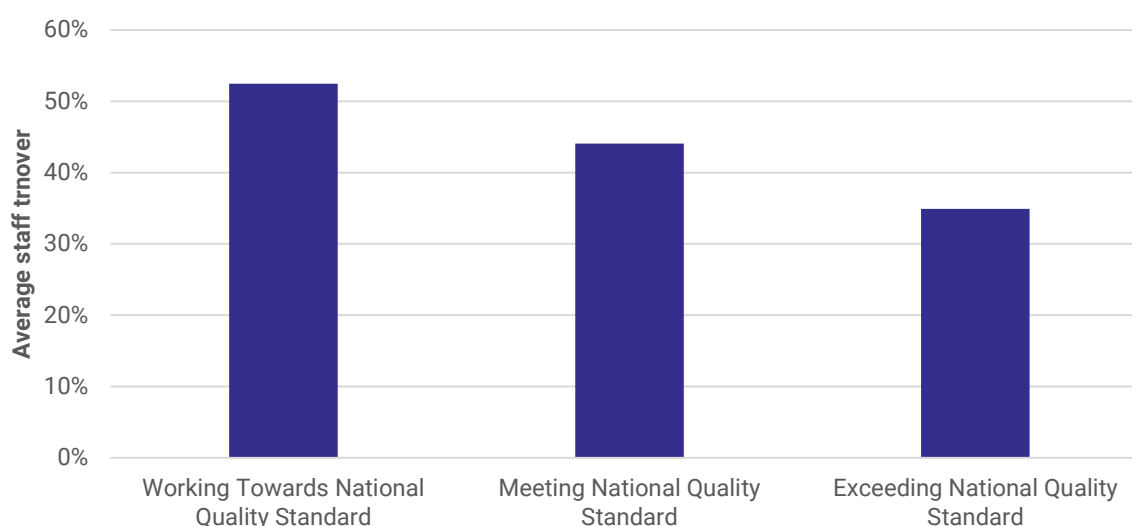
Providing a high quality service, and marketing that quality to parents and guardians, is a key way that providers seek to maintain or increase demand. In the context of considering strategies to increase or maintain occupancy, some of the factors we have seen providers consider to be indicators of quality to households include:

- **quality of staff, including quality of centre manager:** the latter may be due to the role a centre manager can play in attracting and retaining a consistent and stable team of educators, which parents and guardians value

¹⁶ In preliminary results from the ACCC's parents and guardians survey, 'waiting for a place' was the most common reason given by respondents for not using formal childcare (and by some margin – this reason was given by 37% of respondents, with the next most frequent reason being 'to stay home with the child/children' at 26%).

- **low turnover:** this is related to the importance of educator-child relationships; because parents and guardians value stability of these relationships, large providers recognise that parents and guardians prefer services with low staff turnover. This is consistent with analysis of data on staff turnover and quality ratings, which shows an inverse relationship between staff turnover and National Quality Standard ratings (figure 2.2). One large provider of centre based day care observed a relationship between occupancy rates and both staff turnover generally as well as centre manager turnover (with lower rates of both associated with higher occupancy rates)
- **strength and consistency of relationships between educators and children:** for example, as noted in section 2.3.2 below, one large provider of centre based day care observed that this factor is so important that parents and guardians may consider moving from one service to another to follow a particular educator
- **safety:** providers consistently indicated that parents and guardians want to feel assured that their child is in a safe environment with staff who provide a high level of care
- **the presentation of a centre** (for example, modern facilities, well maintained indoor and outdoor areas): one large provider noted this was important both in an absolute sense, as well as a relative sense (that is, looking better than other services nearby)
- **location within the local area:** for example, one large provider of centre based day care noted that it was preferable to be located in a 'structurally attractive location' such as a 'leafy suburban street' rather than industrial areas, shopping centres or commercial buildings
- **inclusions such as meals, nappies and incursions** (and the quality of those inclusions)
- **programming and curriculum:** the activities and experiences that form part of a service's curriculum are an important consideration for many parents and guardians. This may increase in significance for parents and guardians as children approach school-age.

Figure 2.2: Staff turnover, by National Quality Standard rating, 2022



Source: s95ZK data and ACECQA administrative data.

Parents value experience and reputation, so look for indicators of 'quality' beyond formal quality ratings

The indicators of 'quality' that parents and guardians look for are broader and less tangible than a service's National Quality Standard rating, which is consistent with the June interim report's observation that parents and guardians care about quality, but not necessarily the National Quality Standard rating.¹⁷ A number of providers (of varying sizes) expressed a similar view, indicating that in their experience, parents and guardians place low or no significance on formal quality ratings. One large provider of centre based day care observed that formal ratings play no major role in attracting new families.

Instead of relying on the National Quality Standards rating, parents and guardians appear to make their own assessment of 'quality' based on their experience with a service. This experience is likely to be based on both:

- **parents' and guardians' first-hand experience with the service:** if the child does not yet attend the service, this may be from visiting for a tour and observing the indicators of quality outlined above such as quality of staff, interactions between staff and children, and the presentation of the centre. If the child is already in the service, this is likely to be from continually monitoring their child's experience
- **the more intangible 'reputation' of the service:** this relies on others' experiences, either via personal contacts, or through reviews and commentary online (such as on social media). Among providers of all sizes, word of mouth and reputation are often referred to as key drivers of demand for their services. This is consistent with preliminary results from our parents and guardians survey, with more than half of respondents indicating that they relied on recommendations from friends and/or family when choosing a childcare service.¹⁸

A preference to determine quality based on a service's reputation and first-hand interactions and observations rather than a formal rating is likely due to the nature of childcare services. As set out in box 2.1, childcare has elements of both an 'experience good' and a 'credence good', meaning it can be difficult for parents and guardians to accurately evaluate the quality of a childcare service without actually using it, and even sometimes when they have used it (in part because parents and guardians are not actually at the service most of the time their child is there). It is for this reason that parents and guardians may not place significant weight on a formal rating determined by a third party. The difficulty of determining the quality of a service without personal experience was highlighted by a number of respondents to the ACCC's parents and guardian survey:

"You really don't know a childcare service until you use it and experience it. I wish there were more ways to compare and research childcare centres when making this important decision."

"So many centres vary based on the quality of their staff that you just don't know until you get into the daily routine."

¹⁷ In preliminary results from the ACCC's parents and guardians survey, only 23% of families indicated that the National Quality Standard ratings were in their top 5 most important factors when choosing a childcare service. The 5 most important factors selected were: Location of the service, Care availability, Safety and security of the service, Quality and cleanliness of facilities, food, toys or play equipment and Fees.

¹⁸ 54% of respondents indicated they relied on recommendations from friends and/or family; this was the second most common answer after visiting the service in person (60% of respondents).

“It’s stressful and there is uncertainty. You don’t know if they’re a right fit for your child until you start (considering staff, processes and how your child will be treated) and then if it’s not the right fit, you’re stuck as it’s not easy to change places.”

Box 2.1: Assessing the quality of experience goods

The Search-Experience-Credence framework is an economic concept that helps understand effects of information asymmetries between sellers and consumers. Information asymmetries exist because sellers of a certain product have more information available to them about their product’s quality than potential customers do.

However, this imbalance in information is not the same for all products and will depend on the specific characteristics of a given product.

To reflect this, the framework classifies goods (and services) into 3 broad categories based on how easily consumers are able to obtain information about the good and/or evaluate quality:

- Search goods: goods where customers can easily evaluate quality prior to purchasing or consuming the good. Quality may be obvious to consumers based on the good’s attributes or easily evaluated on inspection. For example, trying on shoes before buying them to see whether they fit.
- Experience goods: goods where consumers are able to evaluate quality, but only after purchasing or consuming the good. That is, a consumer must first ‘experience’ the good before they accurately assess its quality. Examples include wine, restaurant meals and holiday packages.
- Credence goods: goods where it is difficult or even impossible for a consumer to evaluate quality even after purchasing or consuming the good. Evaluation might be difficult because consumers lack the technical expertise or information that is required to properly evaluate quality. For example, most consumers are unable to assess the accuracy of a medical diagnosis or legal advice.

In practice, goods are more complex than this framework might suggest. For almost all products, quality will depend on a range of attributes or characteristics that may fall into different categories. For example, it may be possible to evaluate some of a good’s attributes before purchase, but other attributes can only be evaluated after purchase.

Childcare has elements of all 3 categories. While parents and guardians can assess characteristics from in-person site visits (like location and site amenity), other characteristics can only be assessed once they have used a service. For example, it may be difficult to know with certainty whether a child likes a service until they have experienced it. Furthermore, there are certain characteristics that parents and guardians may never perfectly evaluate as they do not personally attend the service.

The experience/credence characteristics of childcare mean that (compared to if childcare was a pure search good) parents and guardians are:

- likely to rely on a service’s reputation and the recommendations of friends and family to overcome the information asymmetries
- less sensitive to prices when choosing a service and even avoid low priced alternatives, as lower prices may signal that a service is of low quality
- be ‘sticky’ or less likely to switch providers once they have chosen a service, due to the uncertainty around quality.

The lack of frequency between formal rating assessments may be another factor limiting their utility for parents. As noted in the June interim report, the wait time for an initial assessment and the period of time between quality assessments (an average of 3.3 years) means that formal ratings are not necessarily a contemporaneous reflection of a service’s quality. A number of respondents to the ACCC’s parents and guardians survey noted that

both time lag and lack of accessibility have an impact on their ability to meaningfully rely on formal ratings:

“I used the National Quality Standards initially to check a service’s rating. However even at an exceeding level, there are differences in the quality of the service and the significant lag in when services have been rated and when you are looking for your child means that staff turnover including leadership can impact the quality of the service.”

“I only came across the National Quality Standard after enrolling my child in a service and have retrospectively looked at the ratings for my nearby services (based on the quarterly spreadsheet). I don’t think this information is very accessible or easy to use – but it is important to ensuring a quality system.”

“It was difficult to interpret the National Quality Standard rating because there are so many subcategories. It’s hard to determine which ones the service rated well/not well in.”

This does not mean that quality ratings under the National Quality Framework are not meaningful to parents and guardians. First, while parents and guardians may not place significant weight on a service’s National Quality Standards rating, we note that at least some of the criteria under these ratings correlate with the factors which parents and guardians consider to be indicators of quality. Second, we expect that for some parents and guardians, the existence of formal ratings and assessment requirements provides assurance that services are meeting a minimum level of quality, and their own assessment of quality is determined from that baseline.

2.1.3. Price does influence demand, though this impact is strongest where price is too low or too high

As discussed in the June interim report, the price of childcare is particularly influential over parents’ and guardians’ initial decision about whether to use formal childcare, and how much of it to use.¹⁹ As noted above, once this affordability decision is made, non-price factors – particularly quality – appear to be more influential over parents’ and guardians’ decision-making than price.

This does not mean that price is irrelevant; while price might not be the most important consideration, it has important impacts on demand in certain circumstances. The impact of price, however, is muted by the lack of price variation within local markets (due in part to price sensitivity above and below a particular price point, discussed above and further at section 2.3.1), and the importance that parents and guardians place on non-price factors such as indicators of quality.

The Child Care Subsidy cushions the impact of price and price changes on demand

When considering the observed impact of price on parents’ and guardians’ childcare decisions, it is important to acknowledge the role that the Child Care Subsidy plays in determining the actual out-of-pocket expenses that households pay for these services. As a result, the Child Care Subsidy cushions the true impact of price and price changes on demand.

¹⁹ ACCC, Childcare inquiry [June interim report](#), p 58.

The Child Care Subsidy impacts prices for parents and guardians in the following ways:

- Prices are subsidised. This mitigates the true impact of fees and fee changes on households' budgets. For example, if a household receives a 50% subsidy rate, if they were to compare 2 services priced at \$110 and \$100 a day, they are effectively comparing paying \$55 or \$50 a day.
- The Child Care Subsidy is complex. As noted in chapter 4, the complexity of the Child Care Subsidy can make it very difficult for parents and guardians to accurately estimate their subsidy entitlement – and therefore accurately compare the out-of-pocket expenses for different services.
- Parents' and guardians' Child Care Subsidy entitlement is influenced by the amount of work, study or volunteering they do; however, the amount of time parents and guardians decide to spend on these activities is also informed by the cost and availability of childcare. This represents a cyclical relationship between what parents pay for childcare, and how much of it they use, due to the interrelated nature of the following factors:
 - The cost of childcare is determined by a household's Child Care Subsidy entitlement and the resulting out-of-pocket expense.
 - In turn, the Child Care Subsidy entitlement and resulting out-of-pocket expense is determined by the household income and activity tests.
 - Household income is influenced by labour market decisions, such as how many hours to work.
 - Income and how many hours parents and guardians work determine a household's Child Care Subsidy entitlement, which in turn determines the true cost of childcare for that household.

All of these factors have a cushioning effect on the impact of price on parents' and guardians' decision-making when it comes to childcare, and may partly explain why – as set out below – we find that while price does play a role in influencing demand, we do not observe significant price variation (or competition) within local areas.

Price is more important in attracting households than retaining them

Similar to many other services that consumers use, it appears that the price of childcare plays a more significant role in attracting new customers than it does in retaining existing ones. Once a child is settled in a service, there are a range of non-monetary costs to switching services that parents and guardians will take into account and which make existing customers more 'sticky' (for example, the loss of educator-child relationships, and the risk that the child will not settle well into a new service).²⁰ Consistent with this, one large provider of centre based day care observed that while price is an important driver for attracting families initially, it is not an important driver for retention of existing families (although it did note that fee increases *can* lead to families leaving a service). Another large provider noted that one of its services being priced too much higher than other services in the local area was the only reason potential families were not choosing that service.

While price appears to play a role in attracting new households, it is not necessarily a 'low' price that is influential – rather, parents and guardians look for services priced similarly to other services in the local area. For example, one large provider of centre based day care noted in 2021 that families are willing to pay the median price and there is no benefit to

²⁰ In preliminary results from the ACCC's parents and guardians survey, after 'I am happy with my current service' (58% of respondents), 'I don't want to disrupt my child/children' (21% of respondents) was the next most common reason cited for not switching to another service.

being cheaper. As discussed further below (section 2.3.1), we expect that this is because prices too far below the median may signal low quality, which parents and guardians do not want.

The exception to this is new services, where lower prices (in the form of discounts) appear to be common practice for attracting new households. When large providers open a new service, they sometimes offer discounted fees for an initial period of time (for example, 6 months). These services need to attract households from existing services (who are more sticky); households currently not using formal childcare at all (which may be because they consider existing services to be unaffordable); and/or households who would have entered the local childcare market at that time regardless (for example, a new child with parents or guardians returning to paid work). In all these cases, the new service is unable to rely on established reputation or word of mouth to generate demand, so price becomes an important lever.

However, existing households are responsive to price in at least some circumstances

In at least some cases, we have seen providers observe fee increases to have little or no impact on occupancy rates. This suggests that once a child is in a service, parents and guardians are sticky and care about factors other than price. This, however, is not universally the case; our review of information and documents from large providers and outreach with small and medium providers suggests that price can and does, at least in certain circumstances, have a meaningful impact on existing households' demand for childcare.

Changes in price appear more likely to impact demand when the price differs significantly from the median market price. While parents and guardians may be sticky, it seems that this may only be up to a certain point. For example, one large provider notes that it can charge up to 10% more than other providers in an area, but anything above that results in loss of customers. Another large provider similarly observed that customers become price sensitive once fees are more than 10% above competitors, and extremely price sensitive if they exceed 20%.

Interestingly, it appears that parents and guardians are also more likely to be price sensitive if a service is priced too low. For example, one large provider indicated that being priced too much lower than competitors can have a similar effect on a service's occupancy rates. This is likely due to a signalling effect, with parents and guardians perceiving a relationship between a service's price and its quality or value. Consistent with this, a small provider of centre based day care told us that prices of other competitors in the area was an important consideration in the context of not offering the lowest price, adding that parents are likely to view a cheap centre as low quality. This may be one reason why, as discussed further at section 2.3.1, we see relative convergence of prices within a local market.

Parents and guardians also appear to be more responsive to price changes in lower socio-economic areas, reflecting that increases in fees will have a disproportionately larger impact on households with lower incomes. Large providers commonly consider an area's SEIFA decile (the socio-economic status of a local area) when forecasting demand, and one large provider observed that families with lower incomes are more price sensitive. Consistent with this, in our parents and guardians survey preliminary results, respondents in SEIFA decile 1 (the most disadvantaged) were the most likely to report switching services because of fee

increases.²¹ As one large provider of centre based day care observed, in areas where families are not well off, an additional '\$20–\$50 per week for fees can be a deciding factor'.

Fee increases can be even more pronounced for households on very low incomes and/or experiencing disadvantage, who may be more likely to cease, or at least reduce, their use of formal childcare in response. As noted in our June interim report, preliminary results from our voluntary parents and guardians survey showed that, for parents who use a mix of formal and informal childcare, financial reasons were the main reason why they use informal care.

While it seems price can be influential over parents' and guardians' decision-making for childcare, it is important to remember that it is considered alongside other factors – particularly quality, as noted above. Parents and guardians may be more likely to consider price in the broader context of 'value', rather than price alone being determinative. This was observed by one large provider, which noted that families were less likely to complain about fee increases if they felt they were getting value for money and emphasised the need to focus on the value a service offered to families rather than the prices charged.

2.1.4. Each household's decision-making process is unique and influenced by their own circumstances, preferences and specific needs

While affordability, location and availability are threshold considerations for most parents and guardians, followed by comparison on the basis of quality, this is a broad generalisation of the decision-making process that most parents and guardians engage in. In reality, each household's decision-making process will be influenced by their own circumstances and preferences, as well as their child's needs.

Some households may face a completely different decision-making process to the stylised one at figure 2.1. For example, if a child needs to use in home care because no other care type is suitable or available, then the decision-making process discussed in this section has limited relevance. Alternatively, if a household has unique needs that are not widely catered to – such as requiring evening or weekend care, or particular cultural, linguistic, religious or developmental needs, this may be the critical decisive factor in the choice of service type and provider. In these cases, parents and guardians may be willing to travel considerably further for a service that meets these needs.

Different considerations will also impact how far parents and guardians are willing to travel, and therefore the size of the local market they are willing to consider. While the June interim report notes that this local market is relatively small for most households – between 2 and 3 kilometres – this observation is based on median distances travelled. Factors such as transport and work location will impact individual household decisions. For example, in high density inner-city areas, parents and guardians may need or prefer a service within walking distance and therefore consider services within a smaller radius. Similarly, while proximity to home is a key consideration for many households, there will be some for whom proximity to their workplace or relatives is more important.

Further, different parents and guardians will place a different value on the relative importance of price. As discussed at section 2.1.2, some cohorts of parents and guardians are more price sensitive than others. These parents and guardians will place greater

²¹ Of respondents who switched, 16% of respondents in an area with a SEIFA score in the first decile reported doing so because of fee increases, while this reason was given by between 4% to 7% of respondents in areas with SEIFA scores in deciles between 2 and 10.

emphasis on a service's price in their decision-making process, and may engage in more limited consideration and comparison of non-price attributes of a service.

Finally, even where the decision-making process discussed in this chapter does reflect a household's experience, the actual weights placed on different attributes of a service will differ, with different indicators of quality relatively more or less important to different households.

2.2. Providers' supply decisions are influenced by expectations of viability

The expected viability of childcare services is a key driver of a provider's supply decisions. This includes decisions about whether to supply a service at all, as well as decisions about where and how to supply those services.

The factors that influence the profitability and viability of childcare services are considered in detail in chapter 3, however this section considers the way some of these factors (including the characteristics of the local market, availability of labour and costs of supply) influence providers' supply decisions.

2.2.1. Providers consider the characteristics of the local area

Demand for childcare services in an area is heavily influenced by the demographic makeup and labour force characteristics of the local population. As such, these are key considerations for providers that are commonly taken into account in the context of proposals for new services, lease renewal decisions and strategy plans. Outreach with small and medium providers indicates that they consider similar population factors.

In addition to considering the population characteristics of a local area, providers also consider other competitors in the area – as discussed further in section 2.3. This has implications for a supplier's viability in the market (for example, the extent to which there is unmet demand and the local market price).

When considering market concentration, the June interim report focused on highly localised markets within a 2 to 3 kilometre radius of a service, though noted this was a starting point and it would depend on the particular local market in question. Consistent with this, our review of large providers' internal documents indicates that they generally consider the demographic makeup and number of competitors within that 2 to 3 kilometre range.

Providers consider the demographics of the local population

The age profile of an area is one of the most important demographic factors considered by providers, since a higher proportion of children in a population will result in greater relative demand for childcare services. The age that providers focus on tends to align with the services they provide; for example, providers of centre based day care will focus on the proportion of the population under the age of five, while outside school hours care providers are more likely to consider the proportion of children under the age of fourteen.

In addition to age, large providers often consider a wide range of other demographic factors in a local area, including but not limited to:

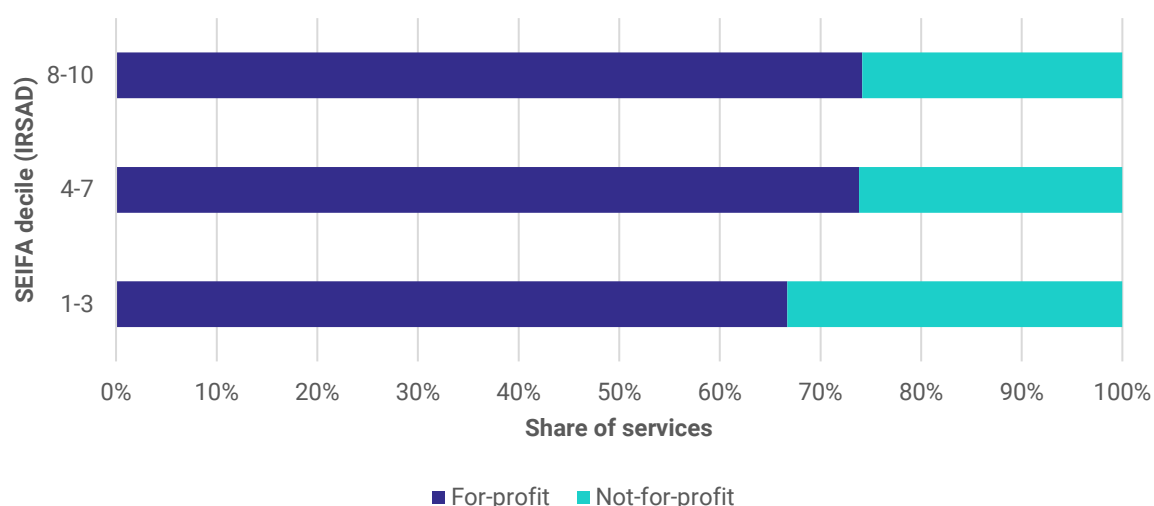
- the population growth rate or forecasts (including impacts of migration)
- the SEIFA decile

- average or median household income
- family structure (including the proportion of single parent families, and the proportion of couples with children)
- rates of religious affiliation (generally in the context of religious organisations operating childcare services)
- the proportion of home ownership and renting.

Consideration of household attributes in the area, including household income and structure, is consistent with preliminary results from our voluntary parents and guardians survey which indicate demand preferences for childcare services appear to differ on the basis of these characteristics. For example, respondents with household income less than \$73,000 were proportionally much more likely to use family day care than those with higher household incomes, and single parents were twice as likely to use outside school hours care.²²

The socio-economic status of a local area appears to be a particularly important consideration for providers, both in relation to entering a market, as well as making decisions about prices (see further below at 2.3.1). As noted in our June interim report, the proportion of children in an area enrolled in some form of childcare increases with the level of socio-economic advantage, so an area’s SEIFA decile is a meaningful indicator of likely demand.²³ Further, average fees are higher in more advantaged areas, likely reflecting higher demand (and therefore higher willingness to pay) from parents and guardians.²⁴ This may incentivise supply in relatively more advantaged areas. Consistent with this, one large provider noted a preference to establish new services in areas with a SEIFA score in at least the 4th decile. As shown in figure 2.3, there is a higher proportion of not-for-profit providers in areas in the lowest 3 deciles than in more advantaged areas.

Figure 2.3: Proportion of for-profit and not-for-profit providers, by SEIFA deciles, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

²² 11% of respondents with household income less than \$73,000 reported using family day care, compared to 5% of respondents earning \$73,001-\$180,000. For all income brackets above this, the share of respondents who reported using family day care was 2% or less. 25% of single parents reported using outside school hours care compared with 11% across all respondents.

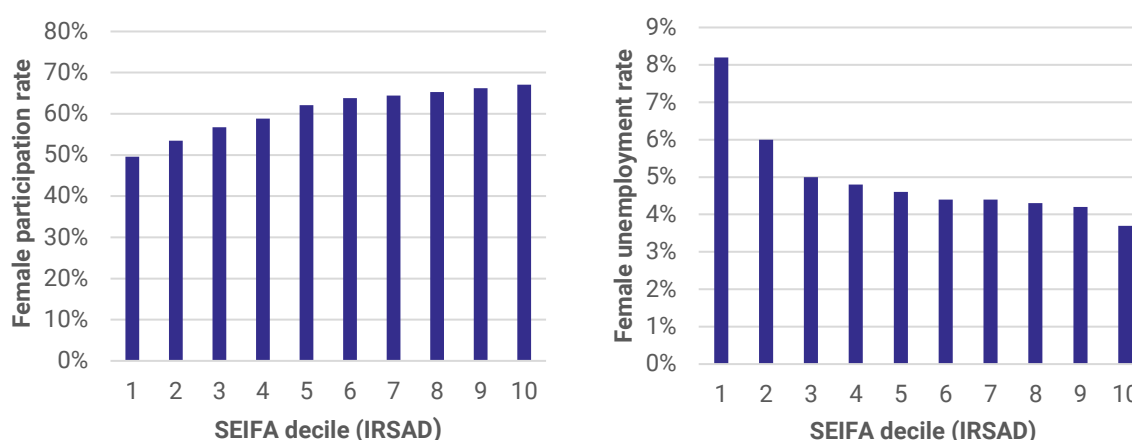
²³ ACCC, Childcare inquiry [June interim report](#), p 47.

²⁴ ACCC, Childcare inquiry [June interim report](#), p 91.

Providers also consider the makeup of the local workforce

In addition to considering local demographics, providers also consider the makeup of the labour force in an area when making supply decisions. One of the most significant of these factors is the female workforce participation rate in an area, which providers consider to be a key driver of demand for childcare. This reflects that the vast majority of parents and guardians use formal childcare so that they are able to work (97% of respondents to the ACCC's voluntary parents and guardians survey indicated they use formal childcare for this reason), so demand for childcare will be significantly higher in areas where there are more women in paid employment. As shown in figure 2.4, there is a strong correlation between an area's level of socio-economic advantage and the likelihood of women being in paid employment.

Figure 2.4: Female labour force participation rate and unemployment rate, by SEIFA deciles, 2021



Source: Australian Bureau of Statistics, 2021 Census data.

Providers also consider other workforce characteristics, including the overall labour force participation rate and unemployment rate (particularly in light of the activity test component of the Child Care Subsidy), as well as the nature of jobs in an area (for example, one large provider observed that a higher than average proportion of the workforce in white collar roles was a favourable indicator of demand for childcare).

Labour force considerations appear to be particularly important as indicators of demand. One large provider observed that the most accurate way to estimate demand for a local area was by cross referencing 2 formulae – one for estimating demand driven by female workforce participation, and the other for demand driven by children with working parents.

Providers also consider competing services in the local area

In considering the characteristics of a local area, an important factor that providers take into account is the existence and conduct of existing services. Where a provider is considering whether to enter a market, the number of existing services in the area is an important consideration alongside demand forecasts. Where a provider is already in a market, they closely monitor the price and non-price offerings of nearby services and may take this into account when making decisions about their own offering. This is explored in more detail in the competition analysis set out below in section 2.3.

2.2.2. Staffing constraints appear to be having a material impact on the supply of childcare services

The Australian childcare sector is facing a labour shortage

Workforce shortages in the Australian childcare sector have been widely reported in the media in the past 6 to 12 months.²⁵ As such, it is not surprising that in our engagement with providers and educators to date, staffing availability has emerged as one of the most significant challenges affecting the supply of childcare services in Australia.

Concerns about workforce availability have been raised almost universally across providers of all care types and sizes, with some expressing a view that shortages are only likely to worsen. In an example that is representative of the sentiment across the sector, one large provider of centre based day care reported that more than half of its centres were short-staffed in the latter part of 2022, and projected a significant increase in sector staff vacancies in the 'next couple of years'. As noted in chapter 1, these shortages are particularly acute for remote and very remote areas of Australia which have considerably higher vacancy rates than other regions, and also rely on a higher proportion of contractors.

In some cases, staffing pressures appear to impact whether a service is supplied at all – for example, we have seen at least one example of a provider closing a service and citing high labour costs and staff shortages as the reason for doing so. It seems, however, that the more widespread impact of staffing shortages is downward pressure on the number of places services offer.

Our review of large providers' information and documents has confirmed our proposition in the June interim report that lack of staff is a key reason why childcare services offer fewer places than they are approved for. For example, 'ability to attract or retain staff members' and 'issues arising from COVID-19, including availability of staff members' were the most commonly cited reasons given by large providers for offering less than the approved number of places in a service. Outreach with small and medium providers indicates this is a common experience for providers of all sizes. Consistent with this, a recent survey conducted by the Australian Childcare Alliance found that, across a single week in February 2023, more than two-thirds of the 627 childcare centres it surveyed had capped enrolments, which translated to a loss of 16,300 places.²⁶ We also understand that staffing pressures have resulted in some services engaging in 'soft capping', which involves the number of children in a room being capped for an occasional day, or taking a slower rate of enrolments, due to concerns about workforce availability and meeting [educator-to-child] ratio requirements.

We are gaining a better understanding of the factors contributing to workforce pressures through our roundtable engagement, which will feed into our final report. From our inquiry to date, some of the factors that appear to be contributing to workforce shortages include:

- Pay, conditions and holidays, particularly relative to preschools and schools. A number of providers have told us that they struggle to attract early childhood teachers, who are able to take roles in standalone preschools and primary schools that offer more regular hours, more holidays, and often better pay and conditions.

²⁵ See for example Australian Childcare Alliance, [ACA has released new survey data on the impact of work shortages on families](#) [media release], Australian Childcare Alliance, 13 June 2023, accessed 31 July 2023; K Beavan 'Childcare staff shortage forcing centres to cap enrolments, survey finds', *ABC News*, 14 June 2023, accessed 31 July 2023; The Guardian 'Australia needs 16,000 new educators to fill shortfall in childcare sector, inquiry told', *The Guardian*, 31 October 2022, accessed 31 July 2023.

²⁶ Australian Childcare Alliance, [ACA has released new survey data on the impact of work shortages on families](#), 13 June 2023, accessed 31 July 2023.

- COVID-19. In documents provided to the ACCC from large providers, there are widespread references to staffing availability being considerably worse post-COVID-19. Some of the reasons for this include staff leaving the industry completely during COVID-19 (looking for more stable and reliable work during periods of lockdown and low demand), and less reliable availability and higher absenteeism due to illness and changed attitudes toward illness. We also understand that continued delays in visa processing and some visa conditions are impacting workforce shortages, as the industry has historically relied on overseas workers to supplement the domestic labour force.
- Training and minimum qualifications requirements. This puts pressure on staff to find unpaid time to undertake placements and study for qualifications, which is particularly difficult for people who may already be in relatively low paying roles (exacerbated further by current cost of living pressures).

Issues with staffing appear to relate to both quantity as well as quality, with a number of large providers referring to challenges associated with finding 'quality' staff. The challenges described by providers are summarised well by a small provider of centre based day care during outreach, who explained to the ACCC that staff shortages had made backfilling roles impossible, so hiring and retaining lower quality staff was the only option.

As we finalise our inquiry, we are considering the extent to which scale may give larger providers an advantage in addressing staffing challenges. For example, as discussed in chapter 3, some providers have their own registered training organisations, or partnerships with registered training organisations, that allow them to offer qualifications or upskilling to staff.²⁷

Staffing shortages are increasing labour costs

As discussed in chapter 1, wages are one of the most significant costs incurred by large providers of childcare services (and are highest for providers in remote areas). Providers of all sizes have indicated that staffing shortages are adding additional pressure on labour costs, and in turn, further challenging supply of childcare services.

Staffing shortages place upward pressure on wages generally. One large provider noted that shortages had led to increased wage demands from potential staff, and lack of bargaining power with casual staff unwilling to forgo their casual loading for permanent part-time or full-time roles. Another large provider indicated that workforce shortages mean they need to attract staff who are likely already working for other providers, which requires offering employee benefits, work-life balance and higher pay. In addition to general upward pressure on wages, a number of providers have indicated that higher costs associated with using temporary staff from agencies to cover staffing shortages further exacerbate wage-cost pressures.

As noted in chapter 1, labour costs are higher in areas where there are more competitors, driven by a greater proportion of staff being paid above award wages. In an industry facing staffing shortages, providers in areas with more competitors must offer higher wages to attract staff. Higher staffing costs for providers in more concentrated local markets also partially explains the June interim report's finding that prices increase with the number of competitors in an area.

²⁷ J Roberts, [Busy Bees commits to RTO space with acquisition of Australian Child Care Career Options](#), The Sector, 5 July 2022. One Tree Community Services, [Traineeships and qualifications](#), accessed 24 August 2023. St Nicholas Pathways, [Traineeships](#), accessed 24 August 2023. Affinity Education, [Affinity Learning Academy](#), accessed 24 August 2023. ACECQA, [Shaping our future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031](#), September 2021, p 27.

When making supply decisions, providers also need to consider the cost of staff in the context of occupancy rates. As noted in chapter 3, educator-to-child ratio requirements mean that providers must manage and balance the number of children relative to educators. A small increase in occupancy (even one additional child) can trigger the need for an additional educator, and the cost of that educator may exceed the additional revenue from the higher occupancy.

2.2.3. Other factors that go to viability are also considered by suppliers

While the characteristics of a local area and labour constraints are some of the most critical considerations for providers when making supply decisions, there are a range of other factors providers also consider. Since a provider's costs directly impact the businesses profitability and viability, non-labour costs are often considered in the context of supply decisions. For example, a significant number of large providers told us that the use of land and related costs (such as rent and loan payments) limited their ability to increase the number of places offered.

Providers may also face cost challenges specific to their provider or service type, which can have implications for supply. For example, not-for-profit providers may face challenges accessing capital relative to for-profit providers. Additionally, regulatory compliance costs and administrative burden may disproportionately affect smaller providers, because large providers are able to spread costs across many services and centralise and standardise some functions.

2.2.4. In some cases, providers may still supply a service despite it not being profitable

Whilst supply decisions are generally driven by considerations of viability as outlined above, we note that there are certain situations where this is not the case and providers will choose to supply loss-making services.

The supply of unprofitable services usually occurs where providers perceive an important social benefit to providing the service, such as providing a service in an area where there otherwise wouldn't be access to childcare, or providing a service that caters to disadvantaged or vulnerable cohorts. For example, one large not-for-profit provider of centre based day care designates a number of its centres as 'social purpose' centres, which it continues to operate despite running at a loss. To be designated as a social purpose centre, this provider requires the service to be located in a low socio-economic area, in a regional or remote area with few or no other childcare services nearby, or in an area with a significant First Nations population. Where this provider has services that make a loss but which are not designated as social purpose, it still takes into account a range of non-monetary factors when making supply decisions, including the political impact of service closures, and any impacts on children with special needs.

The reasons such services run at a loss appear to be:

- a conscious decision to charge very low fees, usually where the service is located in a less advantaged area
- higher costs associated with providing care to disadvantaged children and children with special needs

- higher costs associated with operating centre based day care services in remote areas (chapter 1).

For providers with multiple services, it is possible to support the operation of unprofitable services by having other services that do make a profit. For example, another large not-for-profit provider of centre based day care noted that whilst its business overall is financially viable, this is driven by a mix of profit-making and loss-making services in its portfolio (the latter including services in low SEIFA decile areas and those with large numbers of children likely to be vulnerable). Some providers also rely on grant funding and other community support to operate unprofitable services.

2.3. The nature of competition reflects the unique demand and supply factors in childcare markets

The factors influencing demand for, and supply of, childcare, as outlined above, play an important role in shaping how competition plays out in childcare markets.

In the June interim report, we observed that competition in childcare seemed to emerge more substantively through non-price factors and service differentiation than price. We also noted that prices appeared to be set by providers with regard to parents' and guardians' willingness to pay, rather than competition – with prices higher in areas with more services (which also tend to be areas with a higher level of socio-economic advantage).

As our inquiry has progressed, this still appears to be the case. However, price does play an important role in childcare markets. As discussed below, providers closely monitor competitors' prices. Rather than resulting in competition based on price, our analysis suggests it contributes to significant price convergence within local markets (along with the nature of the services, the muted impact of price due to the operation of the Child Care Subsidy and the high importance parents and guardians typically place on quality).

This section considers the nature of competition in childcare markets, including the role of price and the extent to which providers compete for existing customers.

2.3.1. Price competition in childcare markets

As noted in section 2.2.1, providers consider competitors (or potential competitors) in a local area when making supply decisions. These decisions include whether to supply a service at all, as well as decisions about where and how to supply those services (for example, at what price). In turn, these decisions also have implications for the competitive landscape of the local market.

Providers monitor competitors' prices and take them into account when setting their own fees

On the basis of preliminary information, the June interim report noted that providers appear to consider the prices of nearby competitors to at least some degree when setting or changing fees.²⁸

²⁸ ACCC, Childcare inquiry [June interim report](#), p 67.

Consistent with this, our review of large providers' information and documents and outreach with small and medium providers indicates that comprehensive price monitoring of nearby competitors is commonplace in childcare markets.

Providers use information about competitors' prices to inform their own decisions about fees. However, rather than seeking to compete with lower prices, it appears that providers engage in price monitoring to ensure their own prices are largely in line with competitors (for example, a provider may recommend a fee reduction where their fees are higher than other providers in the area, or an increase in fees if their prices are lower). Part of monitoring prices also involves monitoring price changes, which allows providers to observe the impact of competitors' fee changes and factor it into their own decision-making. For example, one large provider considered reactions on social media to other providers' fee increases when setting prices.

The result is that within a local area, there are only small variations in price across services

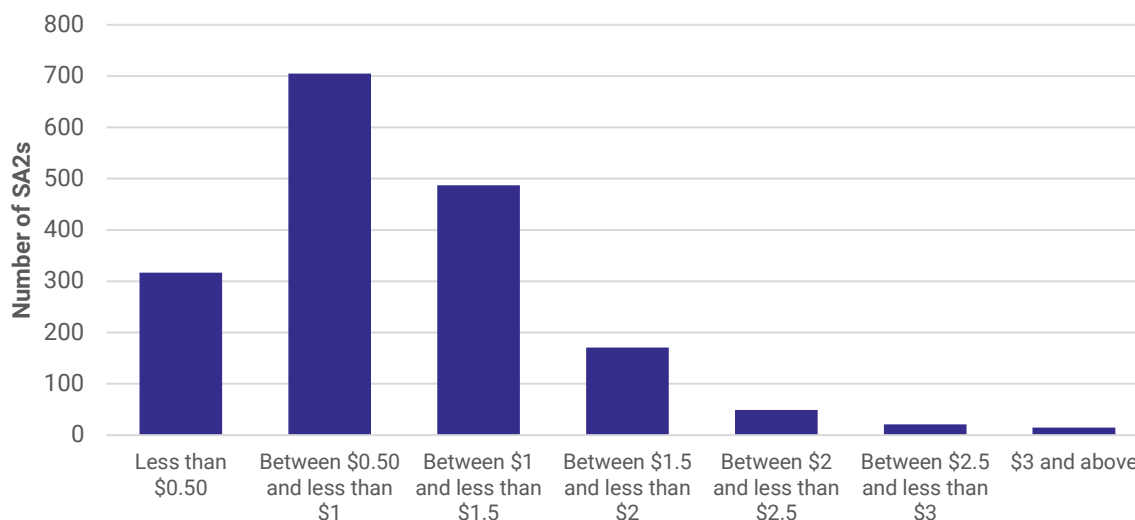
With providers aiming to set prices largely in line with nearby competitors, we observe that there is limited price variation within the local markets that providers compete for customers in. However, there is variation in childcare prices across Australia.

To illustrate the limited price variation within local markets, we have calculated the standard deviation of price within each 'Statistical Area Level 2' (SA2) with at least 3 providers.

- Statistical Areas are geographic areas specified by the Australian Bureau of Statistics for special analysis. The SA2 level we have used in our analysis vary in size, but generally align with suburban boundaries in metropolitan areas and local communities in regional areas. While they will not perfectly match each local market in Australia, they are a useful approximation.
- Standard deviation is a statistical measure of the variation between different values. For example, if we had a sample of 3 services that all charged an hourly fee of \$10, then the standard deviation would be \$0. If instead those 3 services charged \$10, \$11, and \$12 dollars respectively, the standard deviation would be \$1.

Figure 2.5 presents these results using average hourly fees for centre based day care. We see that the standard deviation of price is less than \$1.00 per hour in the majority of SA2s and less than \$1.50 in about 90% of all SA2s.

Figure 2.5: Distribution of standard deviation in average hourly fees by SA2s, centre based day care, 2022



Note: SA2s with fewer than 3 services are not included in analysis of variance.

Source: ACCC analysis of Department of Education administrative data.

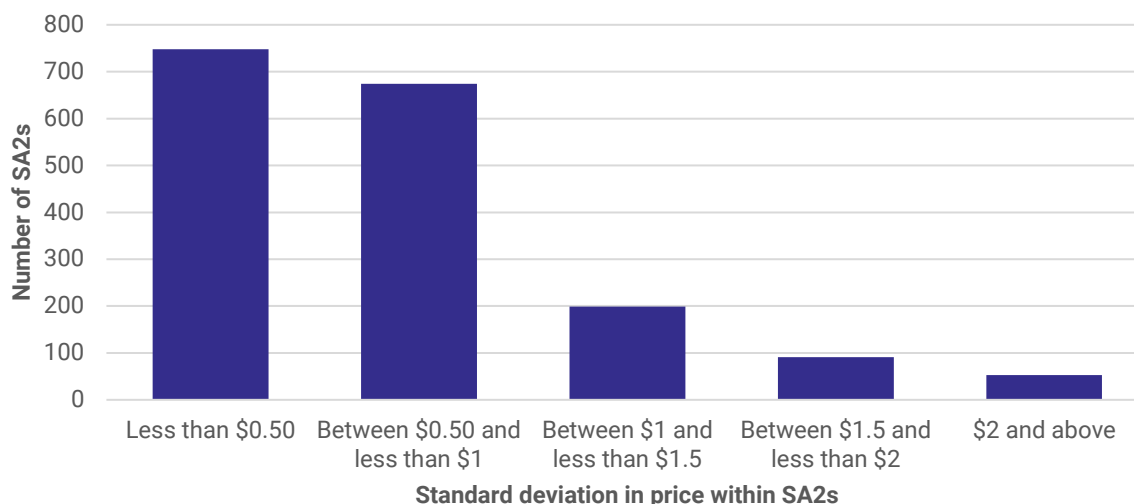
A standard deviation of \$1 means that most prices in an SA2 will be within a range of \$1 below the average hourly price and \$1 above the average hourly price. This means that, in a local area, the range in price between the lowest priced service and the highest priced service may only be \$20 a day for a 10-hour session. This doesn't factor in differences in quality or other non-price factors that parents and guardians value.

One way to compare how the variation in childcare prices compare to other sectors is to calculate what economists call 'price dispersion'. One common measure of price dispersion is calculated by dividing the standard deviation by the average price and presented as a percentage. We estimate the price dispersion of centre based day care to be approximately 8%. A 2006 study²⁹ of scan data from supermarkets in Chicago estimated the price dispersion of various products (that is, how much the price of the same product varied across brands and stores). The estimated price dispersions in the study ranged from 8% (for sugar and dryer softener) to 20% (for bacon and soft drinks), meaning the price dispersion of childcare is equivalent to that of a generic, unprocessed item like sugar, which has little variation amongst brands.

Because childcare services are subsidised under the Child Care Subsidy and parents do not pay the full cost, they won't necessarily pocket the full reduction in price. Figure 2.6 presents the variation in just the out-of-pocket expenses paid by consumers within SA2 centre based day care markets. It shows that the standard deviation in out-of-pocket expenses is less than \$0.50 per hour in around 40% of SA2s and less than \$1.00 per hour in around 80% of all SA2s.

²⁹ Y Zhao 2006, *Price dispersion in the grocery market*, Journal of Business 79, pp 1,175–1,192.

Figure 2.6: Distribution of standard deviation in average hourly out-of-pocket expense by SA2s, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

Almost all SA2 markets had a standard deviation of the average hourly out-of-pocket expense of less than \$1.00, and most commonly it was \$0.50 or less. This is smaller but similar to the variance observed in the whole average hourly fee, perhaps suggesting that where the variance in price exists, more of that variance is passed through to customers.

Most providers indicate that local market conditions – that is, the demand and supply factors unique to a local area – are a key consideration when setting fees. This is consistent with the price convergence we see within SA2s (and local markets) because services in a local area will face similar levels of demand as well as similar location-specific costs such as rent and labour.

For the same reason, it also explains differences in prices between (rather than within) local markets – with local demand factors (such as female workforce participation rates, unemployment rates and socio-economic advantage) and some supply costs varying considerably by location. As set out in chapter 3 of the June interim report, there is considerable variation in average prices for centre based day care on the basis of both remoteness and socio-economic advantage, with prices higher in areas that are more advantaged and less remote.³⁰ Higher market prices in these areas are likely to be driven – at least in part – by higher demand and higher willingness to pay, since these areas are associated with higher rates of female workforce participation, lower unemployment and higher household incomes.

Providers setting prices in the vicinity of those offered by other providers in the area is consistent with parents and guardians being most price sensitive where prices are too far below or too far above the median price in the local area (discussed above at 2.1.2). It is also consistent with non-price factors being key considerations for parents and guardians (section 2.1.1) as differences in price are likely to be relatively minor. For this reason, it is not surprising that price monitoring is often part of broader competitor monitoring that includes analysis of the non-price offering of competing providers. Some of the things we have seen large providers monitor include competitors' vacancies, formal quality ratings, centre features and presentation (for example, the perceived attractiveness of competitors' outdoor areas and facilities), hours of operation and inclusions (such as nappies and meals). These

³⁰ ACCC, Childcare inquiry [June interim report](#), p 79.

considerations largely reflect the things that drive parents' and guardians' demand for services, as discussed at section 2.1.1 and suggest that competition can only be relied on to a very limited extent to put downward pressure on prices.

In addition to competitors' prices, providers take a number of other factors into account when setting fees

When making pricing decisions, competitors' fees are a key consideration for providers. However, as observed in the June interim report, this is sometimes alongside a range of other factors as well.

The Child Care Subsidy hourly rate cap is an important consideration for some providers when making fee decisions. For example, providers may be more likely to increase fees where prices are below the hourly rate cap. When contemplating fee changes, the hourly rate cap is often considered in the context of the impact on parents' and guardians' out-of-pocket expenses. From information and documents provided to the ACCC, this appears to be particularly common for services in less advantaged areas and/or services that cater to vulnerable cohorts. As noted at section 2.2.4, in these cases, considerations of social equity can drive decision-making, and may result in providers seeking to minimise parents' and guardians' out-of-pocket expenses.

Where there are increases to the hourly rate cap (due to indexation), providers may consider whether to adjust their own prices in response. As discussed in chapter 3, increasing fees to offset annual increases in operating costs appears to be important to sustaining a profitable and viable childcare service. Large providers may align fee increases with indexation of the hourly rate cap to moderate the impact of fee increases on households' out-of-pocket expense and increase or maintain otherwise unsustainable profit margins.

Rather than prices though, the more significant impact of the Child Care Subsidy on providers' supply decisions appears to be its role in influencing utilisation strategies. For many providers, a key strategy for increasing occupancy appears to be identifying households not using their maximum number of subsidised hours and encouraging them to pick up an additional session, usually emphasising to the family that because of the unused subsidised hours the additional day will only incur a small additional out-of-pocket fee. For detailed consideration of the way in which the hourly rate cap operates and influences providers' decisions about session length, see chapter 4.

In addition to competitors' prices and the Child Care Subsidy, there are a number of other factors that providers have told us they take into account when setting prices. These factors largely reflect the various demand and supply influences outlined earlier in this chapter, and include:

- costs to supply the service, including rent costs and labour costs, which can both differ significantly by location
- the age of the child in care, with some providers varying fees by age to reflect the higher costs associated with providing care for younger age groups
- the quality of the site, including the centre's age
- the centre's reputation in the local community
- inclusions provided by the service
- the occupancy or utilisation rates.

When setting fees, some providers also offer discounts in particular circumstances. This can include introductory fee offers for new centres (noted above at 2.1.2), as well as discounts

through corporate partnerships (for children of parents and guardians who work for a particular employer), discounts for children of employees of the provider, discounts for siblings, discounts for a higher number of days, and discounts for holiday periods.³¹ Distinct from discounts, we note that financial incentives or other incentives not directly associated with the quality or provision of childcare services have been prohibited since January 2023.³²

2.3.2. Competition to attract and retain households

Competition between childcare services is influenced by the extent to which parents and guardians perceive different services (and service types) to be substitutes, and their willingness to switch between them.

Parents and guardians do switch between childcare services in certain circumstances. One large provider of centre based day care noted that each year a third of its children leave their services for reasons other than starting school. Since these children are not ageing out of centre based day care, they are either switching to another childcare service or opting out of formal childcare completely. ACCC analysis of enrolment data indicates that just under 40% of children who attended a centre based day care or family day care service for 50 or more hours during 2021 did not attend that service at any point in 2022. Most of this turnover is due to either children ageing out of the service (because they begin primary school), switching to standalone preschool or kindergarten, or moving to a new location and switching to a service in that local area. We find that the level of switching within a local market (that is, a child moving from one service in a local market to another service nearby) is low.

Because a centre will lose a sizeable proportion of children each year, most providers will need to continuously work to attract new households to maintain profitable occupancy rates. As outlined in section 2.3.1, this is done through both price and quality levers which usually apply to the service as a whole.

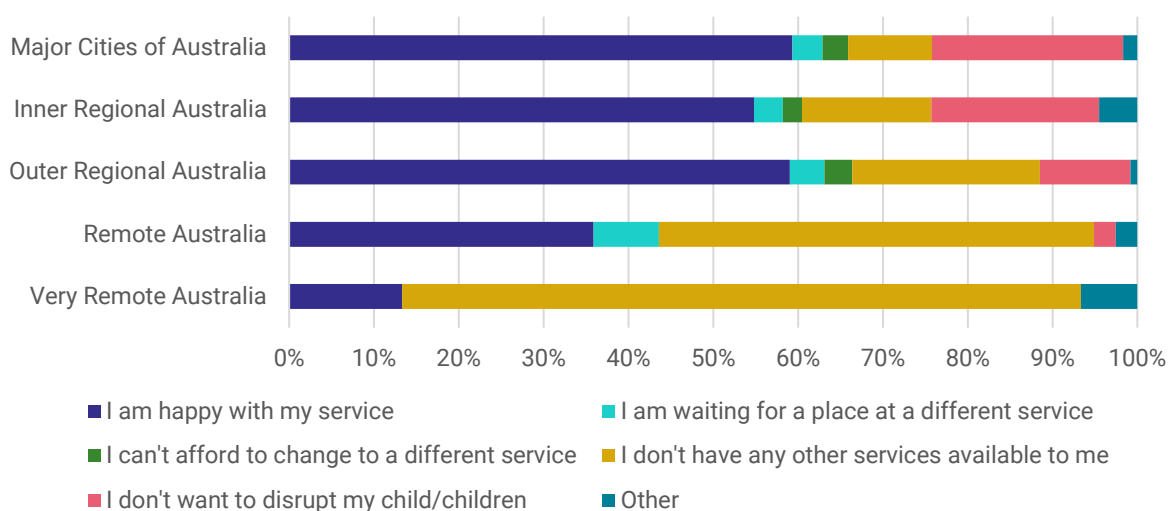
One consequence of this is that existing households of a service will benefit from providers' attempts to attract new households, even though these households may be unlikely or unwilling to switch providers themselves. This is different to some other industries, like retail electricity and financial services, where existing customers often incur a loyalty tax. The difference is that in these sectors, customers typically face differentiated or individual prices that allow companies to specifically target these 'sticky' customers.

As with choosing a service to begin with, it is important to note that the extent to which parents and guardians can exercise choice to switch services depends on availability of alternatives. In responses to the ACCC's parents and guardians survey, lack of availability in alternative services was the main reason (by a considerable margin) that parents and guardians in remote and very remote areas did not switch between services, suggesting that the opportunity to switch between services – even if willing to do so – is very limited in more remote areas (figure 2.7).

³¹ Discounted fees must be accurately reported so that a family's Child Care Subsidy is calculated on the basis of the discounted fee. The exception is discounts for employees of the provider, which do not affect an employee's Child Care Subsidy entitlement. See Australian Government, [Child care discount for early childhood workforce](#), Department of Education, accessed 30 August 2023.

³² Australian Government, [Changes to inducements in early childhood education and care sector from 2023](#) [media release], Department of Education, 24 November 2022, accessed 30 August 2023.

Figure 2.7: Reasons for not switching services of the same type, by remoteness



Source: ACCC voluntary parents and guardians survey.

Where switching does occur, it is more likely to be on the basis of quality considerations

As noted in the June interim report, switching services means a child needs to settle into a new environment and build new relationships, which parents and guardians may wish to avoid.³³ This results in greater price stickiness once households are in a service, with price more influential over parents' and guardians' choice of service rather than decisions to move between them (section 2.1.2).

As such, it is not surprising that when switching between childcare services does occur, it is more likely to be based on quality considerations than on price. Consistent with quality being a key driver of demand for childcare services (section 2.1) and as observed in the June interim report, 'not happy with quality' was the most common reason respondents to the ACCC's voluntary parents and guardians survey gave for switching from one service to another of the same type (22%), with 'moving location' the second most common (19%).³⁴

The quality of educators and child-educator relationships seems to be one of the most important factors influencing switching decisions. One large provider of centre based day care observed, 'families want consistent, stable, quality educators above all else'. Consistent with this, providers of varying sizes have identified a strong link between staff turnover and retention, with children more likely to leave a service early (that is, prior to school age) when there is high staff turnover and disruption to educator-child relationships. Highlighting the importance parents and guardians place on educator quality and relationships, we have seen at least one example of a service losing multiple households to a nearby competitor due to a particular educator moving there. The importance of staff quality and stable tenure to a service's profitability and viability is explored further in chapter 3.

³³ ACCC, Childcare inquiry [June interim report](#), p 62.

³⁴ See ACCC, Childcare inquiry [June interim report](#), p 62. Fee increases were only given as a reason by 6% of respondents. Note that in home care only had a sample size of 9 and has therefore been excluded from this analysis.

Some children over the age of 3 switch to standalone preschool

Our review of information and documents suggests that, for at least some households, standalone preschools are considered a substitute to centre based day care for children over the age of three, and therefore impose some degree of competitive constraint on centre based day care services. One large provider of centre based day care noted that the age of a child is a key factor influencing parents' and guardians' likelihood of prematurely leaving a service, with the risk highest for 3 and a half year olds which represents the age at which households choose to move their child to standalone preschool / kindergarten prior to starting school. This provider observed in 2021 that 'long day care services [...] have historically been challenged to retain children into their Kindergarten year as parents move to sessional or "real" kindergarten. This situation hasn't changed.'

In some cases, a child may not necessarily leave a service completely for standalone preschool, but instead attend a combination of the 2 that results in reduced use of centre based day care. In preliminary results from the ACCC's voluntary parents and guardians survey, 15% of respondents indicated that they had limited their use of centre based day care because their child started attending standalone preschool on some days. This may become more common in light of recent increases in funding for preschool in Victoria, New South Wales and South Australia.³⁵

Consistent with standalone preschools imposing some competitive constraint on centre based day care services, some providers' competition analysis and market monitoring includes consideration of the offering of nearby preschools and kindergartens.

2.4. Competition operates differently for outside school hours care services

The outside school hours care industry has grown significantly in the last 2 decades, with the use of before school care, after school care and vacation care much more widespread than it once was. This is not surprising given the growth in the number of two-parent/guardian working households over the same period and because, for most parents and guardians, school hours do not align with working hours.

As discussed in the June interim report, outside school hours care markets operate differently to other childcare services. The key difference is that parents and guardians generally have limited choice of service because children attend the service attached to their school. This has significant implications for competition; unlike centre based day care, providers do not compete with other providers to attract children to their service, but they do compete for the right to run a service. This section considers:

- factors that drive demand for outside school hours care from both households and schools (section 2.4.1)
- factors that influence outside school hours care providers' supply decisions (section 2.4.2)
- the competitive dynamics unique to outside school hours care markets, including the impact of tender processes on competitive outcomes (section 2.4.3).

³⁵ See Australian Government (16 June 2022) [Commonwealth welcomes additional funding from Victoria, NSW for early childhood education](#) [media release], Department of Education, accessed 30 August 2023; Warriner J (28 August 2023) [Changes are on the way for SA's early education sector. How will they impact you?](#), ABC News, accessed 30 August 2023.

2.4.1. Demand for outside school hours care is primarily price driven, because parents and guardians have limited choice

Parents and guardians do not necessarily have a choice of service, so availability and price are critical

Since children usually attend the outside school hours care service attached to their school (at least in the case of before and after school care), the primary consideration for parents and guardians is whether to attend a particular service, rather than which service to attend. This was reflected in comments from respondents to the ACCC's voluntary parents and guardians survey:

"All these questions about choices and criteria for choices and decisions about moving service etc make me think "If only!". In the world of outside school hours care there is no choice of service. The only choice is to use the available monopoly provider, or not use it. If you're unhappy with the fees, the quality or even the safety, your options are almost non-existent."

"There is really no choice when it comes to finding outside school hours care for families – particularly if you are going to your local public school. If there is no outside school hours care onsite or they have limited availability (or like in our case when you are not 100% happy with the provider being a large corporate provider) you don't really have any alternative options."

"I chose my outside school hours care service because it was located at my child's school; there wasn't an option in relation to location."

This means that for parents and guardians considering the use of outside school hours care, the decision-making process is likely to be focused almost exclusively on availability and price, with parents and guardians asking:

- are there spots available for my child in the outside school hours care service attached to their school?
- if so, am I willing to pay the service price?

Like other childcare services, lack of availability may dictate whether parents and guardians can use outside school care services at all. As a threshold question, availability is likely to be more limiting for before and after school care relative to other childcare services; if a service has no available spots, parents and guardians do not have the option to consider an alternative service, even if there are ones with availability. While some respondents to the ACCC's voluntary parents and guardians survey indicated they had no problems accessing outside school hours care services at their school (for example, "Accessing outside school hours care at our public primary school has been very easy"), other respondents suggested that lack of available places is a key constraint on some households' ability to use outside school hours care:

"The lack of available places for after school care (amongst other issues facing parents trying to access childcare) is causing a generational divide between working parents in the workplace."

"Vacation care is often booked out one minute after bookings open forcing me to take time off when it is not ideal for my workplace."

“Capacity needs to be increased as more parents are using outside school hours care and vacation care at public primary schools now following covid.”

Assuming a before or after school care service has places available, the lack of choice between services means that the key consideration for parents becomes price. As one large provider of both centre based day care and outside school hours care noted, in contrast to centre based day care, ‘price is the key factor’ for outside school hours care services. Since parents and guardians generally do not have a choice between services, price is important in an absolute sense rather than a relative since (that is, am I happy to use the service at this price, or not at all).

Consistent with parents and guardians making a choice between using an outside school care service or no service at all, a number of large providers of outside school hours care told the ACCC that the main alternative care type for outside school hours care is informal care (such as care from friends or family). The level of active supervision children require generally reduces as they age, and older children may also be able to get to and from school without parental or guardian supervision (for example, walking or using school or public transport). As such, informal care arrangements may become a more viable alternative to outside school hours care as children progress through primary school.

We note that family day care services and some centre based day care services can provide formal care for school aged children, so may be an alternative to outside school hours care for some households. However, these services are not widely offered or utilised for school-aged children. Further, practical considerations (such as transport and convenience) mean that, at least for before and after school care, the service located on the child’s school is most often the only practical choice for parents and guardians who wish to use formal childcare for their school-aged child.

Non-price factors may be considered, particularly for vacation care and as children age

While availability and price are generally the most important considerations for parents and guardians when deciding to use an outside school hours care service, households may take into account other, non-price factors. Some providers told us that parents and guardians may consider:

- staff (including quality and qualifications of staff, staff turnover, relationships between staff and children and number of staff in the context of staff ratios)
- safety
- the convenience of booking policies and quality of customer service
- inclusions (such as excursions)
- the quality rating
- access to inclusion support, if the child has specific needs
- whether siblings or friends attend the service
- attendance rates (with value placed on the potential for children to build connections with peers and feel part of a community).

These factors are very similar to indicators of quality parents and guardians consider in relation to centre based day care (see 2.1.1). Consistent with centre based day care, to the extent that parents and guardians do consider indicators of quality, this is more likely to be based on their own experience with the service rather than formal ratings. However, for

before and after school care, it is important to note that (as with price) these factors are considered in the context of a decision to use or not use a service, rather than comparing services. As such, parents and guardians are likely to place less weight on them in relation to before and after school care relative to centre based day care.

In the case of vacation care, parents and guardians have greater choice over the service they attend, and therefore non-price factors may be more important considerations. As noted by 2 large providers of outside school hours care, unlike before and after school care, parents and guardians do have the option to drop their child off at a vacation care service of their choice which may or may not be connected to their school. As such, in addition to the factors listed above, location may also be a relevant consideration for vacation care.

While limited choice of service may mean that non-price attributes of outside school hours care services are likely less important considerations for parents and guardians relative to other types of childcare, it is important to keep in mind that:

- quality considerations will be more important to some parents and guardians than others. For example, one respondent to the ACCC's parents and guardians survey noted:

“I prefer to use not for profit services as they are more flexible, have longstanding educators and offer better quality of care. It is becoming much harder to find these services. Many local councils are not running services. We need more community based not for profit services that make children a priority and not to be focused on corporate providers who are only concerned about profits and quality care when the regulator shows up!”
- quality is a much more significant consideration for schools, who take it into account when selecting a provider. As discussed in section 2.4.3, providers compete on both price and quality for the opportunity to run a service.

Long term impacts of COVID-19 continue to impact demand for outside school hours care services

COVID-19 has had a significant impact on the demand for all childcare services in recent years. Most providers the ACCC has engaged with have referred to decreased demand due to government imposed lockdowns during 2020 and 2021, followed by an uptick in demand resulting from the temporary free childcare initiative (as discussed in the June interim report).

It appears that COVID-19 continues to impact demand for some outside school hours care services, due in part to long term changes in working patterns. For example, 2 large providers of outside school hours care services reported that demand has not returned to pre-COVID levels, and others observed long term challenges associated with changed work patterns (particularly more widespread working from home arrangements). As discussed further in chapter 3, this may be impacting the profitability of providers in some areas. For some parents and guardians, increased workplace flexibility and the ability to work from home is likely to result in shorter work days (without commuting), the ability to pick children up from care during their work day, and the option to simultaneously care for their child and work (which, as noted above, may be more feasible for older children who require a lower level of care and supervision).

2.4.2. Providers of outside school hours care consider similar supply factors to other childcare services

Consideration of viability drives supply decisions

While demand for outside school hours care operates quite differently to other childcare services, suppliers of outside school hours care services appear to consider many of the same factors as centre based day care in relation to supply decisions.

In particular, ensuring the financial viability and sustainability of a service is the key driver for most large providers of outside school hours care services. This is likely to influence where providers are interested in operating. For example, one large provider of outside school hours care deemed a number of potential services not viable due to being located in regional or remote areas, or having less than 200 children enrolled.

As with centre based day care, determining viability and making supply decisions (including in relation to price) involves providers considering local demand factors as well as running costs, specifically:

- prices charged by other services in the area (particularly when deciding what fees to propose during a tender process)
- an area and/or school's demographic makeup
- costs of service delivery (particularly staffing costs and land or licence fee costs). Related to this, one large provider of outside school hours care noted that they took into account contract length, because shorter contracts with schools resulted in higher staff costs due to it being harder to recruit staff for short term roles
- educator-to-child ratio requirements, which vary by school (for example, one large provider of outside school hours care noted that a school with high behaviour needs may require a provider to offer a higher ratio than that mandated by the government)
- CPI increases.

As with centre based day care, a number of large providers of outside school hours care told us they consider the Child Care Subsidy hourly rate cap (and relatedly, the out-of-pocket expense for parents and guardians) when making fee decisions. One provider noted that the July 2023 increase in the hourly rate cap could lead to more bookings by existing parents, new parents entering the market, and/or the ability to support a higher price. The provider noted that it presented an opportunity to increase prices up to the point that the average out-of-pocket expense remained unchanged, so that parents were no worse off.

In contrast, one large provider of outside school hours care noted that while the Child Care Subsidy informs parents' and guardians' affordability considerations, it has minimal impact on their pricing decisions. The provider said this is due to the outside school hours care pricing structure, which results in the hourly rate cap having "minimal material effect on the out-of-pocket expenses to families". We expect this is due to the downward pressure license agreements place on prices and that, as noted in the June interim report, the national average hourly fee for outside school hours care is substantially below the hourly rate cap.³⁶

During outreach, an outside school hours care provider expressed frustration that different regulatory requirements for childcare premises and school premises give rise to a situation where a building on school premises that is used for outside school hours care is deemed suitable under state education requirements but does not satisfy particular criteria under the

³⁶ ACCC, Childcare inquiry [June interim report](#), p 118.

National Regulations. This may be affecting some providers' costs and influencing supply decisions.

Decisions about fees may be limited by licence agreements

Since third-party providers of outside school hours care compete with other providers for the right to operate a particular service, the supply factors outlined above will be taken into account when deciding which services to tender for, and what proposal to put to a school.

Once a provider is running a particular outside school hours service, their ability to make subsequent supply decisions is restricted by their contractual relationship with the school. As noted in the June interim report, licence agreements between schools and providers often determine the licence fees paid to the school for the use of their premises, fees charged to parents, the length of the agreement and renewal options.

These agreements often limit the ability of a provider to increase fees, and the frequency at which they can do so. For example, one large provider of outside school hours care services noted that fee increases in public schools in certain jurisdictions require approval, and as a result they were locked into contracts for some services that were not financially viable. In other cases, licence agreements may place a limit on the amount of fee increases providers can implement over the course of the contract.

2.4.3. Providers 'bid' for a market, so competition is more likely to occur for a market than within it

In some cases, schools run their own outside school hours care service (for example, a service may be managed by the Parents and Citizens Committee). However, where outside school hours care services are run by third-party providers, these providers compete for the right to operate a particular service. One large provider of outside school hours care estimated that around 1,500 providers of outside school hours care compete for 350 open opportunities to run services each year.

Some types of schools may be more likely to use third-party providers of outside school hours care than others. For example, one large provider of outside school hours care services indicated that Catholic schools are increasingly operating their own outside school hours care services, rather than selecting a third-party provider to do so. Consistent with this, a large Catholic diocese in New South Wales noted that they were in the process of transitioning to operating before and after school care services in their schools that were currently provided by private organisations.

As discussed in our June interim report, the way in which a third-party outside school hours care provider is selected to run a service depends on the jurisdiction and specific school. For government schools, the relevant state or territory body usually sets the procurement and tender processes that must be followed. Among religious and independent schools, there is greater variation in process.

Tender processes encourage providers to compete on both price and quality

The ACCC has reviewed tender guidelines for government schools in different states and territories. While processes and criteria for selecting a provider do vary, they all tend to focus on price and quality in order to select the provider that delivers the best value for money. Quality considerations may include both formal quality ratings as well as other indicators of

quality, such as the provider's educational program, inclusions (like food) and the service's history.³⁷ For non-government schools, a provider's alignment with the school's values and goals may also be a relevant consideration.

The extent to which tender processes facilitate price competition depends on their design. For example, one large provider of outside school hours care noted that license fees for government schools in New South Wales are set by the government, preventing competition on the basis of price alone. In contrast, this provider observed that license fees being at the discretion of the school in Victoria had seen a 'competitor price war' emerge.

Further, the length of the contract term can influence the level of price competition that a tender process facilitates. For example, one large provider of outside school hours care observed that a relatively short recontracting period of 2 years in Western Australian public schools meant that more competitive pricing is required to maintain market share.

When providers of outside school hours care compete on the basis of price, this can be through both the proposed fee structure for households as well as any license fees paid to the school for use of their premises. From information and documents we have seen, license fees can range anywhere from \$8,000 to \$100,000 per year (sometimes with incremental increases over the period of the contract). More competitive tender processes put upward pressure on license fees. For example, one large provider of outside school hours care noted that tender processes in Victoria, Western Australia and independent schools are relatively more competitive and result in pressure to offer higher license fees to schools. In some cases, licence fees may be tied to particular conditions under the contract; for example, one large provider of outside school hours care proposed a licence fee structure that was tied to service fees – the amount that the provider proposed to pay the school in 'rent' was commensurate to the fee charged to parents. In circumstances like this, schools may face a trade-off between the economic benefit to the school and value for households.

There are however circumstances in which schools do not charge license fees at all. This is often in cases where the provider is a not-for-profit (for example, policies in South Australia, Tasmania and Victoria prevent government schools charging licence fees to not-for-profit organisations), though some schools may choose not to charge a licence fee regardless of the profit status of the provider (for example, we saw one example of this in an area with particularly low demand).

To gain a competitive advantage in tender processes, outside school hours care providers may also offer additional financial incentives to schools, such as funding for programs or equipment that benefit students, or the potential for extra payments tied to the number of enrolments.

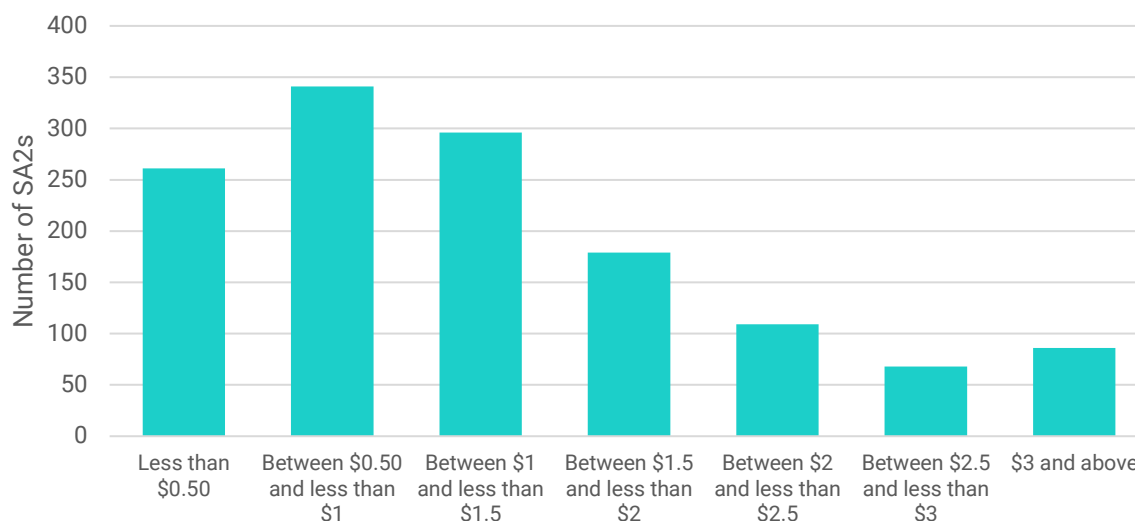
Relative to centre based day care, there is greater price variation among nearby outside school hours care services

Likely because parents and guardians have limited choice of service, and consistent with providers competing on the basis of price, we observe greater variation in prices within SA2s for outside school hours care relative to centre based day care (as discussed above at section 2.3.1). As shown in figure 2.8, while the variation in the average hourly fee for outside

³⁷ For example, see NSW Department of Education, '[OSHC Provider Category Review Information Session](#)', NSW Department of Education, NSW Department of Education website, January 2022, accessed 26 August 2023; Queensland Government, Department of Education, [Outside School Hours Care services for Queensland State Schools](#), Queensland Government, Department of Education website, 20 February 2023, accessed 26 August 2023; Government of South Australia, Procurement Services SA, Guidelines, [Evaluation Process Guideline](#), Procurement Services SA website, 17 February 2023, accessed 26 August 2023; Government of South Australia, Procurement Services SA, Templates, [Evaluation Criteria Questions Bank](#), Procurement Services SA website, 17 February 2023, accessed 26 August 2023.

school hours care within an SA2 is still quite small, it is larger than for centre based day care. As observed in the June interim report, average hourly fees for outside school hours care are considerably lower than for centre based day care. As such, the greater variation among prices in an SA2 relative to centre based day care is further pronounced relative to the average hourly price of the service.

Figure 2.8: Distribution of standard deviation in average hourly fees by SA2s, outside school hours care, 2022



Source: ACCC analysis of Department of Education administrative data.

The design of a tender process has implications for supply in that market

Different tender processes and policies across jurisdictions and school types have implications for the nature of supply across markets.

Different competitive dynamics may impact the ability of not-for-profit providers to compete in a market. This was observed by a large provider of outside school hours care services which indicated that in states and territories that they consider to have less attractive tender processes and commercial dynamics there is a higher proportion of not for profit providers. Some small and medium providers have made similar comments to the ACCC, noting that bigger for-profit providers may be able to offer schools greater financial incentives to secure a tender. A number of providers of outside school hours care have also told us that certain providers may submit unprofitable tenders in order to secure the win. As discussed further in chapter 3, we observe significant differences in profit margins when comparing outside school hours care services by size, profit type and location (on average in 2022, larger providers and for-profit providers had lower profit margins, and large providers in outer regional areas had higher profit margins).

Competitive pressures may also differ across the 3 service types offered by outside school hours care providers (before school care, after school care and vacation care). One large provider indicated that each of these services uses different business models, with differences in associated costs and prices.

3. Profits, viability and quality

Key points

- The childcare sector is widely viewed as a safe and strong investment with guaranteed returns, backed by a government safety net. Revenue in childcare services is forecast to grow at an annualised 4% between 2023 and 2028.
- The primary focus of all providers is to deliver high quality early learning and care to children and households. However, providers differ in their approach to achieving this outcome, based on their operating model.
- Margins for providers of centre based day care and outside school hours care vary by provider type, provider size, geographic location and quality rating. Margins also vary service-to-service, and year-to-year.
- Centre based day care services with higher occupancy rates have higher average profit margins, for both for-profit and not-for-profit providers.
- Annual fee increases help to offset any increases in operating costs and likely help to maintain consistent margins.
- Educators and staff have a significant impact on the quality and reputation of a childcare service. They help generate and sustain profits through their influence on occupancy and contribute to the ongoing viability of the service through stable tenure.
- Childcare real estate investment is attractive due to the long-term leases and stable tenants backed by government support, as well as high underlying land values.
- Family day care services operate differently to centre based day care services, but still face some of the same demand and supply challenges, which have consequences for profits, viability, and service quality.

Draft findings relevant to this chapter:

- **Draft finding 9:** On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.
- **Draft finding 10:** Occupancy is a key driver of revenue and therefore profits and viability.
- **Draft finding 11:** On average, margins are higher:
 - for for-profit providers of centre based day care than not-for-profit
 - in Major Cities and more advantaged areas
 - for services with higher quality.
- **Draft finding 12:** The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service.

This chapter discusses the impact of some of the factors affecting supply, demand and competition (discussed in chapter 2) on childcare provider viability, quality and profits.

This chapter focuses on centre based day care and outside school hours care services, noting they comprise the majority of the childcare services sector (97% of all childcare

services in 2022).³⁸ We consider family day care services at a high level but do not have sufficient information to thoroughly examine their profitability and viability.

We exclude in home care services from our analysis due to insufficient information and in light of the Department of Education's recent review of in home care services.

We examine profitability of centre based day care and outside school hours care based on information provided to the ACCC and some public data, taking into consideration some of the factors that may influence and change profitability over time to understand long-term viability. We also consider how some of these factors can impact the quality of a service.

The ongoing viability of the sector is extremely important to ensure children receive the benefits of early childhood education, as well as to promote and support general workforce participation. This is reflected by the Department of Education's continuing role in monitoring the financial health of large providers of childcare.³⁹

This chapter is structured as follows:

- Section 3.1 outlines our high-level findings about profit and operating margins for centre based day care and outside school care services.
- Section 3.2 discusses the different operating strategies of childcare providers.
- Section 3.3 examines occupancy and profits.
- Section 3.4 discusses fees and profits.
- Section 3.5 considers the impact of labour expenses on profits, viability and quality.
- Section 3.6 discusses childcare real estate.
- Section 3.7 discusses family day care services and educators.

3.1. Centre based day care and outside school hours care services are profitable

The childcare sector is generally profitable and widely viewed as a safe and strong investment with guaranteed returns, backed by a government safety net. We examine the profitability of childcare services using several different data sources, including financial information from large providers of centre based day care and outside school hours care provided to the ACCC as well as public data from the Australian Tax Office.

Revenue in childcare services is forecast to grow at an annualised 4.0% between 2023 and 2028, compared with an expected annualised 1.8% between 2018 and 2023.⁴⁰ Profit margins are expected to be 5.5% in 2023, which is a decrease of 3.3 percentage points since 2018.⁴¹ Although profitability has been constrained by increasing wage costs, lower occupancy due to COVID-19, and new supply in some key areas, the sector is underpinned by strong revenue

³⁸ ACCC, [Childcare Inquiry June interim report](#), p 7.

³⁹ The Cheaper Childcare Package introduced new reporting requirements for large childcare providers to give certain financial information to the Department of Education each financial year. The new requirements are intended to provide more transparency for families and to give the Department visibility over the financial health of large providers. Large childcare providers are defined by the Department of Education as those operating 25 or more services, of any service type. Providers must proactively report certain financial information, such as net revenue, net profit, and the amount of expenditure attributable to rental costs, as well as details of lease arrangements. See Explanatory Memoranda, [Family Assistance Legislation Amendment \(Cheaper Child Care\) Bill 2022](#).

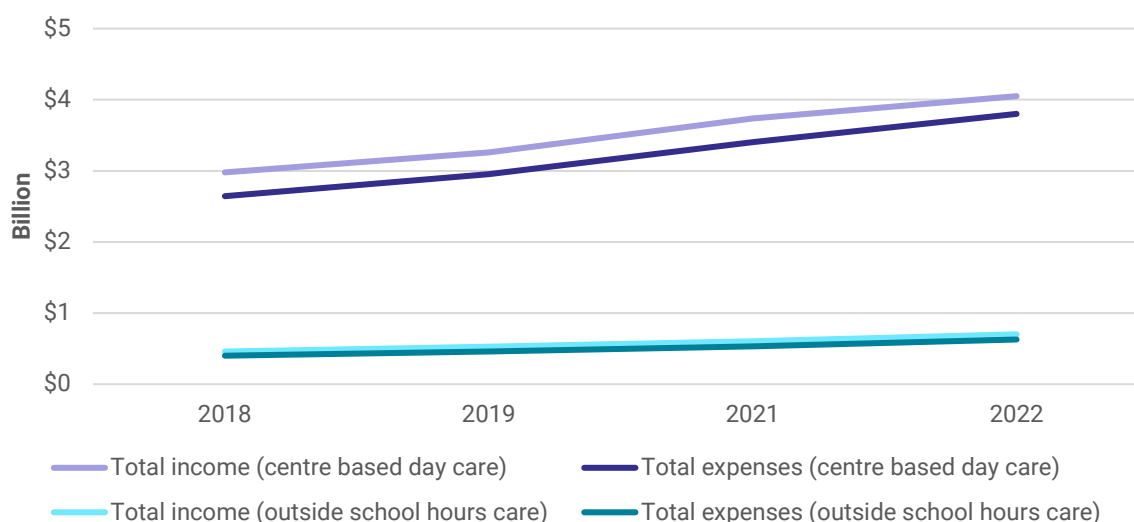
⁴⁰ IBISWorld, [Child Care Services in Australia](#), 2023, p 8.

⁴¹ IBISWorld, [Child Care Services in Australia](#), 2023, p 8. IBISWorld uses earnings before interest and tax (EBIT) to measure profitability. This is revenue minus expenses, excluding interest and tax.

growth resulting from greater government funding and higher rates of female labour force participation.⁴²

Based on information provided to the ACCC, we find total income has steadily increased since 2018, and remains higher than total expenses for large providers of centre based day care and outside school hours care (figure 3.1).

Figure 3.1: Total income and expenses for large providers of centre based day care and outside school hours care, 2018 to 2022



Note: Our analysis excludes 2020 due to COVID-related data quality issues.

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Financial information provided to the ACCC shows there is significant variability in reported profitability among these large providers of centre based day care and outside school hours care. Large providers continue to invest, to various degrees, in improving their services. This includes investing in playground and technology upgrades and centre refurbishments such as painting and flooring. One large not-for-profit provider invested in sustainability projects in 2022, including roofing upgrades, installation of solar systems, playground upgrades and more energy efficient air conditioning. Providers also invest in acquisitions to grow their network of services.

However, several large providers note the continued impact of COVID-19 in creating challenges for financial performance and business operations.

All of these large providers of centre based day care and outside school hours care appear to have strong cash flows, with positive cash reserves in their most recent financial year and positive net cash from operating activities. Around half of these providers also increased their cash reserves from their previous financial year.

We also examine public data from the Australian Tax Office to consider the profitability of providers in the childcare services industry.

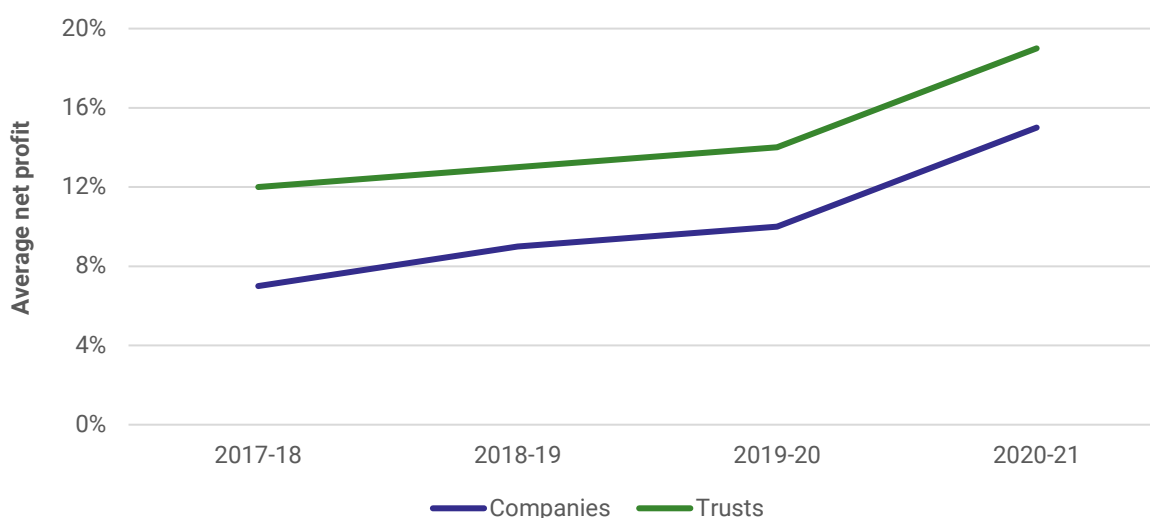
The Australian Tax Office produces industry benchmarks of business activity and performance indicators, such as profit margins. This is based on information from tax returns and activity statements. The Australian Tax Office produces separate benchmarks

⁴² IBISWorld, [Child Care Services in Australia](#), 2023, pp 9, 14–15.

for the different types of business structures, individuals, companies, partnerships and trusts.

Our analysis looks at the average net profit percentage for trusts and companies operating in the childcare services industry. We find that, on average, companies and trusts have been profitable in the past few years (figure 3.2).⁴³

Figure 3.2: Average net profit of the childcare services industry, by entity type, 2017–18 to 2020–21⁴⁴



Source: ACCC analysis of Australian Tax Office data.

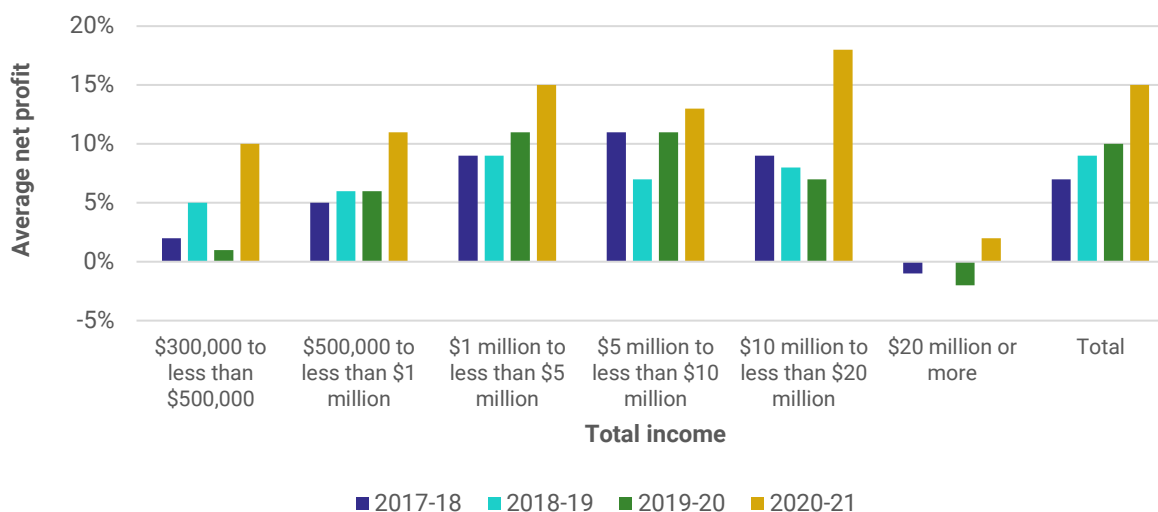
In 2020–21, the average net profit of all companies was strong (15%) and has increased consistently since 2017–18 (figure 3.3) across most income levels. However, companies with total income greater than \$20 million per year had a much lower margin than the other income levels. Small providers (less than \$1 million in revenue) also have much smaller average net profit than larger providers (except for the very largest). This is consistent with findings in our June interim report that small providers have the lowest average daily fees.

We note this analysis should not be compared to the other analysis in this chapter due to different assumptions, time periods (financial year versus calendar year) and different underlying data sources. In particular, the 2020–21 financial year was significantly impacted by the COVID-19 pandemic, and higher net profit ratios may have resulted from increased government support to the sector during this period.

⁴³ Our analysis looks at companies and trusts as we assume companies likely include childcare providers of all sizes, and that trusts are mostly small and medium providers. Trusts appear to operate mostly with annual income less than \$5 million. Our analysis excludes partnerships, due to the relatively small number.

⁴⁴ This analysis includes entities under ANZSIC code 8710, Childcare Services Industry, which excludes preschools. The data only includes entities that report income tax or submit activity statements, and therefore may not include some entities. The Australian Tax Office defines net profit ratio as total business income minus total business expenses, divided by total business income. Our analysis excludes individuals and partnerships. It is an average of both profit making and non-profit making entities.

Figure 3.3: Average net profit of the childcare services industry by total income, all companies, 2017–18 to 2020–21



Note: Our analysis excludes companies with total income less than \$300,000.

Source: ACCC analysis of Australian Tax Office data.

3.1.1. Average margins for centre based day care and outside school hours care were positive in 2022

We examine the profitability of centre based day care and outside school hours care services using constructed measures of profit and operating margins, as outlined below in box 3.1, to understand general profitability as well as the financial performance of services. We note there are many other variables and analysis that could be used to consider the financial performance of a company, which we have not included in this report.

We acknowledge some limitations to our analysis, including that our income information may not include all income streams for some providers (particularly small and medium providers). We also do not account for any gap fee waivers relating to COVID-19, which may lead to a small over-estimation of profits for some services.

Our analysis also looks at the average profit and operating margin rather than the margins of individual providers and/or services. Averages can hide individual services that have very high or excessive profits, particularly given the localised nature of childcare markets (as discussed in chapter 2).

Box 3.1: ACCC approach to analysing margins of childcare providers

To examine the profitability of centre based day care and outside school hours care, we use 2 different measures:

- **Profit margin:** looks at revenue and the core costs of operating a service to understand overall profitability.
- **Operating margin:** looks at revenue and the core costs of operating a service, excluding interest, tax, depreciation and amortisation, to understand financial performance.

Both profit and operating margins are expressed as a percentage of total income and are weighted by the number of childcare hours charged by a service.

We examine these margins at a provider level and a service level, which are calculated as follows:

- **Provider level:** the core costs of operating a service, including head office or group level expenses. Head office and group costs are distributed across services by the number of hours charged.
- **Service level:** the core costs of operating a service, excluding any head office or group level expenses.

We use profit margin at the provider level when considering the profitability of providers and across different provider types, such as for-profit and not-for-profit.

We also use profit margin at the provider level to consider the profitability of outside school hours care services as it reflects the greater centralisation of costs in this sector.

We use operating margin at the service level when considering the financial performance of centre based day care services as this is a common measure used by large providers to assess individual centre performance and it also recognises differences in operating models and strategies across providers.

Service profitability can be influenced by many factors including the operational hours, the length of time children attend the service, the ages and number of children in attendance, educator-to-child ratio requirements, size of service, and childcare fees. Profits may also be seasonal, given the close relationship to demand and occupancy (discussed more in section 3.3). The operating strategy of a provider may also impact profits, for example, where a provider is looking to grow its portfolio through acquisitions or greenfield developments, or is investing significantly to improve the quality of existing centres.

Providers appear to actively monitor and manage the performance of each individual centre, and consider individual centre margins separately to a group or network-level margin. Margins can vary significantly centre-to-centre, as well as year-to-year.⁴⁵

Most large providers of centre based day care and outside school hours care consider their standard fees do not always cover costs on a centre-by-centre basis. However, for some, the standard fees will cover costs at the group or network level as the provider is able to operate a diverse network of centres to enable cross-subsidisation and offset losses from some centres with the more profitable centres to achieve a stable financial profile.⁴⁶

⁴⁵ This can be influenced by changes in local market conditions, such as a new centre opening nearby, changes in staff, changes in rent, or changes in working patterns of households.

⁴⁶ This is consistent with the Productivity Commission's finding that a provider's viability was helped by maintaining a network of centres to ensure losses could be offset against more profitable centres. See Productivity Commission, [Childcare and Early Childhood Learning Inquiry Report](#), Appendix H, pp 947, 954.

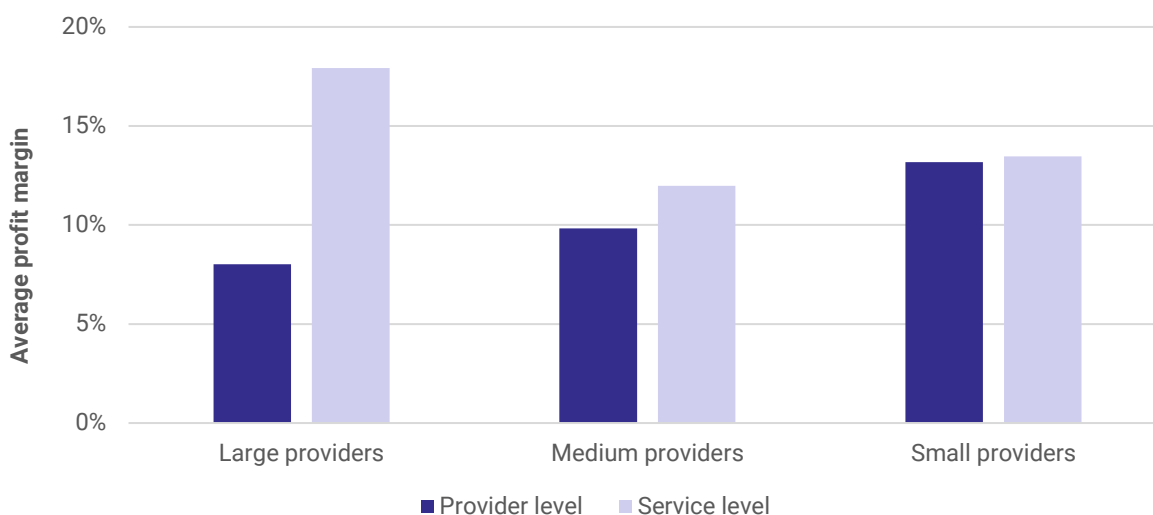
Centre based day care services

On average, profit margins for centre based day care providers of all sizes were positive in 2022.

At the service level, large centre based day care provider profit margins (figure 3.4) are particularly strong (18%) and notably higher than small and medium providers.

At the provider level, however, once head office and group expenses are taken into account, large providers' profit margins are below that of small and medium providers. This reflects that large providers (and to some degree medium providers) are able to centralise some expenses, like IT, HR and other administrative or regulatory expenses, and therefore reduce expenses (and increase profitability) at the service level.

Figure 3.4: Average profit margin (service-level and provider-level) for centre based day care providers, by provider size, 2022



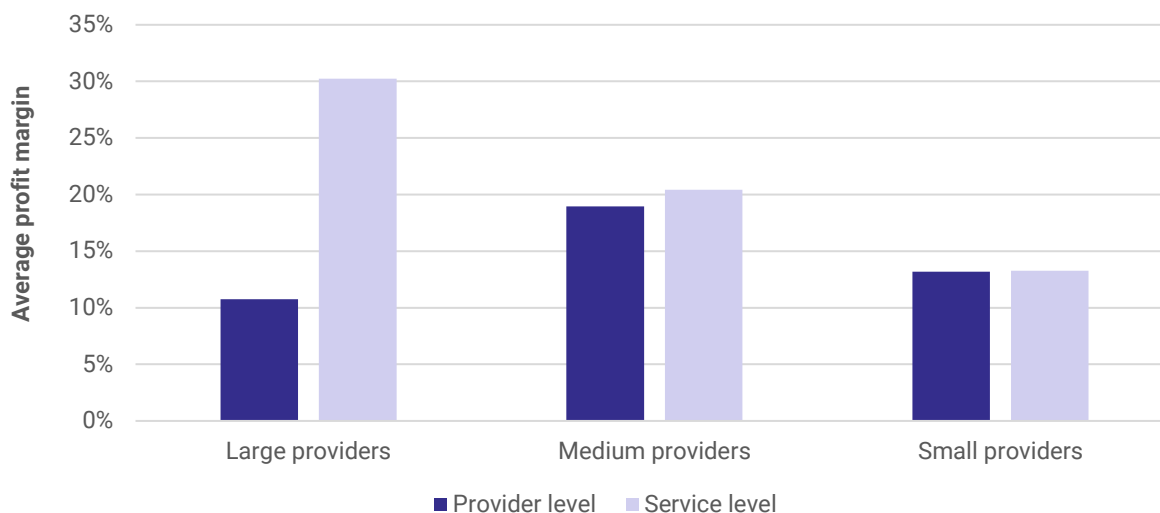
Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Outside school hours care

On average, profit margins for outside school hours care providers of all sizes were positive in 2022 (figure 3.5), although the average profit margin for large providers declined from 19% in 2018 to 11% in 2022. However, this is more evident among for-profit providers, as discussed below.

Similar to centre based day care, the profit margins at a service level for large providers were significantly higher than medium and small providers, reflecting the higher head office expenses of large providers.

Figure 3.5: Average profit margin (provider-level and service-level) for outside school hours care providers, by provider size, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

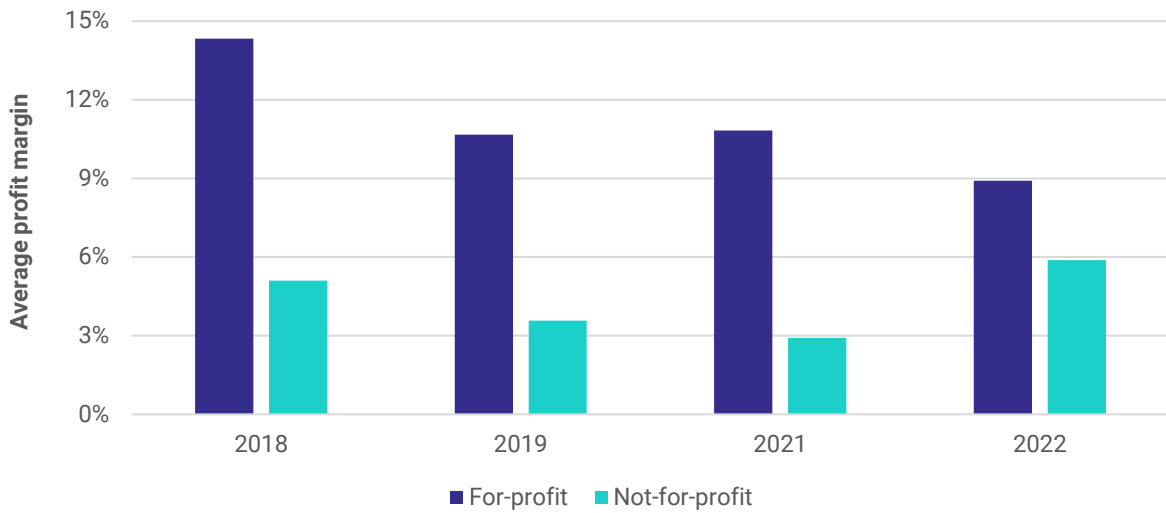
3.1.2. For-profit providers of centre based day care had higher profit margins than not-for profits

On average, at a provider level, large for-profit providers of centre based day care had a higher profit margin (9%) than large not-for-profit providers (6%) in 2022, and this has remained consistent since 2018 (figure 3.6). At a service level, excluding the head office expenses, the average profit margin for large centre based day care providers was about 19% for for-profit providers and about 15% for not-for-profit providers in 2022.

From the June interim report, we also understand that not-for-profit providers are more likely to operate in more remote areas and generally charge lower fees, which likely impacts margins.⁴⁷

⁴⁷ ACCC, [Childcare Inquiry June interim report](#), pp 45–46.

Figure 3.6: Average profit margin (provider-level) for large providers of centre based day care, by provider type, 2018–2022

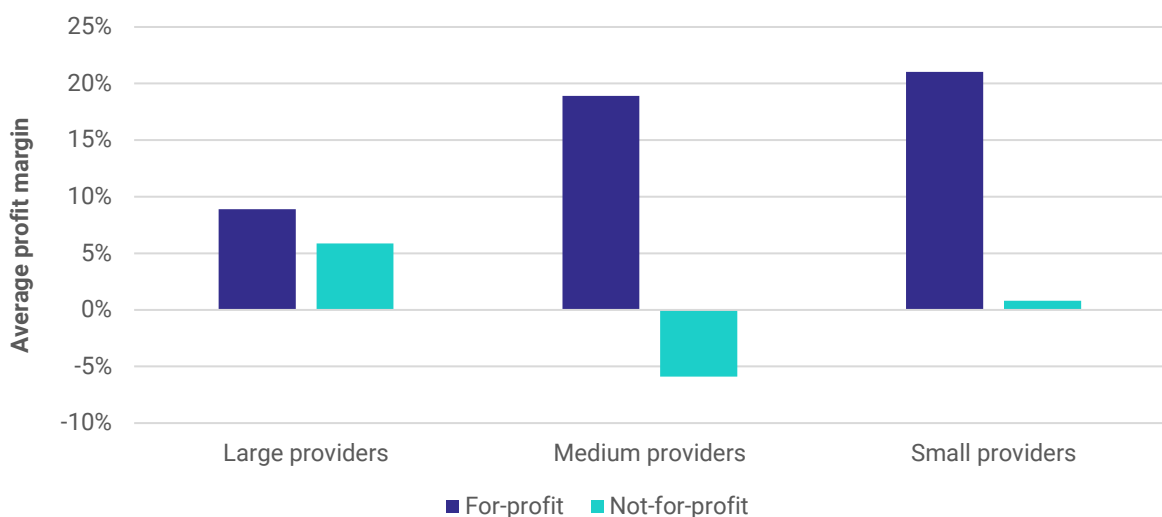


Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Note: Our analysis excludes 2020 due to COVID-related data quality issues.

This is particularly evident among small and medium providers of centre based day care, where the average profit margin of for-profit providers was around 20% in 2022, and negligible or negative for not-for-profit providers (figure 3.7). However, we note our sample of small and medium providers is small relative to the sector and may not reflect all services, consistent with our discussion of methodology on costs in chapter 1 (box 1.2).

Figure 3.7: Average profit margin (provider-level) for centre based day care providers, by provider size and type, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

3.1.3. Not-for-profit providers of outside school hours care had higher profit margins than for-profits in 2022

Not-for-profit outside school hours care providers of all sizes had higher profit margins than for-profit providers in 2022 (figure 3.8). This is likely due to lower labour and other costs for not-for-profit providers compared with for-profit providers, as discussed in chapter 1.

Figure 3.8: Average profit margin (provider-level) for outside school hours care providers, by provider type and provider size, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

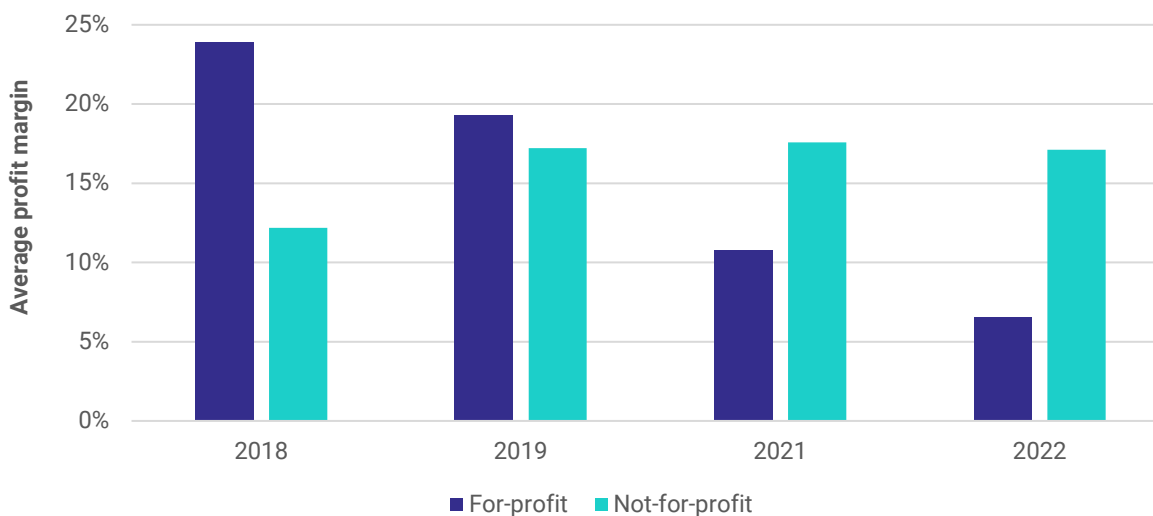
This trend is not consistent over time, however, as we find that large for-profit providers had a higher average profit margin than large not-for-profit providers in 2018 and 2019 (figure 3.9). The average profit margin of not-for-profit providers has remained consistent since 2019, whereas the average profit margin of for-profits has declined significantly.

As discussed in chapter 1, outside school hours care costs have increased by 17% for large for-profit providers over the last 5 years (driven by an increase in labour costs), while the costs for not-for-profit providers have remained relatively flat at 3%.

This might suggest there have been some lasting changes for outside school services following COVID-19 in relation to demand and staff shortages, as discussed in chapter 1 and 2, which is impacting the profitability of the sector, particularly for for-profit providers.

Our analysis finds the average occupancy rate of for-profit providers (32%) in 2022 was much lower than not-for-profits (49%), which likely impacts revenue and hence profits of these providers. We discuss the impact of occupancy rate on margins in more detail in section 3.3 below.

Figure 3.9: Average profit margin (provider-level) for large providers of outside school hours care, by provider type, 2018 to 2022



Note: Our analysis excludes 2020 due to COVID-related data quality issues.

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

One large for-profit provider of outside school hours care noted their operations were significantly disrupted in 2021 due to COVID-19 lockdowns, and they have experienced ongoing challenges in 2022 to recover the attendance levels in some states due to the lasting impact of work-from-home mandates.

We note most of the large not-for-profit providers of outside school hours care in our analysis only operate in one state. As such, some providers likely avoided the full impact of COVID-19 lockdowns, whereas large for-profit providers typically operate in multiple states or Australia-wide. The average profit margins of outside school hours care services in each state and territory are discussed in section 3.1.6.

3.1.4. Centre based day care operating margins vary by remoteness and level of advantage

The operating margin for centre based day care, averaged over 2018 to 2022, was highest in Major Cities (20%) and lowest in Very Remote Australia (-11%) (figure 3.10). This reflects the higher costs of providing a centre based day care service in Very Remote Australia, as discussed in chapter 1. We consider the operating margins at a service level over time to understand the overall performance of services in the past few years, given the amount of change that has occurred,⁴⁸ and in recognition that financial performance may fluctuate year-to-year depending on the operating strategy of a provider.

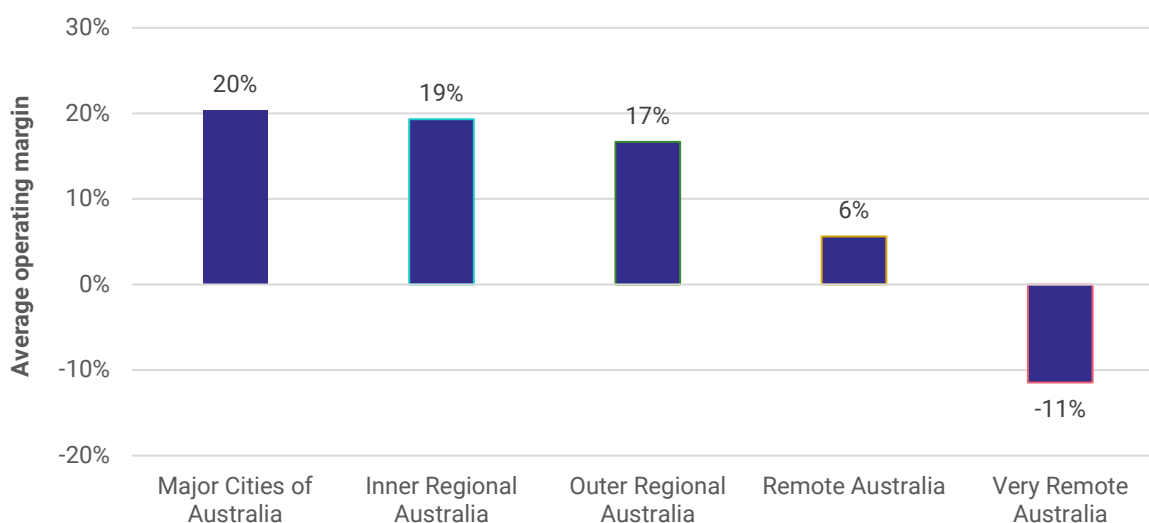
The Australian Institute of Family Studies evaluation report, which discussed service perceptions of viability, also found that services in capital cities were more positive about their financial viability than those who were not.⁴⁹

However, in 2022, the average operating margin was highest in Inner Regional Australia, rather than Major Cities (figure 3.11).

⁴⁸ For example, in 2018 the Child Care Subsidy was introduced, and services were impacted by COVID-19 in 2020 and 2021.

⁴⁹ J R Bray, J Baxter, K Hand, M Gray, M Carroll, R Webster, B Phillips, M Budinski, D Warren, I Katz and A Jones, [Child Care Package Evaluation: Final Report](#), Research Report, Melbourne: Australian Institute of Family Studies, 2021, pp 297–99.

Figure 3.10: Average operating margin (service-level) for large provider of centre based day care, by remoteness area, averaged over 2018 to 2022

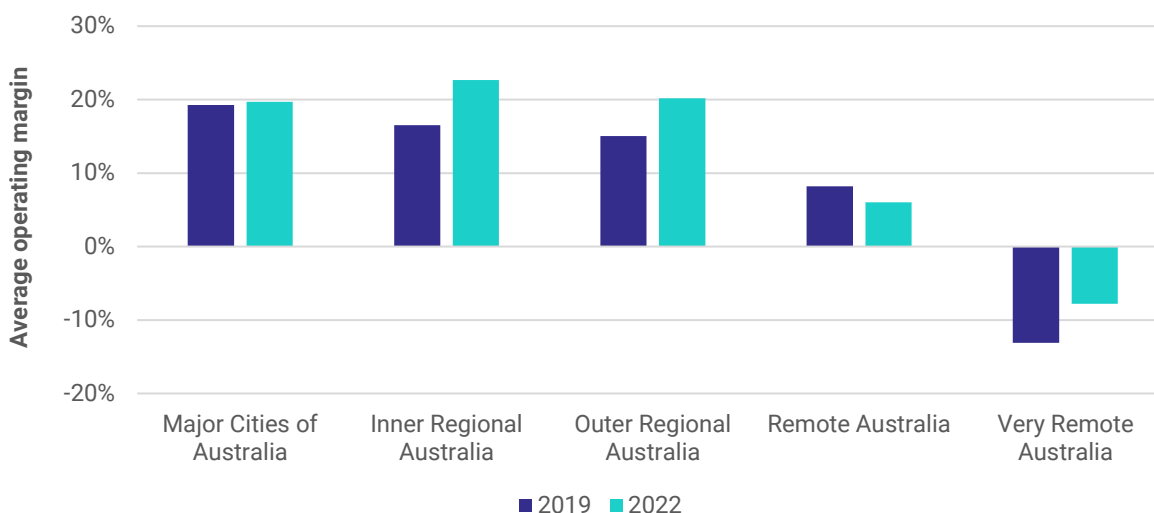


Note: Our analysis excludes 2020 due to COVID-related data quality issues

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Some average operating margins for centre based day care services have risen since 2019, most significantly in Inner and Outer Regional Australia (figure 3.11). The average operating margin in Major Cities has remained relatively stable and likely reflects the more significant impacts of COVID-19 lockdowns in these areas.

Figure 3.11: Average operating margin (service-level) for large providers of centre based day care, by remoteness area, 2019 and 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

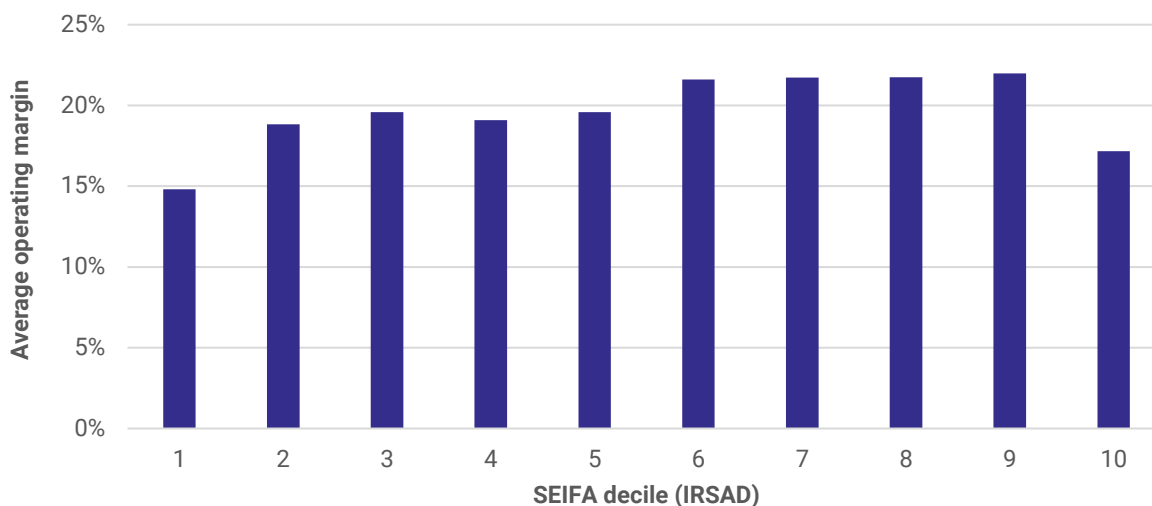
Centre based day care services, averaged over 2018 to 2022, had the highest margins in more advantaged areas (SEIFA deciles 6 to 9) (figure 3.12). This is consistent with our finding in the June interim report that prices are higher in more advantaged areas.⁵⁰ This finding is also consistent with the Productivity Commission Inquiry 2014, which found

⁵⁰ ACCC, [Childcare Inquiry June interim report](#), p 81.

profitability was generally lower in areas with a lower SEIFA score, though there was considerable variability among centres within each SEIFA decile.⁵¹

However, despite higher prices, we find that margins in the highest SEIFA decile (10) were lower, likely due to higher costs of operating in these areas (as discussed in chapter 1).

Figure 3.12: Average operating margin (service-level) for large providers of centre based day care, by SA2 SEIFA decile, averaged over 2018 to 2022



Note: Our analysis excludes 2020 due to COVID-related data quality issues.

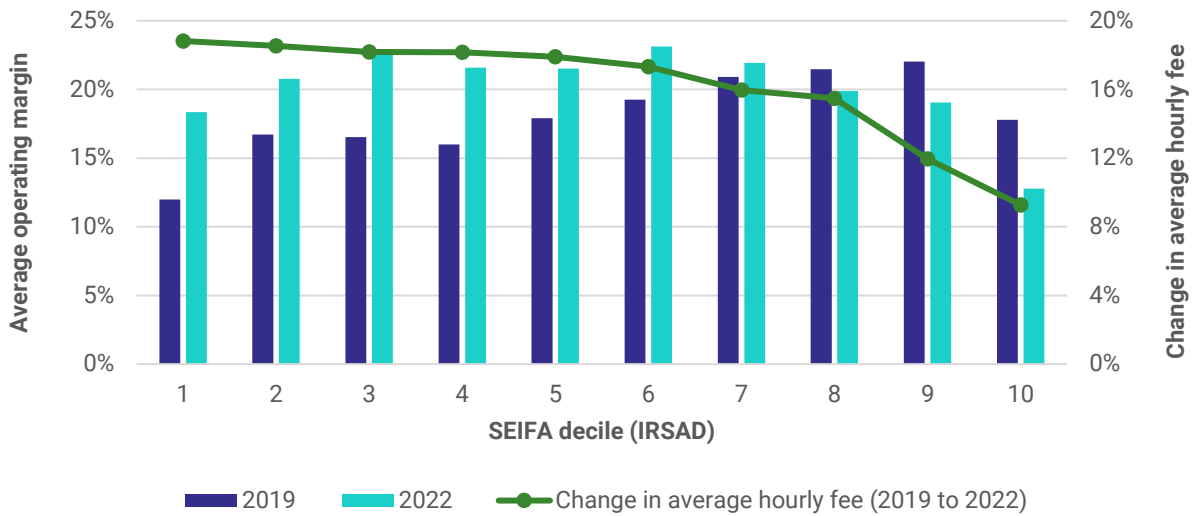
Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

The average operating margin increased significantly in most SEIFA deciles from 2019 to 2022, particularly in lower SEIFA deciles (1 to 6) (figure 3.13). This is consistent with fee increases over the period, as the average hourly fee increased much more in SEIFA deciles 1 to 6, compared with relatively smaller fee increases in more advantaged areas.

These larger fee increases are likely facilitated by the larger gap between fees and the hourly rate cap, as providers know households will not bear the full cost of the fee increase due to the Child Care Subsidy. This reflects the discussion in chapter 2 about the impact of demand-side subsidies on price competition and is also considered in chapter 4.

⁵¹ Productivity Commission, [Childcare and Early Childhood Learning Inquiry Report](#), Appendix H, p 949.

Figure 3.13: Average operating margin (service-level) for large providers centre based day care, by SA2 SEIFA decile, 2019 and 2022

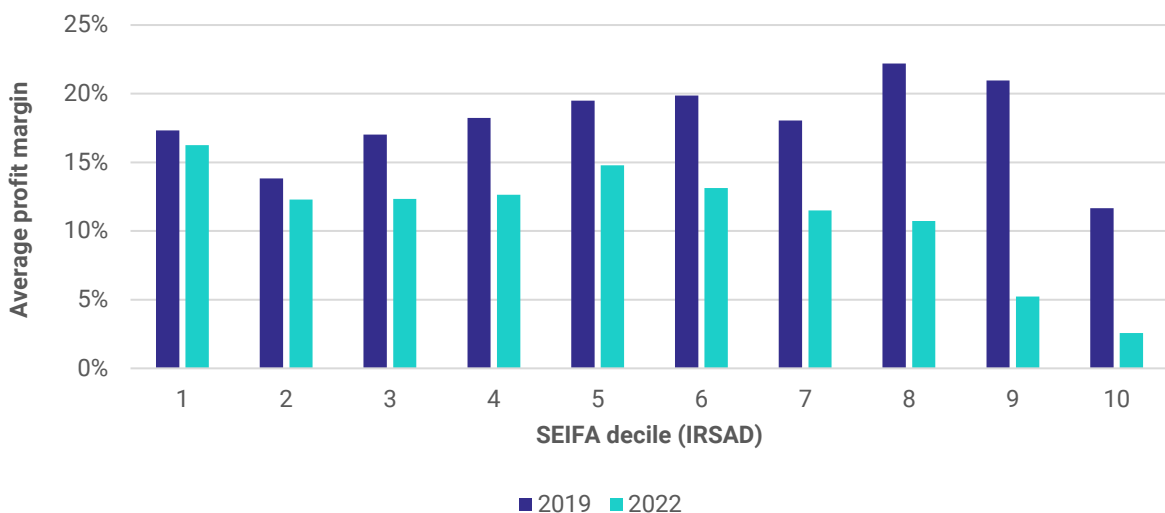


Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

3.1.5. Profit margins for outside school hours care were lowest in more advantaged areas and Major Cities in 2022

The average profit margin for outside school hours care services declined significantly in most SEIFA deciles between 2019 and 2022 (figure 3.14), most substantially in the more advantaged areas (SEIFA 9 and 10). This decline appears to be largely driven by for-profit providers of outside school hours care as more than 80% of services in these areas are for-profit. We also note the average costs in 2022 are slightly higher in higher SEIFA areas, as discussed in chapter 1.

Figure 3.14: Average profit margin (provider-level) for large providers of outside school hours care, by SA2 SEIFA decile, 2019 and 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

The average profit margin was highest in Outer Regional Australia in both 2019 and 2022, and increased slightly over this period (figure 3.15). In contrast, the average profit margin in Major Cities declined significantly between 2019 and 2022, as did the margin in Inner Regional Australia. Similar to the analysis above, this decline appears to be due to lower margins among for-profit providers.

While the average hourly costs for outside school hours care were slightly higher in Major Cities in 2022, overall, costs are very similar across remoteness areas (as discussed in chapter 1). However, the average hourly fee increased more in Outer Regional Australia (7%) between 2019 and 2022, compared to Major Cities (4%) and Inner Regional areas (6%).

This larger price increase, along with the greater impact of COVID-19 in Major Cities (given greater flexibility to work from home), likely explains the difference in profit margins in these different locations.

Figure 3.15: Average profit margin (provider-level) for large providers of outside school hours care, by remoteness, 2019 and 2022



Note: We exclude Remote Australia and Very Remote Australia due to low sample size.

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Margins vary between states and territories

The average margins for centre based day care and outside school hours care vary between states and territories, and between years.

The average operating margin for centre based day care was consistently higher in Victoria and New South Wales compared with other states (figure 3.16).

Despite having the highest average fees for centre based day care in 2022,⁵² the average operating margin in the Australian Capital Territory was the lowest in 2022, reflective of the high cost per hour for these services, as discussed in chapter 1. The average operating margin also fell significantly between 2019 and 2022 (9 percentage points). It is likely services in the Australian Capital Territory are more constrained in raising fees than services

⁵² ACCC, [Childcare Inquiry June interim report](#), pp 84–87.

in other states and territories due to fees being above the hourly rate cap (and any fee increase is fully passed through to households).⁵³

Figure 3.16: Average operating margin (service-level) for large providers of centre based day care, by state and territory, 2019 and 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

For outside school hours care, the average profit margins between 2019 and 2022 fell in most states and territories, most significantly in the Australian Capital Territory and Victoria (figure 3.17). This is consistent with COVID-19 impacting households more in Victoria, where occupancy in 2022 was far below the average for other states and territories, as discussed in section 3.3 below.

Figure 3.17: Average profit margin (provider-level) for outside school hours care, by state and territory, 2019 and 2022



Note: Tasmania is excluded due to a low sample size.

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

⁵³ ACCC, [Childcare Inquiry June interim report](#), pp 121–123.

In other states and territories, the average profit margin may have been impacted by rising costs and limited ability to increase fees. In most cases, fee increases for outside school hours care are set in advance under the licence agreement with the relevant school. The tender process to award contracts for outside school hours care services differs state-by-state, which may also explain some of the differences in profitability between states, for example if providers are permitted to bid for contracts or not.

The increase in the average hourly fee for outside school hours care from 2019 to 2022 was largest in Queensland (10%) followed by Western Australia (7.4%) and the Northern Territory (6.4%). Fees did not increase as much in the Australian Capital Territory (5.3%) and New South Wales (2.1%), despite facing the highest increase in costs per hour over this period.

For the most part, the decline in average profit margin was driven by for-profit providers (as discussed in section 3.1.3) in each state and territory, while not-for-profit providers maintained relatively stable profit margins in most states.

We welcome information from stakeholders about the profitability and long-term viability of the outside school hours care sector and how this may or may not differ between states and territories.

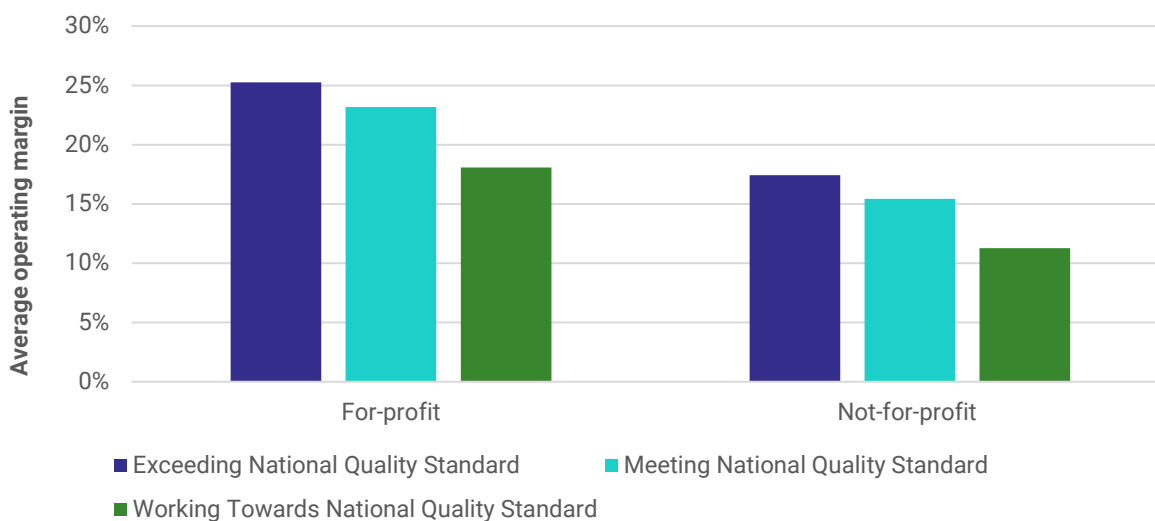
3.1.6. Centre based day care services with higher quality had higher operating margins in 2022

Centre based day care services with higher ratings under the National Quality Framework have higher operating margins than those with lower ratings. Services with a rating of 'Exceeding' have the highest margin for both for-profit and not-for-profit providers (figure 3.18).

This is consistent with our finding in the June interim report that higher quality services may charge a higher price.⁵⁴ However, the average cost per hour for centre based day care is very similar across all quality ratings, as discussed in chapter 1. This suggests providers are able to capitalise on services with a higher quality rating.

⁵⁴ ACCC, [Childcare Inquiry June interim report](#), pp 99–100.

Figure 3.18: Average operating margin (service-level) for centre based day care, by National Quality Standard rating and provider type, 2022



Note: Our analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

For outside school hours care, there appears to be very little difference in margin across the different quality ratings. This is also consistent with our finding in the June interim report that outside school hours care services do not charge higher fees for higher quality services.⁵⁵ It is also consistent with our analysis in chapter 1, which notes the average cost per hour is similar across quality ratings for outside school hours care services, although there is a trend that higher quality means slightly higher costs.

3.2. Childcare providers pursue different operating strategies

Childcare providers in Australia have diverse operating models and strategies. There is a mix of for-profit and not-for-profit providers, and our June interim report found that most centre based day care and outside school hours care services in Australia operated as for-profit in 2022 (70% and 54% respectively).⁵⁶

The primary focus of all providers is to deliver high quality early learning and care to children and households. However, providers differ in their approach to achieving this outcome, based on their operating model.

For-profit providers, for example, are more likely to focus on financial performance and profitability of a service. These providers may seek to achieve a higher return than not-for-profit providers to return some of their surplus to investors. Such an objective may influence the actions of a provider, such as pursuing a fee increase to meet profit targets or only pursuing occupancy growth that is found to be sufficiently profitable.

Not-for-profit providers are also focused on financial performance to ensure their ongoing viability but are more likely to prioritise social purpose goals and investments, such as returning any surplus to the local community or investing in service improvements. One large

⁵⁵ ACCC, [Childcare Inquiry June interim report](#), pp 99–100.

⁵⁶ ACCC, [Childcare Inquiry June interim report](#), p 45.

not-for-profit provider reported for every \$1 targeted to its social purpose investments, it creates \$5.50 in social and economic value. Another large not-for-profit provider operates primarily to provide childcare services in rural and remote communities, and to assist mobile families or Australian Defence Force members where the local community is unable to meet the demand.

Large for-profit and not-for-profit providers both look to grow and expand their networks. Where not-for-profit providers look to expand their network, they appear to be motivated to spread their social message or provide services to under-supplied communities. In comparison, large for-profit providers may pursue growth strategies to build market share or strengthen their financial position to attract buyers. Some large providers see childcare services as a fragmented market, with opportunities to capitalise and consolidate.

There has been significant interest in buying and selling childcare companies in recent years, as demonstrated by the purchase of Only About Children by Bright Horizons in 2022 for \$450 million,⁵⁷ the purchase of Affinity Education by Quadrant in 2021 for \$650 million, and the purchase of Guardian by Partners Group in 2016 for \$440 million. It is also reported that Affinity and Guardian may be put up for sale this year, ahead of expectations of more government funding to the sector.⁵⁸

For-profit providers appear more likely to pursue network optimisation strategies by targeting areas with greater potential for profits and divesting under-performing services. Not-for-profit providers also appear to follow a similar strategy to protect the long-term viability of their network, but may explore more avenues before deciding to divest a service, such as seeking grant funding.

Not-for-profit providers may be more likely to operate loss-making centres for reasons of social responsibility, compared with for-profits. This includes in a low socio-economic area, a regional or rural area with few centres, and/or an area with a significant number of Aboriginal or Torres Strait Islander children. Not-for-profit providers may also be more reliant on grants and other avenues of funding to support financial sustainability, compared with for-profit providers.

Some for-profit childcare providers operate under a franchising model. Franchising is a way of doing business where the franchisor controls the name, brand and largely how the business is run. The franchisee runs the business, and pays the franchisor an amount to do so under the franchisor's brand. We provide some examples in box 3.2 of companies that operate a franchise model, offering varying levels of support and assistance to those wishing to open a childcare service.

⁵⁷ A Dedovic and M Ogg, [Only About Children sold to US childcare provider Bright Horizons for \\$450 million](#), *Business News Australia*, 4 May 2022, accessed 25 August 2023.

⁵⁸ B Carter, ['Childcare outfits Affinity, Guardian go on the block this week'](#), *The Australian*, 30 July 2023, accessed 25 August 2023.

Box 3.2: Franchising a childcare service

Kool Kidz, marketed as the first childcare franchise model in Australia, was developed to offer an alternative to chains of childcare services with some of the benefits of scale. This company offers a pathway to opening childcare services by undertaking site selection, lease negotiation, and project management, to build a centre and service fit-out. They also provide training for the franchisee to obtain the status as an approved provider or services able to receive Child Care Subsidy, facilitate a local marketing campaign, assist with initial recruitment of staff, and provide operational support for up to 12 months. A monthly royalty fee of 8% calculated on gross income earned (daily fees charged excluding kindergarten funding and employment grants) is paid to the franchisor.⁵⁹

MindChamps offers “...instant access to a proven and highly profitable business model.”⁶⁰ MindChamps charges a royalty of 9% of revenue or \$9 per enrolment per day, whichever is higher. MindChamps provides training and support to franchisees, including access to curriculum programs.⁶¹

Explore and Develop offers support to franchisees, including operational support to ensure services are compliant with regulatory requirements. Explore and Develop charges an initial franchise joining fee and an ongoing monthly licence/management fee and marketing fee. It also guarantees that no other franchisee can operate in the same area without permission from the existing centre.⁶²

3.3. Occupancy is a key driver of profitability

Large providers of centre based day care consider the occupancy rate⁶³ to be a key driver of profitability and viability. While occupancy follows seasonal trends (with lower enrolment at the start of the school year), any ongoing impediments to occupancy can threaten profits and the ongoing viability of a service.

Large providers actively monitor and manage the occupancy rate for each of their services. The occupancy rate is typically calculated on a service-by-service basis. From information provided to the ACCC, centre based day care providers, in general, consider the minimum occupancy rate to break even is between 50% and 85%. Large not-for-profit providers appear to have higher break even occupancy rates than large for-profit providers. Large providers may also set, and have capacity to sustain, much lower occupancy targets for new centres to allow time to build a customer base.

For large providers of centre based day care in 2022, 50% of services had an average occupancy rate of 80% or above. About 20% of services had an average occupancy rate of less than 60% (figure 3.19). For-profit providers were more likely to have an average occupancy rate of less than 60% compared with not-for-profit providers.

⁵⁹ Kool Kidz, [Own a Kool Kidz](#), accessed 15 August 2023.

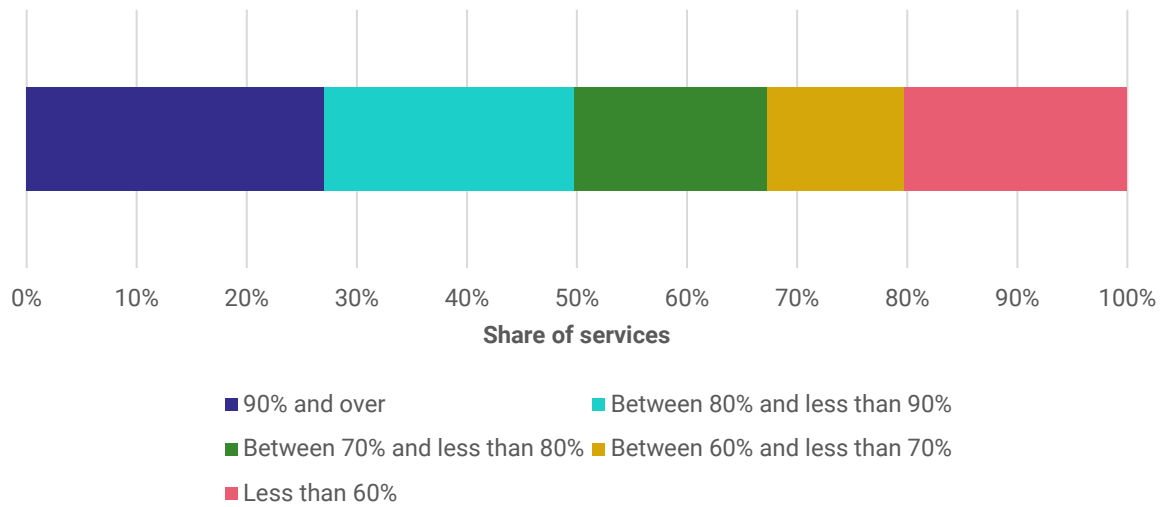
⁶⁰ Mind Champs, [Why MindChamps is the perfect partner for you](#), accessed 15 August 2023.

⁶¹ Mind Champs, [Frequently Asked Questions](#), accessed 15 August 2023.

⁶² Explore and Develop, [Franchise Opportunities](#), accessed 15 August 2023.

⁶³ For our analysis, we define occupancy rate as the total number of children invoiced for a relevant service, divided by the number of offered places for that service.

Figure 3.19: Share of services by average occupancy rate for large providers of centre based day care, 2022

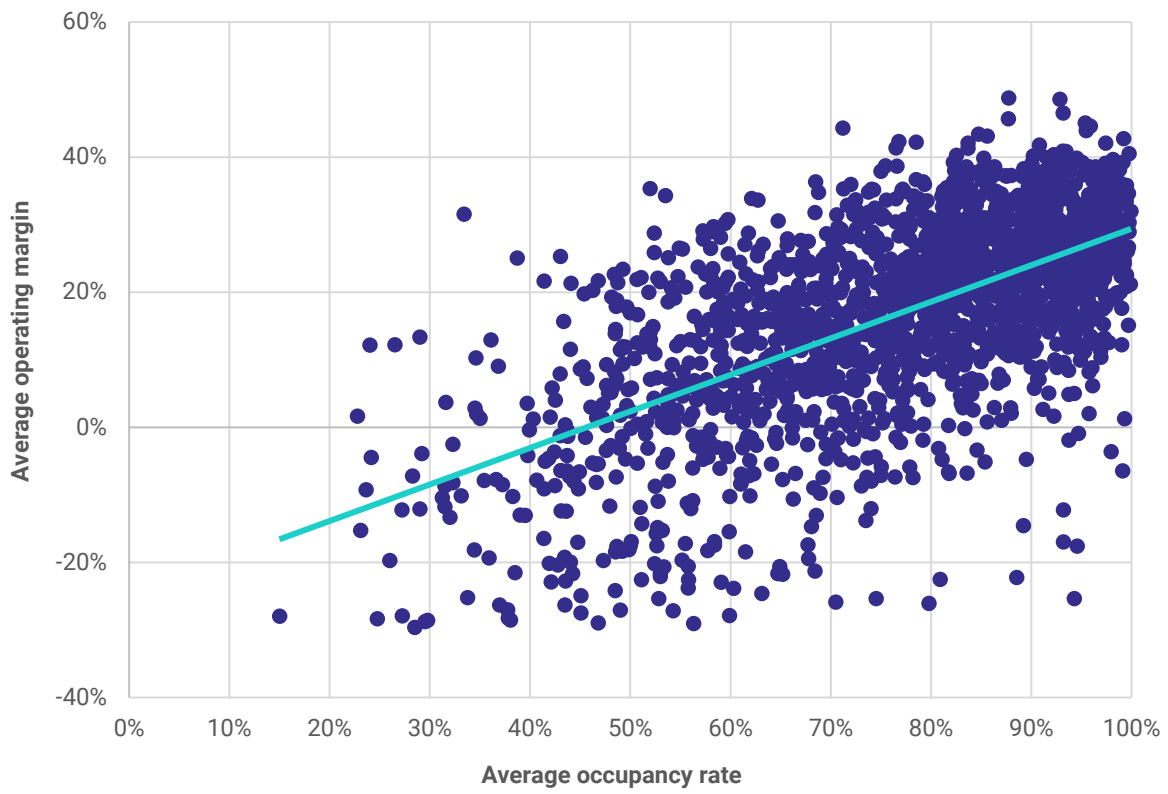


Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Providers must carefully manage the relationship between profits and occupancy, as in some cases, an increase in occupancy could trigger the need for an additional educator. This can lead to higher labour costs that may exceed the incremental revenue resulting from the additional occupancy.

Overall, we find there is a strong positive relationship between the average operating margin and average occupancy rate for large providers of centre based day care in 2022 (figure 3.20).

Figure 3.20: Average operating margin (service-level) compared with average occupancy rate of large providers of centre based day care, 2022

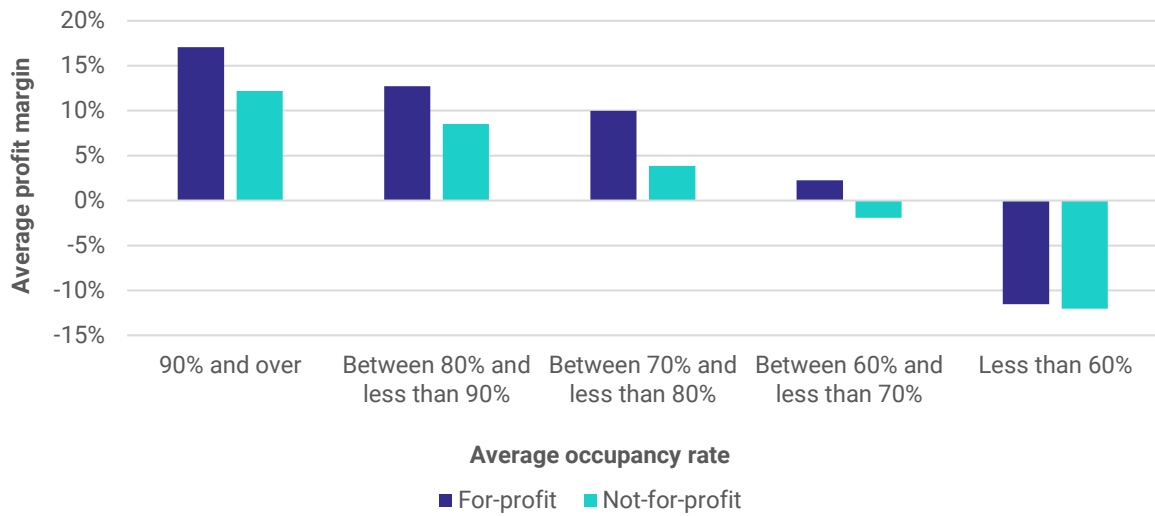


Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

Our analysis shows that on average, for both for-profit and not-for-profit large providers, services made a loss in 2022 where the average occupancy rate was less than 60% (figure 3.21). Not-for-profit providers also made a loss where average occupancy was less than 70%. This likely reflects the higher labour expenses of not-for-profits, as discussed in chapter 1, as not-for-profits are more likely to pay staff an above-award wage than for-profits.

In such cases, providers may take action to improve occupancy or look to divest the service if it is underperforming, unless the service is operating for a social need, such as being the only service in a town.

Figure 3.21: Average profit margin (provider-level) for large providers of centre based day care and average occupancy rate, by provider type, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

To protect and sustain high occupancy rates, providers may seek to operate in areas that guarantee ongoing demand, as discussed in chapter 2.

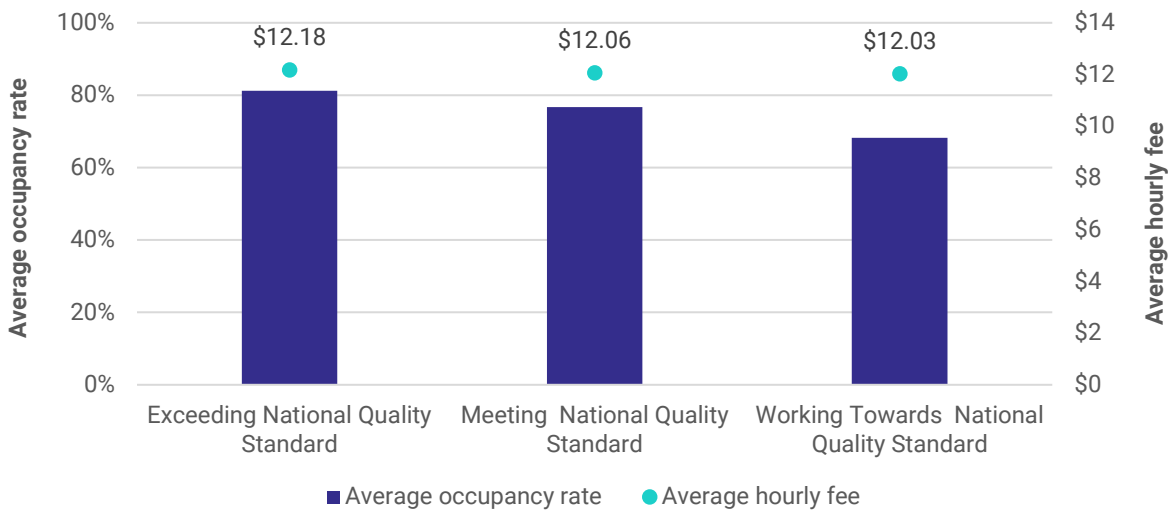
We understand from large providers of centre based day care that COVID-19 lockdowns and changes to working patterns had an impact on occupancy rates in the last few years, but providers are now seeing returns to pre-COVID occupancy levels for the most part.

A potential future risk to occupancy, and therefore profits and possibly viability of some centre based day care services, however, may be the expansion of state government funding for preschool and kindergarten, particularly in New South Wales and Victoria. If this funding cannot be accessed through centre based day care services, families may leave services to attend funded preschools.

One large provider finds that reducing fees does not help improve occupancy in poor performing centres. Higher occupancy centres may also have higher prices than lower occupancy centres, and this likely reflects the overall appeal of the centre as well as the nuanced role that price places in the decision making of parents and guardians when choosing a childcare service, as discussed in chapter 2.

Our analysis also finds that large providers of centre based day care with higher quality ratings have a higher average occupancy as well as a higher average hourly fee (figure 3.22).

Figure 3.22: Average occupancy rate, average hourly fee and National Quality Standard rating for large providers of centre based day care, 2022



Note: Our analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

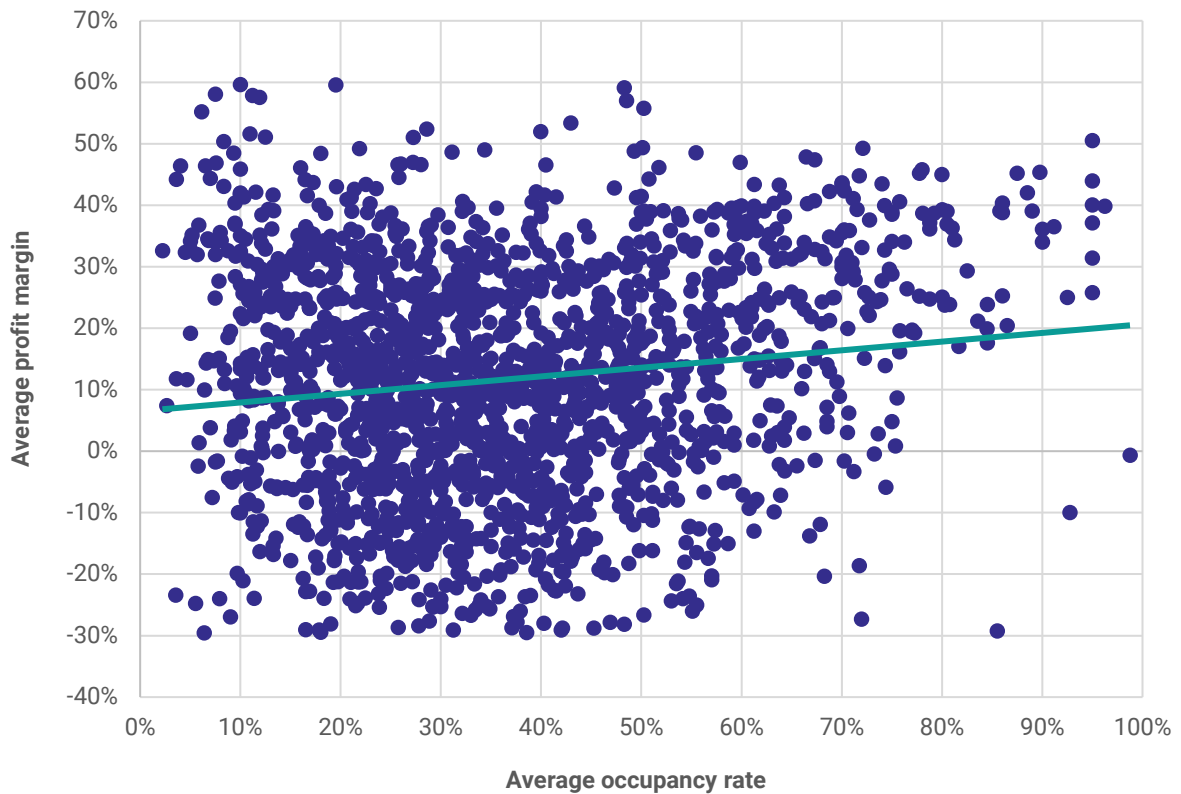
3.3.1. Outside school hours care is profitable with lower occupancy than centre based day care

Outside school hours care providers appear to consider occupancy rates differently to centre based day care providers, such as in terms of the attendance rate or a minimum average required bookings per session. For the purpose of our analysis, we use occupancy rate as a proxy for these other measures.

In 2022 the average occupancy rate for outside school hours care was about 37%, compared with 76% for centre based day care. It is likely outside school hours care services can operate at much lower occupancy levels than centre based day care due to lower educator-to-child ratio requirements.

Like centre based day care, we find there is a positive relationship between the average occupancy rate and the average operating margin for outside school hours care (figure 3.23), as margins increase as occupancy increases.

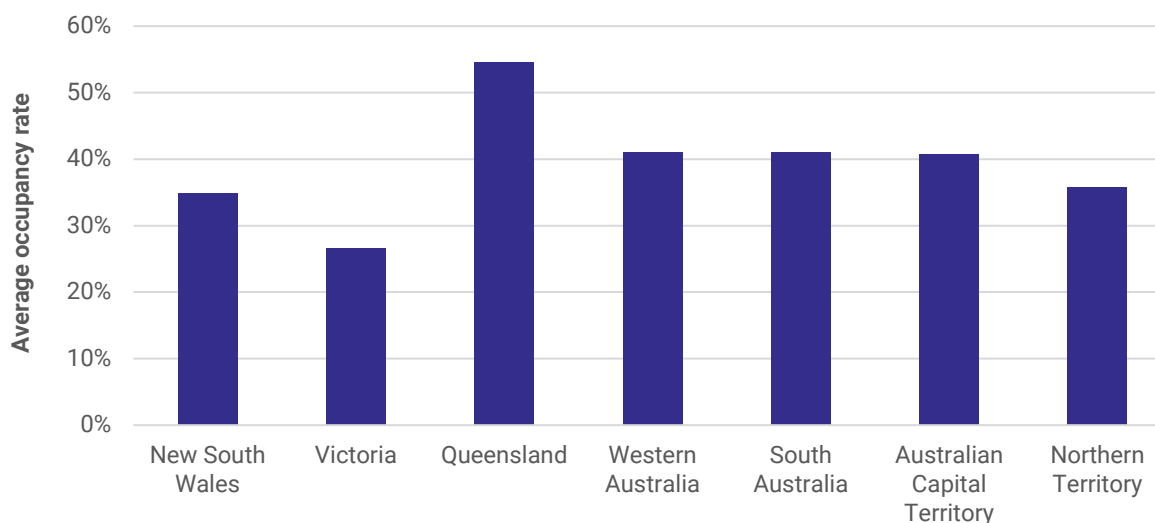
Figure 3.23: Average profit margin (provider-level) and average occupancy rate for large providers of outside school hours care, 2022



Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

In 2022 the average occupancy for large providers of outside school hours care was highest in Queensland (figure 3.24), with much lower average occupancy in New South Wales, Victoria and the Northern Territory. As discussed above, in Victoria especially, some large providers of outside school hours care services continue to experience challenges achieving pre-COVID attendance due to lockdowns and increased working from home.

Figure 3.24: Average occupancy rate for large providers of outside school hours care, by state and territory, 2022



Note: Our analysis excludes Tasmania due to a low sample size.

Source: ACCC analysis of information provided to the ACCC.

3.4. Annual fee increases likely help to maintain margins

An important aspect of sustaining a profitable and viable centre based day care service appears to be the ability for providers to implement annual fee increases (fees being the main source of revenue) to offset any annual increases in operating costs and maintain consistent profits. One large provider observes that, historically, industry growth has been driven by strong price growth, as opposed to participation growth. In our June interim report, we found there are regular fee increases for centre based day care, typically in the September quarter of each year.⁶⁴

The availability and level of government funding, primarily through the Child Care Subsidy, appears to be an important aspect in budget planning for many large providers. This ongoing, secure funding is seen as supporting the ongoing viability of the sector.

We observe that many large providers align fee increases with the indexation of the Child Care Subsidy to moderate the impact of fee increases on parents' and guardians' out-of-pocket expense. Providers may also implement fee increases that are higher than inflation, in the knowledge that households will not have to pay the full amount of the increase. One large for-profit provider ensures there is headroom between their current fee level and the hourly rate cap to support future fee growth. This provider notes its forecast margin uplift is a product of annual fee growth above annual cost base inflation.

Large providers understand and sometimes estimate the Child Care Subsidy entitlements for each individual family in their service and may apply fee changes accordingly, including by estimating how fee increases may impact their out-of-pocket expenses. Some large providers also target cohorts of customers that have the most benefit to gain from the Child Care Subsidy. The Child Care Subsidy is also used in communications about fee increases,

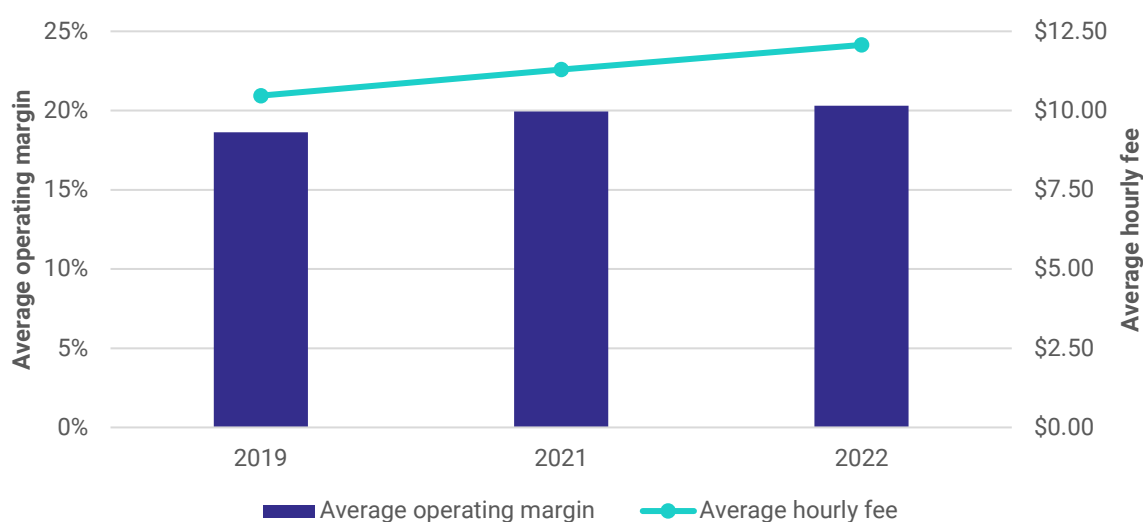
⁶⁴ ACCC, [Childcare Inquiry June interim report](#), p 75.

by highlighting the out-of-pocket expense instead of the actual fee, to try and offset any potential negative feedback from families about price increases.

The Child Care Subsidy, in part, contributes to weak price competition in local childcare markets, as discussed in chapter 2, as it subdues the impact of price increases on households. The annual indexation of the hourly rate cap creates an opportunity and likely an incentive for providers to pass on any cost increases through annual fee increases to households. This allows providers to maintain a relatively consistent profit margin than may otherwise be the case.

Since 2019 we see the average operating margin for large providers of centre based day care has risen roughly in line with an increase of the average hourly fee (figure 3.25).

Figure 3.25: Average operating margin (service-level) and average hourly fee for large providers of centre based day care, 2019 to 2022



Note: Our analysis excludes 2020 due to COVID-related data quality issues

Source: ACCC analysis of Department of Education administrative data and information provided to the ACCC.

While providers may pursue some cost saving strategies and efficiencies (such as centralising administrative services, reducing head office staff and costs, engaging procurement specialists to source suppliers and renegotiate contracts, rental negotiations, re-financing lending facilities, reduction in travel expenditure and introducing new management systems to improve oversight) these savings do not seem to be passed through to households on a broad scale through fee reductions.

3.5. Labour costs and shortages create risks for profitability, viability and service quality

The success of childcare services is enormously dependent on the educators and staff in those centres. Educators and staff have a significant impact on the quality and reputation of the service, as well as the service’s ability to generate profits (through their influence on occupancy) and contribute to the ongoing viability of the service through stable tenure.

In this section, we consider the impact of high labour costs and staff shortages, as discussed in chapter 1 and chapter 2, on the profits and ongoing viability of childcare services as well as the quality of the service.

The largest expense for childcare providers is labour, as discussed in chapter 1. On average this represented around 69% of total costs for centre based day care and 77% for outside school hours care in 2022.

Our analysis finds that for centre based day care services, as the share of labour costs increases, the average operating margin decreases. Therefore, the ability of a provider to minimise these expenses and find efficiencies can improve profits and long-term viability more than other measures providers can adopt.

A common way to rationalise labour expenses appears to be efficient rostering and balancing the number of staff needed with the number of children attending a service at any given time, as discussed in chapter 1. Large providers recognise the importance of rostering and have been working on improving efficiency. As one large provider notes, “you can make or lose millions of dollars if you get rostering \$1–2 wrong”.

It appears common for large providers of centre based day care and outside school hours care to use software programs to efficiently manage rosters. Some large providers are investing to innovate and improve rostering by using AI powered software for dynamic rostering allocation. This software seeks to optimise staff availability, predict child attendance patterns by room, by day, and by hour, and consider regulatory requirements for qualifications and ratios.

3.5.1. Staff shortages and turnover impact profits, viability and service quality

Providers consider the availability of staff to be a key factor impacting the viability of their service. Our review of internal documents also indicates that a stable centre manager, in particular, appears to be an important factor influencing occupancy, and hence the viability of a centre based day care service.

Without sufficient staff, a service cannot operate to its full capacity due to regulatory educator-to-child ratio requirements.⁶⁵ Accessing a consistent supply of high quality, job-ready educators remains a challenge across all service types.⁶⁶ Several large providers also consider the shortage has become worse following COVID-19 and is putting pressure on profitability. In recent years, the National Skills Commission listed both ‘Early Childhood (Pre-primary School) Teacher’ and ‘Child Care Worker’ as skills being in shortage, either on a national and/or regional level.⁶⁷

One large provider considers that oversupply of centre based day care services in some areas may also be contributing to the shortage of educators and increasing competition to retain existing educators. The apparent oversupply in a small local market could also have negative impacts on the operational sustainability of existing services in that market.

Large providers have undertaken different strategies to try to overcome this challenge, including reducing the number of places available (capping occupancy),⁶⁸ limiting operating

⁶⁵ Mayfield, [Investor Presentation](#), 20 April 2023, p 17.

⁶⁶ [‘Australia needs 16,000 new educators to fill shortfall in childcare sector, inquiry told’](#), The Guardian, 31 October 2022 accessed 31 July 2023.

⁶⁷ National Skills Commission, [2022 Skills Priority List: Key Findings Report](#), 6 October 2022.

⁶⁸ L Walsh & J Wiggins, [Childcare giant G8 says skills shortage meant turning away parents](#), Australian Financial Review, 22 August 2023. Beavan K, [‘Childcare staff shortage forcing centres to cap enrolments, survey finds’](#), ABC News, 14 June 2023, accessed 31 July 2023. [ACA has released new survey data on the impact of work shortages on families](#) [media release], Australian Childcare Alliance, 13 June 2023, accessed 31 July 2023.

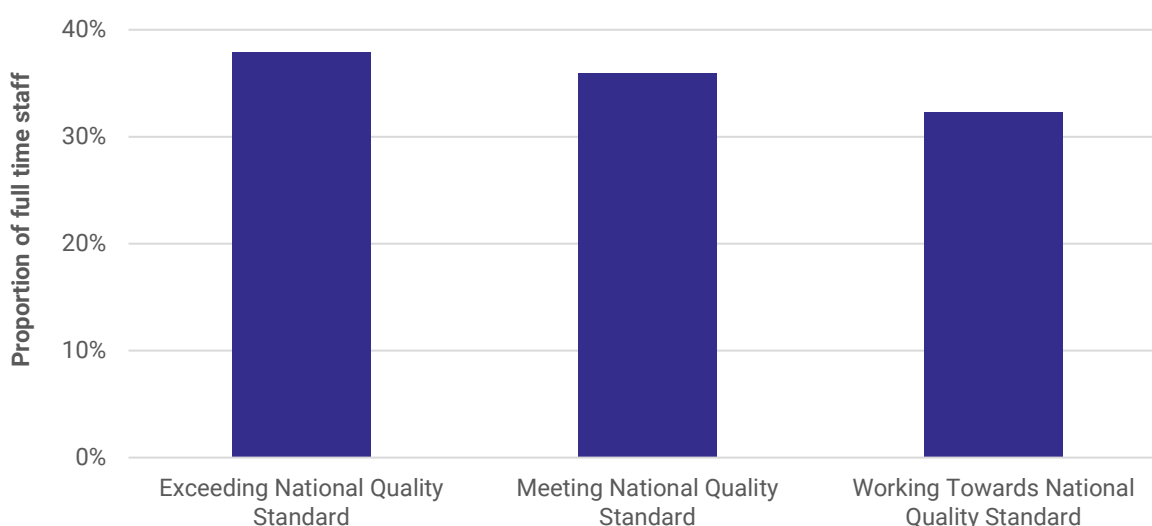
hours and/or using higher numbers of casual or agency staff. Several large providers try to maintain a pool of casual staff to reduce their reliance on more costly agency staff.

These strategies may have consequences for the long-term viability of a service as reduced occupancy limits the amount of revenue that can be generated to cover the fixed costs of operating a service. Using more casual and/or agency staff (who attract higher wages) also leads to higher labour expenses, which may be unsustainable for long periods.

A sustained, higher use of casual or agency staff, or high levels of staff turnover, could also have consequences for the perceived quality of a service and occupancy as families and children may prefer a service where they get to know and build relationships with educators, also discussed in chapter 2.

Our analysis finds that centre based day care services that had a higher share of full time staff also have a higher quality rating in 2022 (figure 3.26).

Figure 3.26: Share of full time staff and National Quality Standard rating for centre based day care, 2022

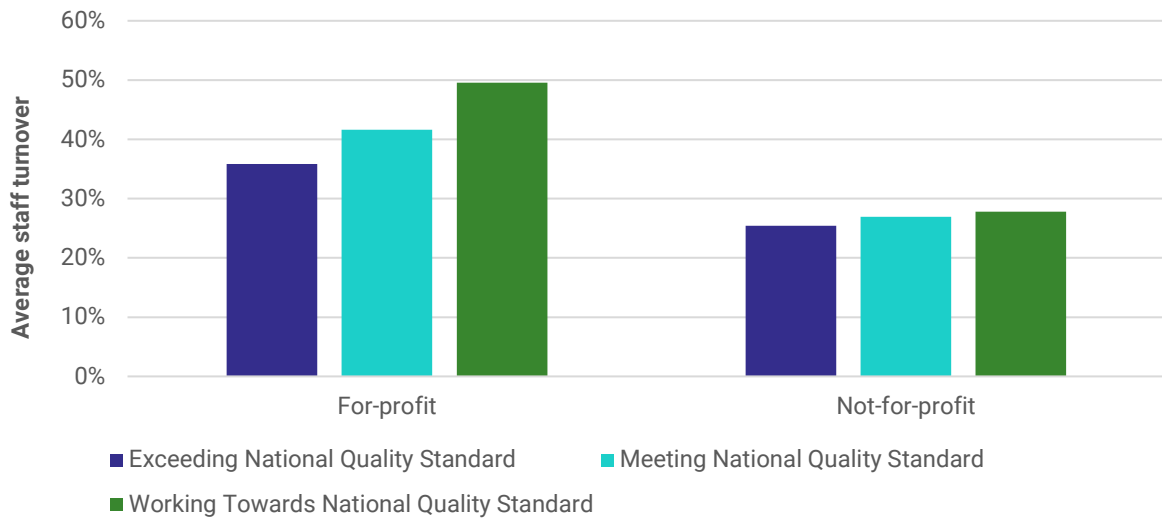


Note: Our analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

We also see that centre based day care services with lower staff turnover in 2022 had a higher quality rating, for both for-profit and not-for-profit providers (figure 3.27). This is consistent with parents' and guardians' perceptions of quality associated with low staff turnover noted in chapter 2. There was much higher staff turnover in for-profit services than not-for-profits, on average, across all ratings, and as well as a higher rate of staff vacancies in 2022.

Figure 3.27: Average staff turnover and National Quality Standard rating for centre based day care, by provider type, 2022

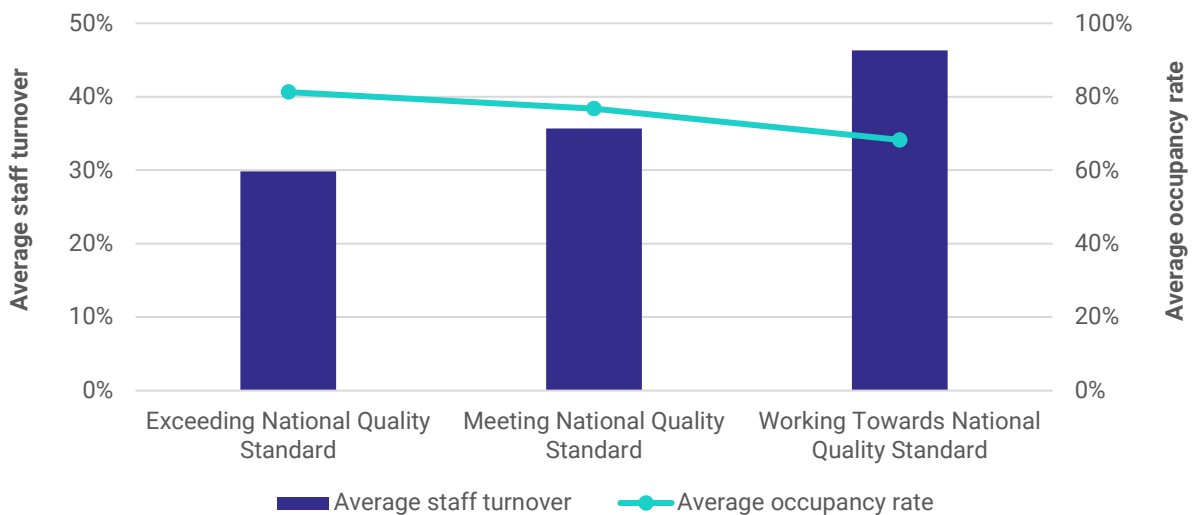


Note: Our analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

Services with higher ratings also had higher occupancy in 2022 (figure 3.28) and lower staff turnover, compared to services with lower ratings. As discussed in section 3.3, higher occupancy is important to drive profitability.

Figure 3.28: Average staff turnover and average occupancy rate for centre based day care, by National Quality Standard rating, 2022



Note: Our analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

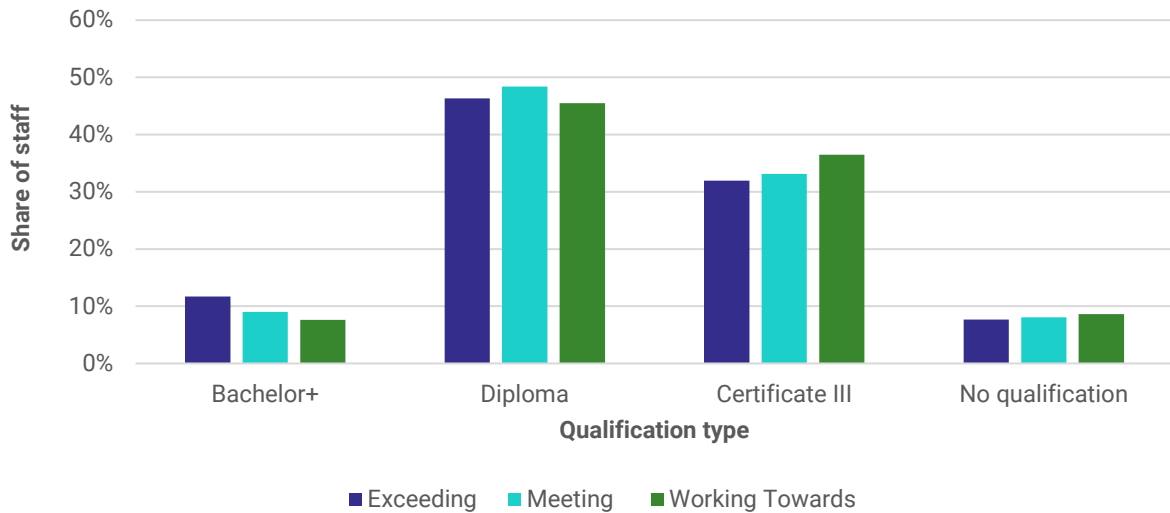
3.5.2. Quality of staff is instrumental to overall service quality but may impact profitability

Educators are a significant contributing factor to the overall quality of a service, as discussed in chapter 2.

We observe centre based day care services with a higher quality rating (‘Exceeding’) have a higher share of staff qualified with a Bachelor degree or higher (figure 3.29). These services also have a lower share of Certificate III and staff without qualifications, compared to services with a rating of ‘Meeting’ or ‘Working Towards’.

However, there is a balance, as more qualified or experienced staff attract higher wages, which could lead to a service making lower profits or making a loss, depending on other factors.

Figure 3.29: National Quality Standard rating and staff qualifications for centre based day care, 2022



Note: Our analysis excludes services with an ‘Excellent’ rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

We observe that centre based day care services with a higher share of above award staff also have a higher quality rating. Across all quality ratings, not-for-profit providers had a higher share of staff paid above award wage compared to for-profits, as also discussed in chapter 1 (figure 3.30).

Figure 3.30: Share of staff paid above award for centre based day care, by National Quality Standard rating, 2022



Note: This analysis excludes services with an 'Excellent' rating due to low sample size.

Source: ACCC analysis of ACECQA data, Department of Education administrative data and information provided to the ACCC.

Providers appear to invest significantly in the attraction and retention of quality educators. In addition to paying above award wages, some large providers offer incentives to improve service continuity, greater support for new starters, and training and development opportunities.⁶⁹

Several large centre based day care providers have also established their own registered training organisation, or entered a formal partnership with one or more existing training organisations, to attract and develop a pipeline of suitably qualified staff.⁷⁰ For providers who operate their own registered training organisation, this may also open another revenue stream to diversify their business.

3.6. Childcare real estate is seen to be a reliable investment

Investing in childcare real estate is attractive due to the long-term leases and stable tenants backed by government support, as well as high underlying land values.⁷¹ Childcare centres are perceived to carry less risk in comparison with other forms of commercial real estate, such as offices or retail stores, which are more closely linked to the success of the wider economy.⁷² Childcare properties also have smaller transaction sizes than other commercial property sectors, which is appealing to a broader pool of investors.⁷³

⁶⁹ Mayfield, [Investor Presentation](#), 20 April 2023, p 21.

⁷⁰ See J Roberts, [Busy Bees commits to RTO space with acquisition of Australian Child Care Career Options](#), The Sector, 5 July 2022; One Tree Community Services, [Traineeships and qualifications](#), accessed 24 August 2023; St Nicholas Pathways, [Traineeships](#), accessed 24 August 2023; Affinity Education, [Affinity Learning Academy](#), accessed 24 August 2023; and ACECQA, [Shaping our future: A ten-year strategy to ensure a sustainable, high-quality children's education and care workforce 2022-2031](#), September 2021, p 27.

⁷¹ Cushman & Wakefield, [Child's Play: An Overview of the Australian Childcare Real Estate Investment Market](#), 2023, pp 22, 24. Peak Equities, [Childcare in Australia: a guide to investment](#), 2021, pp 9–11.

⁷² A Flaherty, [Investor demand for childcare centres heats up](#), Realcommercial.com.au – Commercial News, 22 August 2023.

⁷³ Charter Hall Social Infrastructure REIT, [Annual Report 2023](#), p 10.

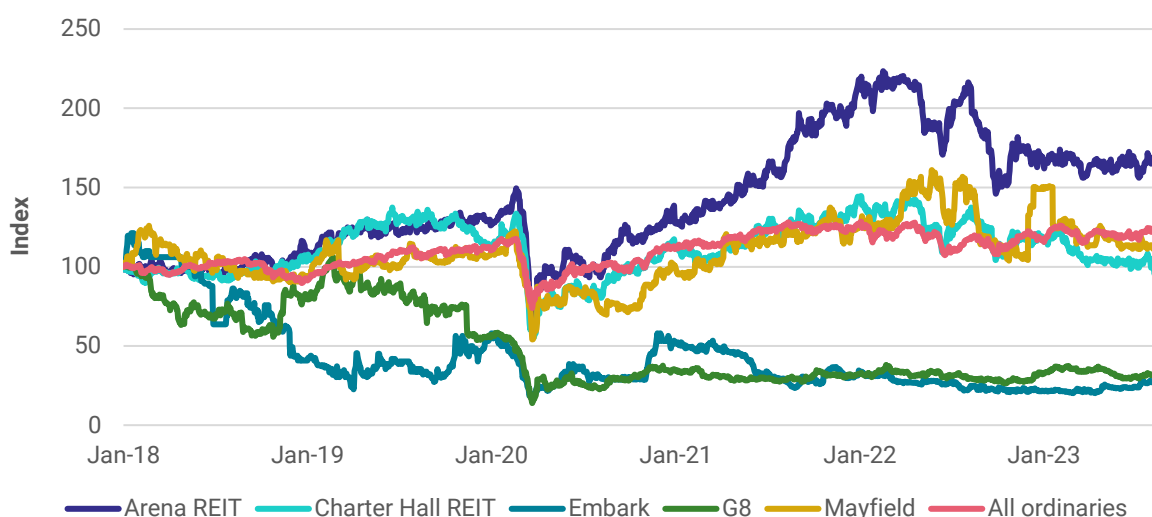
Property companies and developers can achieve substantial capital gains from buying and selling centres. Transaction volumes were around \$400 million each year from 2017 to 2020, and more than double this in 2021 (\$950 million).⁷⁴

Two large owners of centre based day care centres, Charter Hall Social Infrastructure Real Estate Investment Trust ('Charter Hall')⁷⁵ and Arena Real Estate Investment Trust ('Arena')⁷⁶ recorded statutory profits of \$358.5 million⁷⁷ and \$334.3 million⁷⁸ respectively in 2021–22 (an increase of 105% and 102% respectively, from 2020–21).

In 2021–22, Arena's net operating profit increased by 8.4% from 2020–21. This was driven by increases in rental income arising from periodic rent reviews, as well as lease commencements on completion of early learning centre developments and new acquisitions.⁷⁹ The passing yield at 30 June 2022 for Arena's early learning centres portfolio was 4.9%.⁸⁰

Arena and Charter Hall have both outperformed publicly listed childcare providers (G8 Education, Embark Early Education and Mayfield Childcare Limited) in the last 5 years. Arena in particular has also consistently outperformed the All Ordinaries Index (figure 3.31).

Figure 3.31: Index of share prices of publicly listed companies with investment in childcare services, January 2018 to August 2023⁸¹



Source: ACCC analysis of share prices from Yahoofinance.com and Investing.com.

There are also other companies with an interest in childcare real estate. In 2022, Australian Unity launched a childcare property fund and currently holds 15 properties (settled) valued at

⁷⁴ Cushman & Wakefield, [Child's Play: An Overview of the Australian Childcare Real Estate Investment Market](#), 2023, p 23.

⁷⁵ Charter Hall Social Infrastructure REIT's tenant portfolio is 77% childcare providers. This includes Goodstart Early Learning (34%), G8 Education (8%), Only About Children (8%), and Busy Bees (4%). See Charter Hall Social Infrastructure REIT, [Annual Report 2023](#), p 13.

⁷⁶ Arena REIT's property portfolio is 89% invested in early learning centres and early learning centre development sites (11% in healthcare assets). As at 31 December 2022, 52% of the portfolio by income (excluding developments) is leased to the largest 3 tenants (Goodstart Early Learning Ltd 24%, Green Leaves Group Ltd 18%, and Edge Early Learning Holdings Pty Ltd 10%). See Arena, [Interim Report – 2023](#), February 2023, p 7.

⁷⁷ Charter Hall REIT, [Annual Report 2022](#), p 24.

⁷⁸ Arena REIT, [Annual Report 2022](#), p 4.

⁷⁹ Arena REIT, [Annual Report 2022](#), p 19.

⁸⁰ Arena REIT, [Annual Report 2022](#), p 8.

⁸¹ Index number is 2 January 2018=100. This analysis uses the daily closing price. G8 Education, Embark Early Education and Mayfield Childcare Limited. Arena and Charter Hall Social Infrastructure are real estate investment trusts.

\$84.5 million.⁸² Australian Unity looks to drive portfolio performance by targeting assets with attributes including dominant centres with limited competition driving high tenant retention rates, sound lease fundamentals securing stable income and good economic value with potential uplift.⁸³

We intend to explore further, if time allows, whether there are any corporate relationships between childcare centre owners and childcare providers and consider this in our final report.

The growing interest in childcare real estate may have consequences for competition, as well as the profitability and viability of services. In particular, there could be consequences for rents given most centre based day care providers rent or lease their sites, as discussed in chapter 1.

One large not-for-profit provider considers there is an incentive for real estate companies to build, sign contracts for high rents, and then sell based on profit margin forecasts and confidence in the sector. Another large provider considers landlords are aware of any increases in government funding, such as changes to the Child Care Subsidy, and may increase rents as a response.

Australian Unity's quarterly fund update considers the supply of new centres is constrained due to increasing construction costs and high interest rates, which may drive demand for existing quality childcare centres as well as increased rents in 2023.⁸⁴ Research by Cushman & Wakefield also finds rental rates have risen strongly over recent years, with rents per licensed place ranging from \$1,550 to \$6,950 and metropolitan-based services dominating the upper ranges.⁸⁵

We have also been advised of anecdotal examples of real estate developers building new childcare centres as part of new housing developments to boost property sales. This could lead to oversupply of childcare services in some areas, which could impact occupancy and hence profits and viability of any existing services nearby.

3.6.1. Providers face trade-offs when deciding to lease or purchase their childcare site

The ability to lease a childcare site, rather than own, allows providers to use available funds and capital for other strategic priorities, such as growing their presence in the market. One large provider also finds an advantage of leasing is the ability to vacate at lease expiry if the centre performs poorly from low utilisation or increased competition.

It appears there is appeal for providers to own their centres, including having greater control over the centre, the opportunity to make additional returns, and/or an opportunity to strengthen the providers' balance sheet. However, providers tend to rent or lease rather than own their own sites, as discussed in chapter 1.

By leasing a site, providers can avoid upfront costs of building a new centre and the development approval process. In particular, not-for-profit providers may have less ready access to capital, compared to for-profit providers, so may be constrained by how much they can purchase or build new sites. As such, providers may need to lease a site instead. This was also reflected by the South Australian 2023 Royal Commission into Early Childhood

⁸² Australian Unity, [Childcare Property Fund](#), accessed 30 August 2023.

⁸³ Australian Unity, [Childcare Property Fund](#), accessed 30 August 2023.

⁸⁴ Australian Unity, [Childcare Property Fund](#), Fund Update, 20 June 2023, p 3.

⁸⁵ Cushman & Wakefield, [Child's Play: An Overview of the Australian Childcare Real Estate Investment Market](#), 2023, p 20.

Education and Care, which highlighted the difficulty of expansion for not-for-profit standalone community-run services, who do not have the same ability to access capital despite delivering a high quality of care.⁸⁶

However, there are some disadvantages for providers who lease their childcare sites. In particular, one large provider considers the long-term leases, upwards of 10-years being common in the sector, to be undesirable and lock in providers to ongoing costs. This may make it more difficult to exit a service which is no longer financially viable.

There are also other risks of leasing, including incurring a right-of-use asset liability, and exposure to market rent reviews and annual rent increases. We have seen some evidence of large providers being subject to ratchet clauses⁸⁷ in some lease agreements that may result in considerable rental increases. Uncommercial lease conditions may also contribute to a provider's decision to close a service.

Annual rent increases of 3% to 4% or CPI, whichever is higher, appear to be common for centre based day care providers. However, we understand rent increases can vary significantly across individual centres. Many large providers seek to negotiate rental increases, but in some cases, may be liable for a market rent valuation to support their case, which is an additional cost to bear.

3.7. Family day care services and educators

Family day care services operate differently to centre based day care services, but still face some of the same demand and supply challenges, which have consequences for profits, viability and service quality. In this section, we consider the impact on family day care services separately to family day care educators.

Currently, we do not have sufficient information to analyse the profit margins of the family day care sector. However, we draw on information provided to the ACCC through interviews with family day care services and educators, as well as a voluntary survey of educators and public data from the Australian Tax Office.

3.7.1. Family day care services rely on educators to breakeven

The primary source of revenue for family day care services is the levy charged to educators. Family day care services need a minimum number of educators to break even, but this number differs depending on the size of the service.

The reliance on educators creates challenges for profits and viability as educators are contractors and are not obligated to stay with a service and can leave at any time. This presents a risk to the family day care service's revenue stream and can lead to volatile or lumpy revenue. This is a challenge to manage as the costs of operating a family day care service are largely fixed, such as labour expenses. We understand some services also face

⁸⁶ The final report recommends that any South Australian Government support, to grow capacity in the sector gives priority to community-run services which are constrained in their access to capital (along with services which meet National Quality Standards, invest in workforce and service vulnerable communities). Further, to support childcare accessibility, the final report recommends the South Australian Government could give future consideration to the provision of concessional financing for new services, or the expansion of existing services. See South Australian Royal Commission into Early Child Education & Care, [Interim Report](#), April 2023, accessed 30 September 2023, p 104, and [Final Report](#), September 2023, accessed 30 September 2023, pp 12, 18.

⁸⁷ Ratchet clauses prevent rent payments from decreasing. When used, they are typically applied at the time of market rent reviews throughout the tenancy. If the market rent review is less than current rent, the current rent will still apply.

challenges retaining educators due to the contractor model and find that educators leave the sector for more stable, ongoing employment.

Services are also limited in their ability to increase revenue by raising the levy due to local competitive pressure and a reluctance to increase fees for educators and households.

Like the rest of the sector, the shortage of qualified educators has consequences for family day care services. From our discussions with family day care services, we are aware there has been considerable consolidation among services in recent years, with a number of loss-making services closing down. As a result, many of the remaining services are likely to be viable only because they have taken on the educators from the services that have closed.

3.7.2. Family day care educators likely make negligible profits

From discussions with educators, we understand that most educators can recover their operating costs through the fees charged for the service. However, educators do not make significant profits, and, in some cases, may only earn a minimum wage. We understand some educators may be forced to leave the sector to find a higher-paying job.

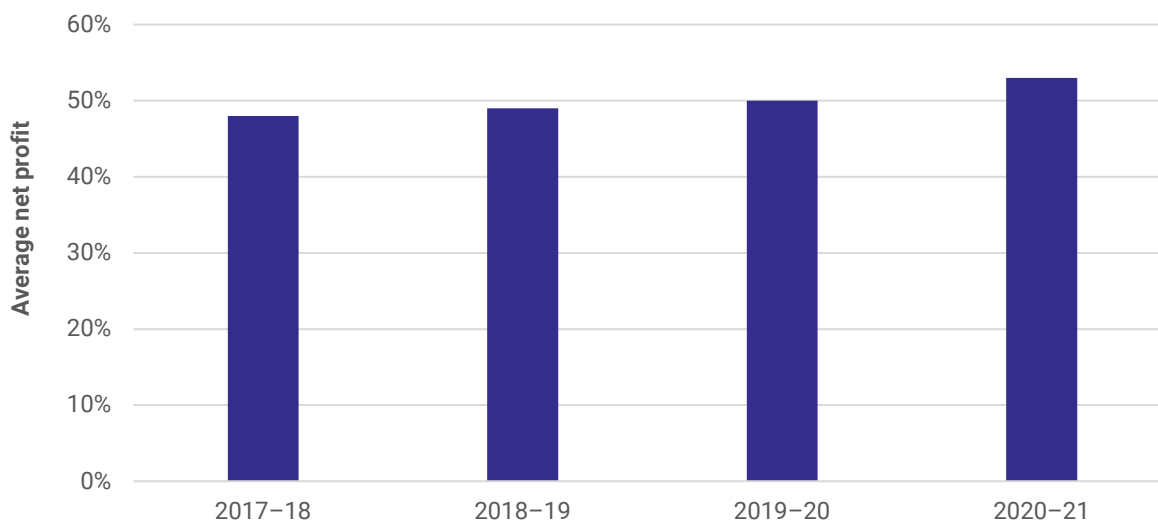
We examine public data from the Australian Tax Office to consider the profitability of family day care educators. Our analysis looks at the average net profit ratio for individuals trading in the childcare services industry. We expect that a reasonable share of these individuals are family day care educators. Centre based day care and outside school hours care services would likely operate as a company or trust for tax purposes, whereas most family day care educators are self-employed, as discussed in chapter 1 (box 1.3).

On average, individuals operating in the childcare services industry earned a net profit ratio of around 50% over 2017–18 to 2020–21 (figure 3.32). While this may appear high, we note around 90% of these individuals had a turnover of less than \$100,000 per year.

A possible reason for this high margin at low-income levels could be that these individuals (likely to be family day care educators) may take their wage from profits rather than paying

themselves a wage separately. In this case, for example, an individual with an average net profit of 53% and total income of \$50,000 would receive a profit/wage of \$26,500 a year.

Figure 3.32: Average net profit of the childcare services industry, all individuals, 2017–18 to 2020–21⁸⁸



Source: ACCC analysis of Australian Tax Office data.

Family day care educators raise revenue through fees, which are typically set by taking into account the fee range and levy set by their family day care service, their operating costs, and the fees of other nearby family day care educators. Educators appear limited in their ability to increase fees due to the willingness to pay of households and a reluctance to exceed the hourly rate cap. Educators are also mindful of the ongoing relationships they form with families as part of the family day care environment and they may not want to risk losing the family over a fee increase.

The amount of revenue an educator can make is also limited by the educator-to-child ratio for family day care, which is up to 4 children under school age per day for one educator. Some educators consider the ability to care for just one additional child per day would significantly improve their viability and better help to cover the largely fixed costs of operating a family day care service.

⁸⁸ This analysis only considers individuals under ANZSIC code 8710, Childcare Services Industry. It is an average of both profit making and non-profit making individuals. The Australian Tax Office defines average net profit as total business income minus total business expenses, divided by total business income.

4. Impact and effectiveness of price regulation in childcare

Key points

- The Child Care Subsidy is a demand-side subsidy that follows the child and is paid to service providers. The Australian Government uses the Child Care Subsidy to pay a percentage of childcare fees up to an hourly rate cap. The current Child Care Subsidy limits the number of government subsidised hours of care through an activity test which considers how much paid work, or other approved activities the household undertakes.
- Providers can charge above the hourly rate cap, but any part of the fee above this cap is paid in full by households. The hourly rate cap was intended to:
 - send a strong message about what a ‘high fee’ service is
 - place downward pressure on price rises and limit the financial burden on taxpayers over time.
- The out-of-pocket expenses paid by households were intended to encourage them to consider their childcare options and exert downward pressure on prices and the cost to taxpayers.
- Centre based day care services generally charge households a daily rate (or per session) and the hourly rate cap does not provide a strong price signal to parents and guardians.
 - There is no strong association between hourly rates and daily rates. Services with 9 or 10 hour daily sessions are only slightly less expensive than 11 or 12 hour daily sessions, on average. These shorter sessions have higher hourly rates.
- Centre based day care providers are optimising session lengths to maximise the total subsidy households receive and minimise out-of-pocket expenses for households, to maintain or increase providers’ revenues. This strategy is reflected in provider documents and supported by our analysis of the data.
 - The number of children attending centre based day care for 5 days per week using 10 hour sessions has more than doubled between 2018 and 2022, while the number of children attending 5 days per week using 11 and 12 hour sessions has declined. This trend has benefits for:
 - the majority of households (66%) that have 100 hours of entitlement, as they may be able to use more days of care without significantly increasing out-of-pocket expenses
 - childcare providers who can maintain the same or similar operating hours (and costs) but increase attendance and total revenue.
 - Prioritising session lengths means the hourly rate cap is not the primary consideration of providers. When sessions are reduced to 10 hours, it leads to higher hourly rates but shifts most of the cost burden to the Australian Government.
- We also observed lower usage of very short (3 or 6 hour) sessions. This could indicate less flexibility and options for some households, particularly those with lower

entitlements. As a result, they may be forced to pay for more unsubsidised hours or use less childcare than desired.

- More services are charging above the rate cap over time:
 - **Centre based day care** hourly rates are widely distributed. Over time more services are approaching and exceeding the hourly rate cap. In 2022 there were 22% of services above the cap, but of these, 66% were within 10% of the rate cap.
 - A high share of **family day care** services (43%) exceeded the hourly rate cap in 2022.
 - For **outside** school hours care, the distribution of hourly prices has not substantially changed over time and the hourly rate cap does not seem to have much effect, as very few services exceed the cap.
- Households with a relatively low entitlement to subsidised hours of childcare (due to low activity levels) and lower incomes tend to use more unsubsidised hours of care. This leads to higher out-of-pocket expenses and affordability concerns.

Draft findings relevant to this chapter

- **Draft finding 13:** The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and limiting the burden on taxpayers.
- **Draft finding 14:** Childcare providers are optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.
- **Draft finding 15:** The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.
- **Draft finding 16:** More information is important for parents and guardians, yet the comparator website StartingBlocks.gov.au is not widely used by parents and guardians and can contain outdated information.

4.1. Introduction

The terms of reference direct the ACCC to examine ‘the impact and effectiveness of existing price regulation mechanisms and any impediments inherent in those mechanisms to their effective operation’.

This chapter discusses 2 key Government interventions into the childcare sector that impact prices, either directly or indirectly:

- The Child Care Subsidy – through which the Australian Government subsidises the price of childcare paid by households.
- StartingBlocks.gov.au – A price comparator website introduced in February 2022 to inform households of availability and prices.

This chapter explores whether these policies are effective in putting downward pressure on prices and restraining government expenditure over time, and in acting as a price signal for parents and guardians.

The majority of our analysis relates to centre based day care services. Centre based day care represents 62.5% of all childcare services subject to the ACCC childcare inquiry, and is the service for which we have sought the most information. We include analysis relating to family day care and outside hours school care where possible.

In home care is not considered in the analysis, given the very small size of the sector. Additionally, the hourly rate cap is applied per family, and each family can have different caring needs, meaning it is difficult to compare information about this service.

- Section 4.2 explains the how the Child Care Subsidy and hourly rate cap operate.
- Section 4.3 examines the impact of the hourly rate cap as a price signal, distribution of hourly rates and changes in out-of-pocket expenses following subsidy changes.
- Section 4.4 examines the activity test and its incentives for households and services to use different session lengths and hourly rates to maximise subsidy entitlements.
- Section 4.5 looks at the impact of the activity test on affordability.
- Section 4.6 considers the effectiveness of the StartingBlocks.gov.au website.

4.2. The Child Care Subsidy

The Australian Government assists households with childcare expenses through the Child Care Subsidy. The scheme was introduced in July 2018 and subject to certain changes in July 2023.

The Child Care Subsidy is a demand-side subsidy, which follows the child and is paid to the service provider. This differs from a supply-side subsidy which goes directly to providers to cover the cost of supply of services generally.

Under the Child Care Subsidy, households can receive a subsidy for their childcare use. The subsidy amount a household receives is determined by the following factors:

- An income test – the subsidy percentage starts at 90% and reduces as household income increases.
- An activity test – the number of subsidised hours of childcare depends on the number of hours that parents and guardians either work or engage in an approved activity (like study or volunteering).
- An hourly rate cap – the subsidy percentage is applied to any fee amount up to an hourly rate cap, with any fee component above the cap not subsidised.

By design, the Child Care Subsidy amount does not cover the full price of childcare. Parents and guardians must pay the remaining share of the price not subsidised.

4.2.1. The hourly rate cap

Setting a limit on the price at which the Australian Government will subsidise childcare

The hourly rate cap sets an upper limit on the price at which childcare will be subsidised by the Australian Government. Providers can charge above the hourly rate cap but any part of the fee above this amount is paid in full by households.

The Regulation Impact Statement for the Jobs for Families Child Care Package (2015) stated that the hourly rate cap should:

‘send a strong message about what a ‘high fee’ service is and places downward pressure on fee increases as families will not be subsidised for the gap between the hourly fee cap and higher fees. This will help restrain Government expenditure over time.’⁸⁹

How the hourly rate cap is set

The hourly rate cap varies for each approved childcare service type and the age of the child (table 4.1).

The Department of Social Services stated that the initial caps for the 2018–19 financial year were determined by the following methodology:

- Increasing the fees for each service in the Department’s model from 2013–14 values to 2017–18 values using the Department of Finance’s forecast growth in fees.
- Removing the top 5% of fees for each service type.
- Determining the average fee for each service type.
- Increasing this average by 17.5% for centre based day care and outside school hours care and by 5.75% for family day care.⁹⁰

The Department of Social Services estimated that the initial hourly rate caps were higher than between 70% and 87% of fees charges by childcare providers (between the 70th and 87th percentile).⁹¹

At the beginning of each financial year the hourly rate caps are adjusted to reflect changes in the Consumer Price Index for the previous calendar year.

Table 4.1: Hourly rate cap, by service provider and age of child

Service provider type	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 20 July, 2023.

⁸⁹ Department of Education and Training, [Regulation Impact Statement - Jobs for Families Child Care Package](#), November 2015, p 54.

⁹⁰ Senate Community Affairs Committee, Answers to estimates questions on notice, Social Services Portfolio, 2015–16 Budget Estimates Hearing, SQ15-000440.

⁹¹ Senate Community Affairs Committee, Answers to estimates questions on notice, Social Services Portfolio, 2015–16 Budget Estimates Hearing, SQ15-000524.

The lower hourly rate cap for family day care was in part intended to reflect that the overhead costs of providing family day care are generally lower than for centre based day care and outside school hours care.⁹²

4.2.2. The income test and activity test

A 'fee-based' subsidy

Households receive a subsidy for their childcare use based on a percentage of the fee charged by their service. The subsidy rate starts at 90% (as of 10 July 2023) and reduces as household income increases (1% less for every \$5,000 of income above \$80,000). Households with an annual income of less than \$530,000 are eligible to receive a subsidy.⁹³ Households with more than one child in approved childcare receive a higher subsidy rate for their second, and subsequent children.

As even the maximum subsidy rate is less than 100%, almost all households must pay a portion of the cost of childcare.⁹⁴ This co-contribution or 'gap fee' (the out-of-pocket expense) is intended to ensure that households factor prices into their decision to use childcare and have reason to shop around for lower prices. This in turn limits the ability of providers to increase prices for fear of losing customers to cheaper alternatives and ultimately restrains government spending.⁹⁵

The Regulatory Impact Statement reflected this reasoning, stating:

'A minimum co-contribution from all child care 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 child care fees.'

Further, it stated that a variable, percentage based subsidy⁹⁶ is appropriate as it:

- allows for variability in childcare fees, including those in high cost locations
- allows for variability in use of childcare services – the same rate of subsidy for centre based day care, family day care, outside school hours care and in home care
- is simple to understand and easy to calculate, as individuals would be aware of their actual fees.⁹⁷

⁹² Senate Community Affairs Committee, Answers to estimates questions on notice, Social Services Portfolio, 2015–16 Budget Estimates Hearing, SQ15-000524.

⁹³ Some households can receive a 100% subsidy, under the Additional Child Care Subsidy. This provides additional assistance to support vulnerable or disadvantaged households and children access quality childcare – see <https://www.servicesaustralia.gov.au/how-much-additional-child-care-subsidy-payment-you-can-get?>

⁹⁴ Some recipients of the Additional Child Care Subsidy receive fully subsidised care.

⁹⁵ Department of Education and Training, [Regulation Impact Statement - Jobs for Families Child Care Package](#), p 54.

⁹⁶ The use of actual fees which vary by household (depending on income and price of services) is a departure from the Productivity Commission (2014) recommendations which supported a single subsidy benchmark amount for all.

⁹⁷ Department of Education and Training, [Regulation Impact Statement - Jobs for Families Child Care Package](#), p 43.

Access to subsidised hours is limited by an activity test

Households are limited to a certain number of subsidised hours depending on how much paid work, or other approved activities they undertake through an activity test. The activity test was designed to encourage workforce participation. The Regulation Impact Statement stated:

‘Closer alignment between the hours of subsidised care and the hours of recognised activity will create a stronger incentive for parents to increase their workforce participation if they want to access more subsidised care’.⁹⁸

The hours of subsidised care increases with parents’ and guardians’ activity levels and is capped at 100 hours per fortnight (table 4.2). A parent or guardian (or both in a two-parent/guardian home) is required to work, or do other approved activities (these include training, studying, volunteering and looking for work), for at least 8 hours per fortnight, to receive some subsidised childcare.⁹⁹

Table 4.2: 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 household earns above \$80,000; 24 hours if household earns \$80,000 or less; 36 hours – Aboriginal and/or Torres Strait Islander child
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: Department of Education, [Family eligibility and entitlement](#), accessed 20 July, 2023.

4.3. The hourly rate cap is not a clear price signal and has had a limited impact on reducing prices

The Child Care Subsidy, and in particular the hourly rate cap, was specifically designed to ensure that households would be motivated to shop around to lower their out-of-pocket expenses. It was expected that this would put pressure on providers to limit a household’s out-of-pocket expenses when setting fees. However, evidence suggests that the complexity of the hourly rate cap (and the Child Care Subsidy scheme in general) along with the unique characteristics of childcare markets may limit how effective the hourly rate cap is as a price constraint mechanism.

⁹⁸ Department of Education and Training, [Regulation Impact Statement - Jobs for Families Child Care Package](#), p 44.

⁹⁹ From 2023–24, First Nations children became entitled to 36 hours of subsidised care, regardless of their parents’ and guardians’ activity levels.

4.3.1. The Child Care Subsidy is complex to calculate for time poor parents and guardians with limited information

When introduced in 2018, the hourly rate cap was intended to represent the price of a high fee service and provide consumers with a clear reference point for comparing actual prices. However, this is unlikely to have occurred. While the Child Care Subsidy is an improvement on the previous Child Care Benefit and Child Care Rebate, the system is still complex for time poor parents and guardians.

The Australian Institute of Family Studies in 2021 found that parents and guardians were only weakly supportive of the Child Care Subsidy being easier to understand than the previous system, with most respondents neither agreeing nor disagreeing that the Child Care Subsidy system is simpler.¹⁰⁰

A recent survey by the NSW Productivity Commission found access to clear and accurate information is a barrier to using childcare services and this is partly due to the complexity of childcare subsidies.¹⁰¹

This view came through in responses to the ACCC's parents and guardians survey.

"It was a very confusing process for a first time parent".

"Subsidy and fee paying reporting and statements very opaque and difficult to understand"

"It's very complex to know what it will cost"

"It is not easy to find the fees charged and work out the subsidy rate for CCS, surely there is a less complicated system to ensure that children have the care they need so that parents can work to support their families."

A key source of complexity is the number of elements in the Child Care Subsidy and how they interact to create a subsidy payment. This complexity creates barriers to the effective operation of price regulation measures, particularly when individual elements like the hourly rate cap are intended to be central to putting downward pressure on fees.

In particular, there appears to be a disconnect between the Child Care Subsidy being calculated on an hourly basis and actual pricing typically being set on a daily basis. Because of this, the hourly rate cap is unlikely to be a strong price signal for households. To compare actual fees against the hourly rate cap, parents and guardians need to know what daily session length is available to them, as well as having a good knowledge of what their household income and likely activity test entitlement will be, ideally on a fortnightly basis. This is further complicated when comparing different providers with different session lengths.

There are a number of variable components to the Child Care Subsidy that each make calculating subsidy entitlements uncertain and difficult for households to make informed pricing decisions. For example, on returning to work, a household may not know how many hours they will be able to undertake, and their income may be uncertain after a period of leave.

In chapter 2, we explain that the relationship between Child Care Subsidy entitlement and the decisions parents and guardians make about work and income are intricately linked to the

¹⁰⁰ JR Bray et al., [Child Care Package Evaluation: Final Report](#), p vi.

¹⁰¹ NSW Productivity Commission, [Childcare choices: What parents want](#), July 2023, p 25.

price of childcare. This further adds to the complexity of the scheme and diminishes the price signal to households.

4.3.2. Price is only one factor that households consider when choosing childcare.

As discussed in chapter 2, demand for childcare services is driven by a combination of factors and is heavily influenced by the emotive and personal nature of the service. The role and influence of price depends on which stage parents and guardians are at in the decision-making process when choosing childcare (chapter 2, figure 2).

The price of childcare plays an important and influential role in parents' and guardians' decision making in determining how much childcare to use. However, childcare consumers are generally less sensitive to small variations in price than in many other markets. After answering the threshold considerations of affordability, location and availability, households then place a high weight on perceptions of quality of a childcare service over the actual fees. They might include things like the quality of educators and their relationships with children, the physical environment of the service, the curriculum offered, and what inclusions the service provides.

After deciding how much childcare they can afford, households appear to look for a service that is priced around the prevailing market price in their local area (not too high or too low) and which delivers value for money, taking into account quality. Within local area markets, providers carefully monitor prices of nearby competitors and take them into account in setting their own prices such that there is often little variation in the prices charged within an area.

As discussed in chapter 2, the Child Care Subsidy also cushions the impact of fee changes for parents and guardians, who do not necessarily pay the full amount of a fee increase or pocket the full reduction if switching to a cheaper service. When combined with other barriers to switching – such as waitlists, and disruption to a child's routine – parents and guardians may see little value in 'shopping around'.

Households in lower socio-economic areas appear to be more responsive to price changes, as increases in out-of-pocket expenses will have a disproportionately larger impact on household income. As such, any increase in out-of-pocket expenses may result in less use of childcare or a complete withdrawal of using any childcare.

The unique nature of demand for childcare and that providers compete in small local markets mean that price control mechanisms like the hourly rate cap are likely to only restrain prices in certain situations. For example, the hourly rate cap is unlikely to have much impact in local markets where all providers price well above the cap or all providers price well below the cap.

Where the hourly rate cap may restrain prices is in local markets where most providers charge at or just below the cap. In these markets, providers may have incentives to not be the first or only provider to exceed the cap as it will increase the price differential beyond what we typically see (because households must pay the full amount that exceeds the cap) and likely affect their occupancy rates (which are a key driver of profitability). Although the hourly rate cap will no longer constrain prices if enough providers in that local market were to all increase prices above the cap.

4.3.3. The hourly rate cap in practice

We compare the distribution of hourly fees across all services¹⁰² with the applicable hourly rate cap since the December 2018 quarter.¹⁰³

In chapter 2 we find there is limited variation in price within local markets. The hourly rate cap may be most effective in a local market when all prices are distributed around the hourly rate cap and price shopping may result in lower out-of-pocket expenses. The hourly rate cap is likely to have less impact when prices are all below or all above the cap as each option in the market will be similar.

More centre based day care services are reaching the hourly rate cap

The share of centre based day care services that charged above the hourly rate cap has increased, from 13% in 2018 to 22% in 2022.

While the hourly rate cap is not acting as a hard barrier, it may have had some impact in constraining prices. When the hourly rate cap was introduced, the distribution of hourly fees peaked well below the rate cap. By December 2022, however, there was a clustering of services pricing more closely to the hourly rate cap, leading to the peak of the distribution forming just below it (figure 4.1).

Although 22% of providers were above the hourly rate cap in 2022, about two-thirds of these were within 10% of the rate cap. On average, those centre based day care services above the hourly rate cap charged 9% more than the rate cap.

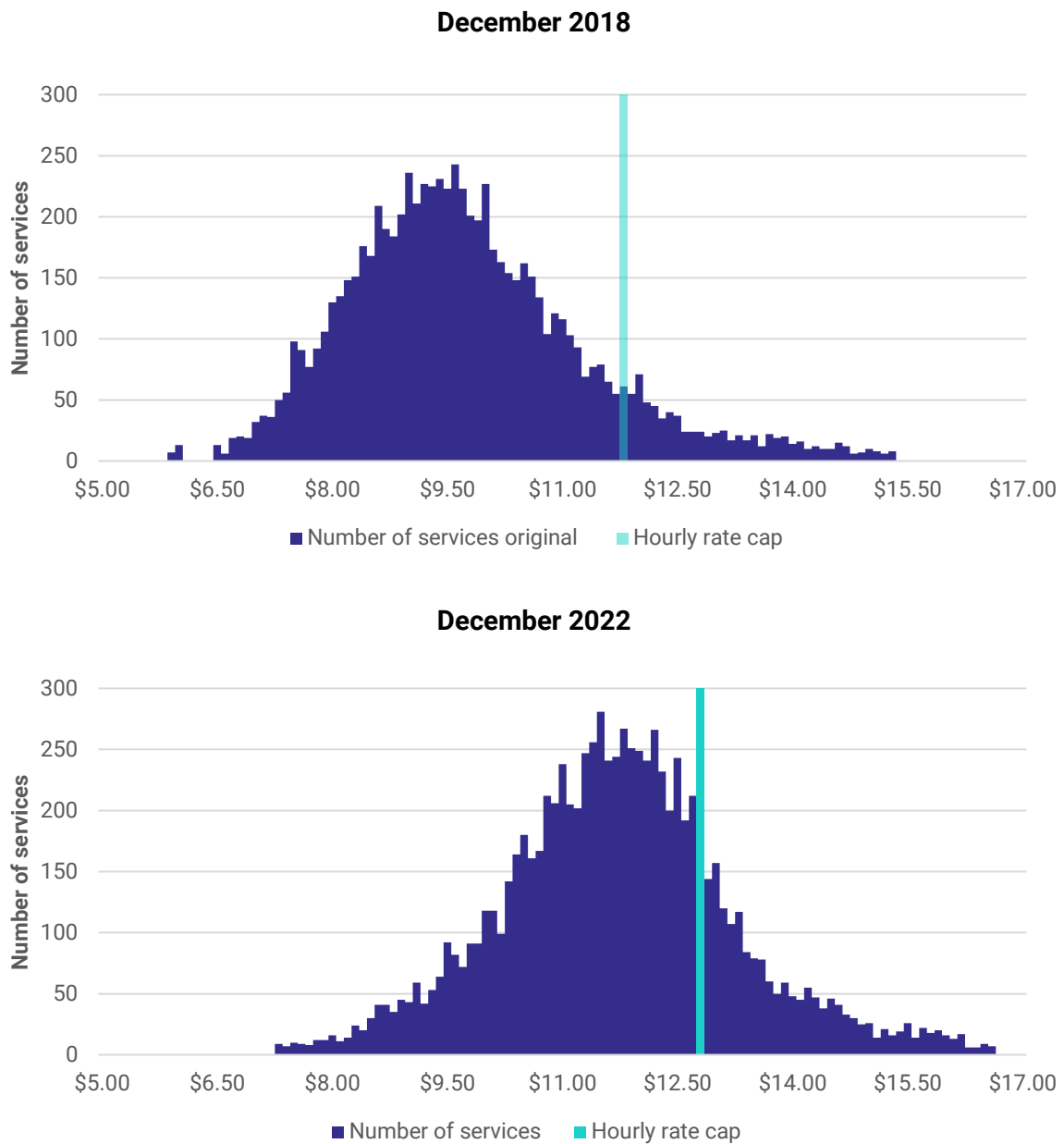
It is important to note that although more services are exceeding the hourly rate cap over time, this is not necessarily reflective of services pricing at excessive levels. If the hourly rate cap is indexed at a rate below the costs of provision in a competitive market, then providers will progressively price above the rate cap to remain viable. Our analysis of costs shows that they have increased faster than inflation (chapter 1).

As we outline below, the way providers optimise session lengths has a significant role in the increasing hourly rates we have observed.

¹⁰² Note that this does not capture the impact of the hourly rate cap in individual local markets.

¹⁰³ The December quarter is from October to December, inclusive. Providers often change their fees in the first quarter of the financial year so this should allow enough time for most providers to take into account the applicable hourly rate cap.

Figure 4.1: Distribution of centre based day care service hourly fees and the hourly rate cap, December quarter 2018 and 2022



Note: Data points with between 1 to 5 observations are not shown.
 Source: ACCC analysis of Department of Education administrative data.

Family day care hourly rates

We observe similar distributions for family day care services, with the most common hourly rates in December 2022 occurring just below the hourly rate cap (figure 4.2).

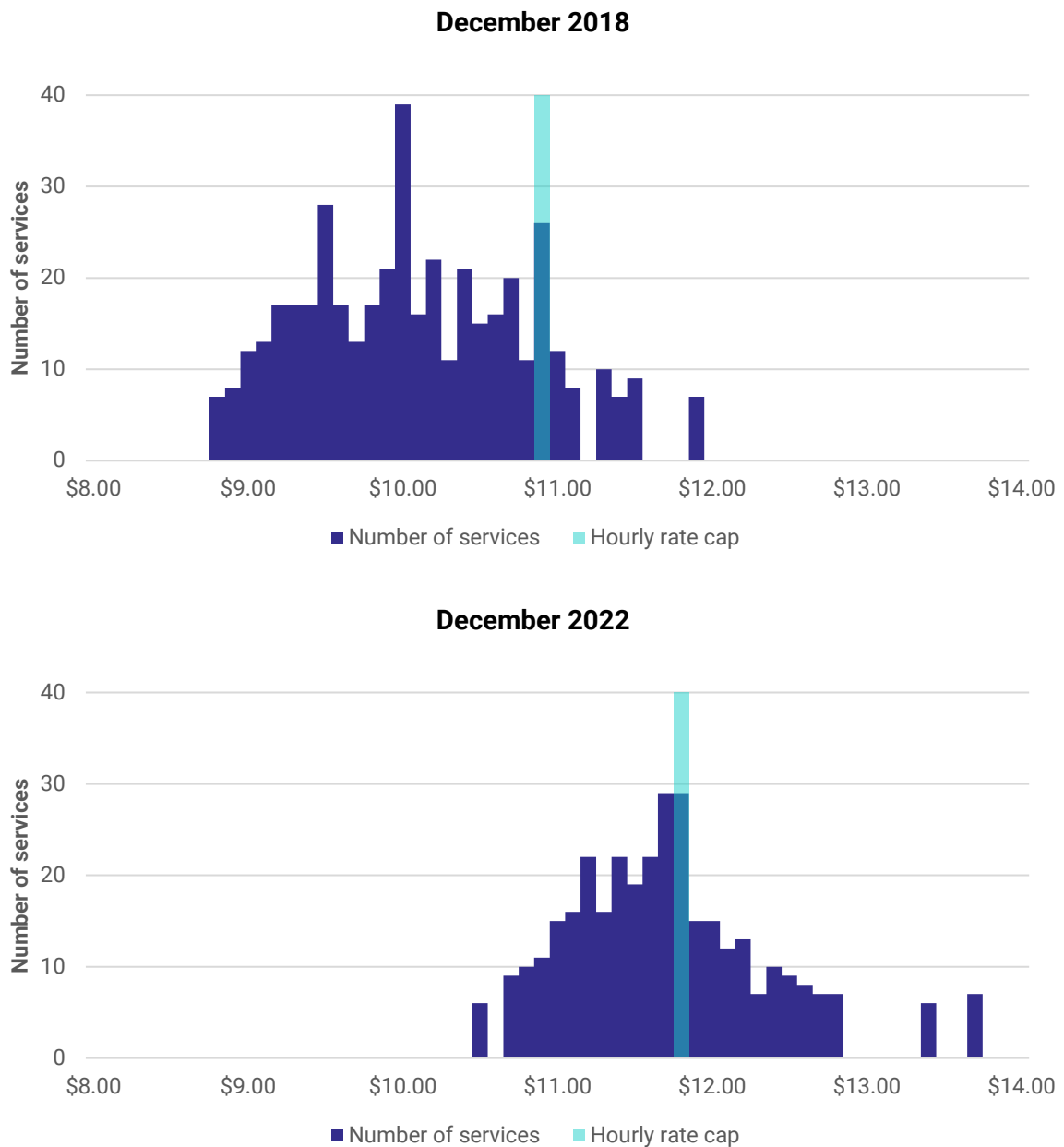
While this could indicate that the rate cap has worked to constrain some services from charging above it, there was a high share (45%) of family day care services that exceeded the hourly rate cap in December 2022. This has increased from 24% in 2018.

The relatively high share of family day care services exceeding the hourly rate cap may reflect that it was set at a lower rate than for other services. The family day care hourly rate

cap was initially set at rate closer to the average fee than for other services. Fees were at the 76th percentile in 2018, compared to 87% for centre based day cares.

It may also be a result of a larger number of non-standard hours of care in the family day care sector, where very short sessions are more frequently used (3 hours or less) and may cost more.

Figure 4.2: Distribution of family day care service hourly fees and the hourly rate cap, December quarter 2018 and 2022



Note: Data points with between 1 to 5 observations are not shown.

Source: ACCC analysis of Department of Education administrative data.

Outside school hours care hourly rates

The distribution of hourly fees for outside school hours care services is different to centre based day care and family day care, with its peak being well below the hourly rate cap (figure 4.3).

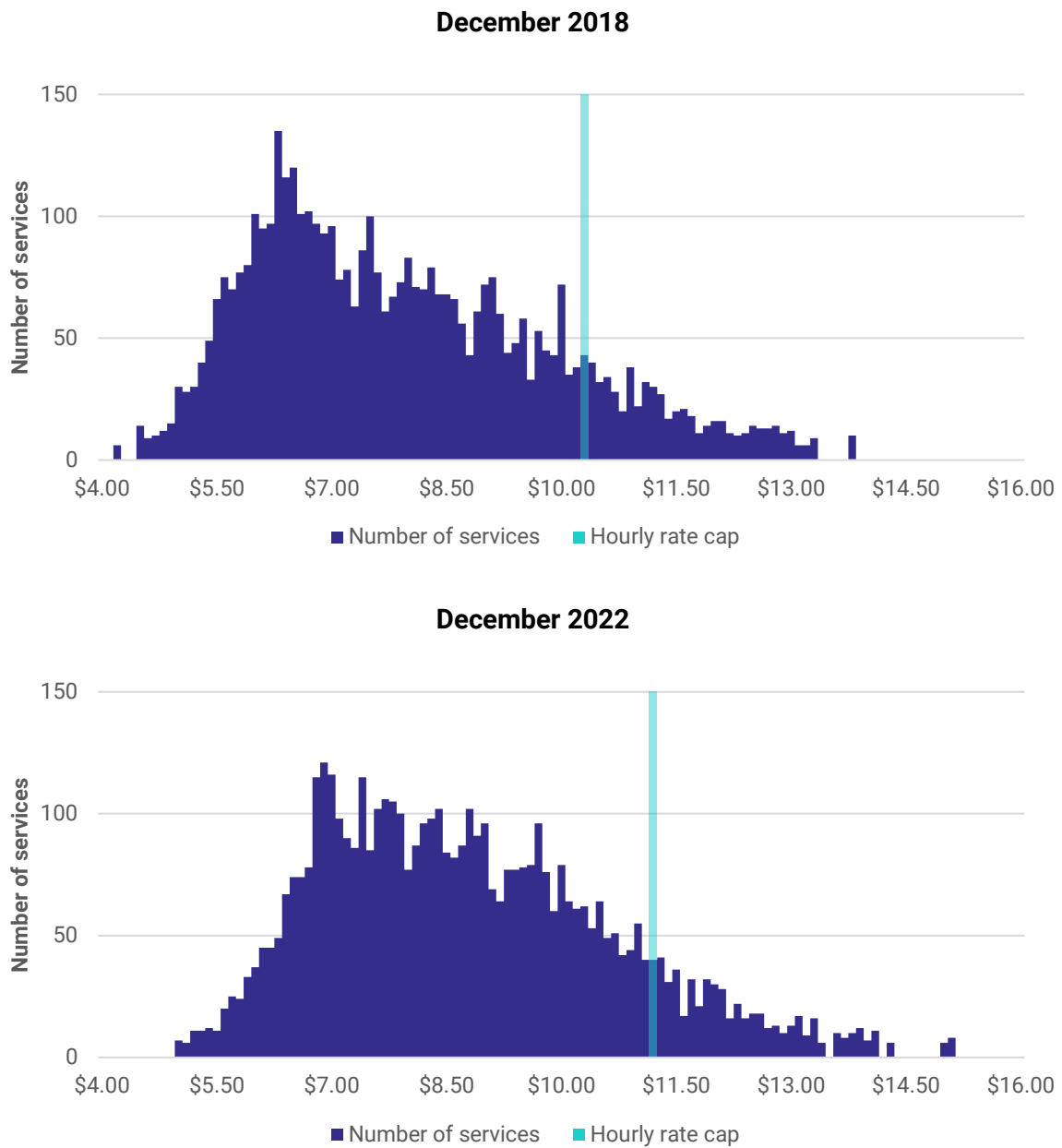
Additionally, the distribution of hourly rates does not seem to have substantially changed over time and a similar share of services (about 13%)¹⁰⁴ charged above the hourly rate cap in 2018 as they did in 2022.

There are several possible reasons why such a high share of services are below the hourly rate cap in outside school hours care:

- Outside school hours care services typically have a license or agreement with a particular school to offer services, which includes a licence fee paid to the school and in many jurisdictions tender or bid to supply the services. Thus fees are considered as part of the tender/bid assessment process and are linked to the licencing agreement, with specified prices and schools that may prefer providers that offer lower fees for households.
- The hourly rate cap exceeds the average costs for providing outside school hours care in all states and territories (section 1.5.6).
- As children get older the level of close adult supervision needed can reduce and parents and guardians may have other practical alternatives to using outside school hours care, such as playdates with friends or working from home with children present in the house after school. This could mean that there is greater price sensitivity by households and outside school hours care providers are more constrained in their ability to raise fees.

¹⁰⁴ ACCC, [Childcare inquiry June interim report](#), pp 119–120.

Figure 4.3: Distribution of outside school hours care service hourly fees and the hourly rate cap, December quarter 2018 and 2022



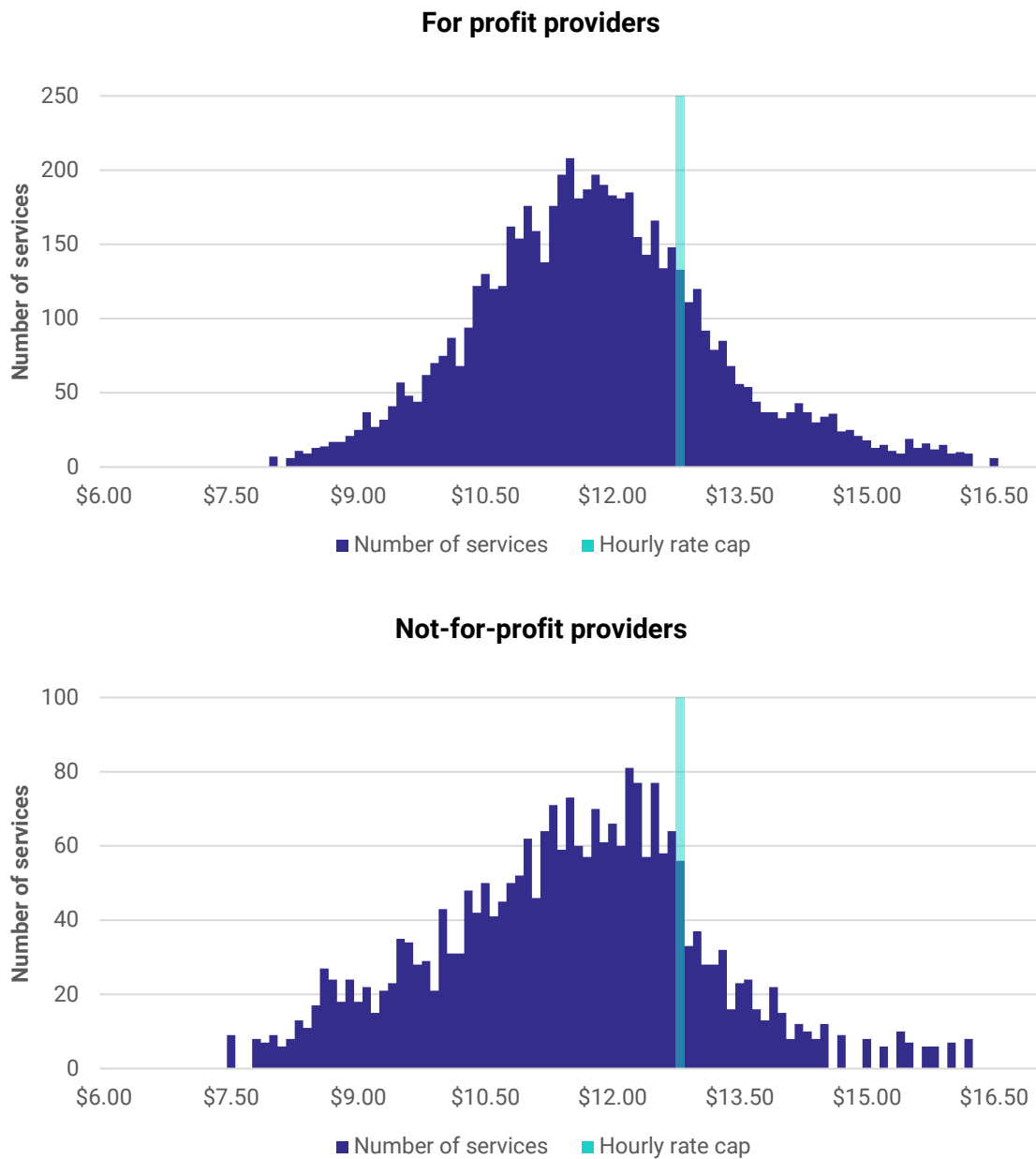
Note: Data points with between 1 to 5 observations are not shown.
 Source: ACCC analysis of Department of Education administrative data.

4.3.4. The hourly rate cap may have a greater impact on not-for-profits in centre based day care than for-profits

There is slightly more clustering of services just below the hourly rate cap for not-for-profit centre based day care services when compared to for-profit services (figure 4.4).

This could indicate that the hourly rate cap is more of a factor in the pricing decisions of not-for-profit services. This is also consistent with observations from small provider visits undertaken by the ACCC in which many not-for-profit providers said they tried to limit any price increases as much as they could.

Figure 4.4: Distribution of hourly fees and hourly rate cap of centre based day care services, by provider type, December quarter 2022



Note: Data points with between 1 to 5 observations are not shown.
 Source: ACCC analysis of Department of Education administrative data.

4.3.5. It costs more to care for young children, but rates charged are similar across different ages

In chapter 1, we observe that it costs centre based day care providers more to care for younger children, with the major contributor being the higher minimum educator-to-child ratios. Once children are over 3 years old, the number of children an educator can care for increases by double, or even more.

For centre based day care, we observe that the daily and hourly rates charged to households on a national basis are fairly similar across age cohorts, even though educator-to-child ratios

differ (table 4.3). In December 2022, national hourly rates were below the hourly rate cap of \$12.31.

Table 4.3: Average daily and hourly fees, centre based day care, by age of child, December 2022

Age	Daily Fee	Hourly Rate	Services charging above the cap
0–2	\$129.77	\$12.07	27.4%
2–3	\$128.08	\$12.01	25.4%
3–6	\$122.58	\$11.68	20.1%

Source: ACCC analysis of Department of Education administrative data.

The fee data indicates that providers are not significantly reflecting the cost implications of minimum educator-to-child ratios in their fee charges for different age groups. However, providers may be mitigating the cost impact through a cross-subsidisation of fees which hides the true cost to provide services to younger children.

4.3.6. Previous increases in the amount of subsidy available have been quickly diminished by increased prices

Historically, studies have observed that when subsidies increase, out-of-pocket expenses initially decline sharply but then quickly revert to their trend.¹⁰⁵

The current Child Care Subsidy is designed as a ‘demand side’ child-based system, which follows the child and is paid to the service provider. Increasing demand through subsidies can increase prices if supply is unchanged, and weaken household price sensitivity.

A significant subsidy rate change occurred from 7 March 2022, when households with more than one child aged under 5 in childcare had their subsidy rate increased by 30 percentage points for their second and subsequent children in childcare, up to the maximum subsidy rate.

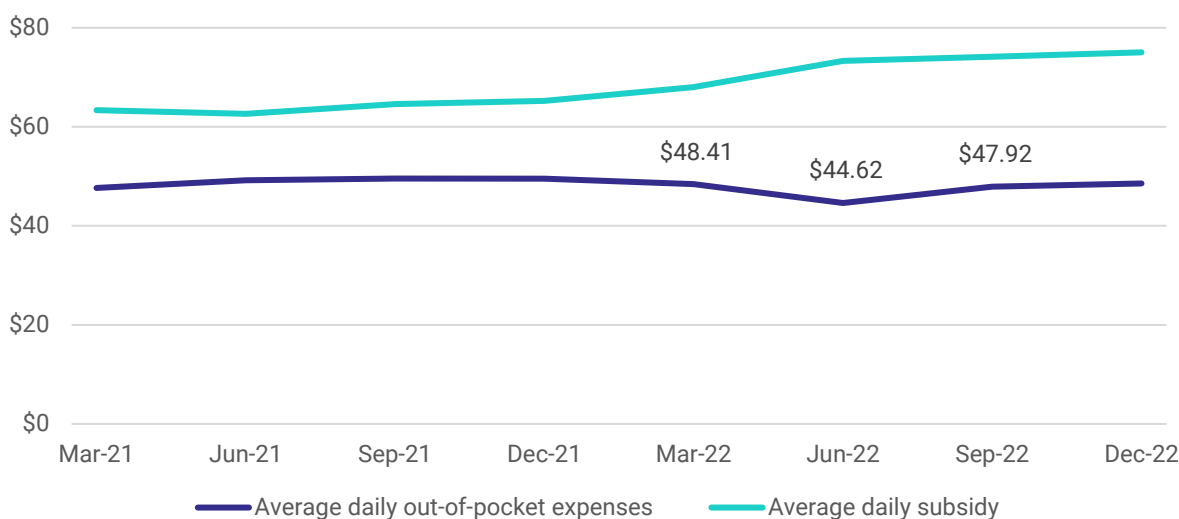
We have analysed the change in daily out-of-pocket expenses and the subsidy received by households for centre based day care services after the increase in the multiple child subsidy rate.

There was a 7.8% fall in average out-of-pocket expenses in the June 2022 quarter from \$48.41 to \$44.62 (figure 4.5). This was the largest fall in out-of-pocket expenses since the introduction of the Child Care Subsidy.

However, this fall in out-of-pocket expenses was mostly eroded in the September 2022 quarter. In this quarter, there was a 7.4% increase in out-of-pocket expenses from \$44.62 to \$47.92.

¹⁰⁵ See JR Bray et al., [Child Care Package Evaluation: Final Report](#), p 94; and Productivity Commission, [Childcare and Early Childhood Learning](#), p 475.

Figure 4.5: Changes in out-of-pocket expenses and subsidy following the introduction of higher Child Care Subsidy for multiple children



Source: ACCC analysis of Department of Education administrative data.

The September 2022 quarter recorded the largest average daily price rise since 2018, with average prices rising from \$118 to \$122.

Providers may have adjusted their prices to obtain the full benefit of increased subsidy, leaving households' out-of-pocket expenses relatively unchanged. We note, however, that there were some media reports at the time which noted that many providers referred to increases in the costs of providing services and the period of high inflation that had preceded these increases.¹⁰⁶

Nevertheless, the effectiveness of the hourly rate cap to limit increases in out-of-pocket expenses is weakened because childcare consumers are generally less sensitive to small variations in price than in many other markets, and because the Child Care Subsidy subdues the impact price increases on households.

While a more significant change to subsidy rates by household income occurred in July 2023, we do not yet have data to analyse the impact of this change. We will include analysis on the July 2023 changes to the Child Care Subsidy in our final report.

4.4. Centre based day care providers optimise session lengths

As set out above, the amounts households receive under the Child Care Subsidy is calculated on a per hour basis, with maximum subsidised hours based on the activity test. However, this design does not reflect how childcare fees are typically set by providers. Centre based day care services generally charge parents and guardians a daily fee which is often similar across a range of different session lengths.

Our review of documents from providers indicates that providers are increasingly tailoring session lengths for households based on their entitlements, and some can even optimise on a per family basis by allowing parties to choose from a range of session lengths, often at the

¹⁰⁶ See LM Beers, 'Melbourne parents paying up to \$50 a day more for child care than the national average', 7News, 25 July 2022, accessed 5 September 2023; and B Laxton-Blinkhorn, 'Childcare Fees. Where Does Your Money Go?', KindiCare, 22 June 2022, accessed 5 September 2023.

same or similar price (refer to more detail in box 4.1). This maximises a household's subsidised hours and minimises their out-of-pocket expense by using shorter daily session lengths. Shorter daily session lengths means the per hour rate (the daily rate divided by session length) is higher and more likely to exceed the hourly rate cap. However, the trade-off is that the shorter session length reduces households' amount of unsubsidised hours. This process seems to be prioritised over keeping prices below the hourly rate cap.

Minimising the use of unsubsidised hours shifts more of the cost onto the Australian Government, meaning that parents and guardians have more total money to spend on childcare. They may use any saving to purchase an additional day of childcare, or to more easily absorb future price increases which might otherwise affect their decision to switch services or usage – both of which lead to increased revenue for the service than would otherwise be the case.

Box 4.1: How providers optimise session lengths

A review of provider documents and websites shows that session length offerings are often driven by the activity test and subsidised hours entitlements. That is, the overall reduction in session lengths does not necessarily reflect changes in the use of care that households require:

One provider noted in their board papers, “to defend against market share losses during the reforms to the childcare benefit scheme, we were one of the first movers in the industry to modify our session lengths, thereby allowing families to optimise their rate of subsidy....We did not suffer any occupancy or financial impact during this time”.

Analysis by one provider identified an example of how moving to 10 hour sessions allowed a household to pick up an extra day for \$21 dollars. This increased the centre's revenue by \$110 per week. Another provider introduced 10 hour session lengths for their full-time enrolments (100 hours a fortnight).

Detail from another provider's internal communications state, “we believe that sessional care MUST be offered for 9 hours at the same daily rate as an 11/12 hours sessions to accommodate those with reduced hours. There is no impact on the bottom line so we should not be hesitating. We receive the same revenue but we are assisting the families with the out of pocket portion. If we don't do this, we will LOSE BOOKINGS/OCCUPANCY.”

This is consistent with another large provider who offers the same fee across 9 hour, 10 hour and full day bookings. They determined the end result is revenue neutral, and simply changes the mix of payment between families and the Government.

One provider's internal documents detailed their campaign to entice households to attend extra days. They identified thousands of families at centres with less than 95% occupancy that that would benefit from an extra day costing less than \$50.

One provider's website includes a calculator function, which may encourage households to add an extra day to their weekly usage.¹⁰⁷

Some providers also offer 'grace periods' for their shorter sessions. For example, a 30 minute grace period is offered either side of a 10 hour session.¹⁰⁸ This effectively creates longer 11 hour sessions that are only charged for 10 under the Child Care Subsidy.

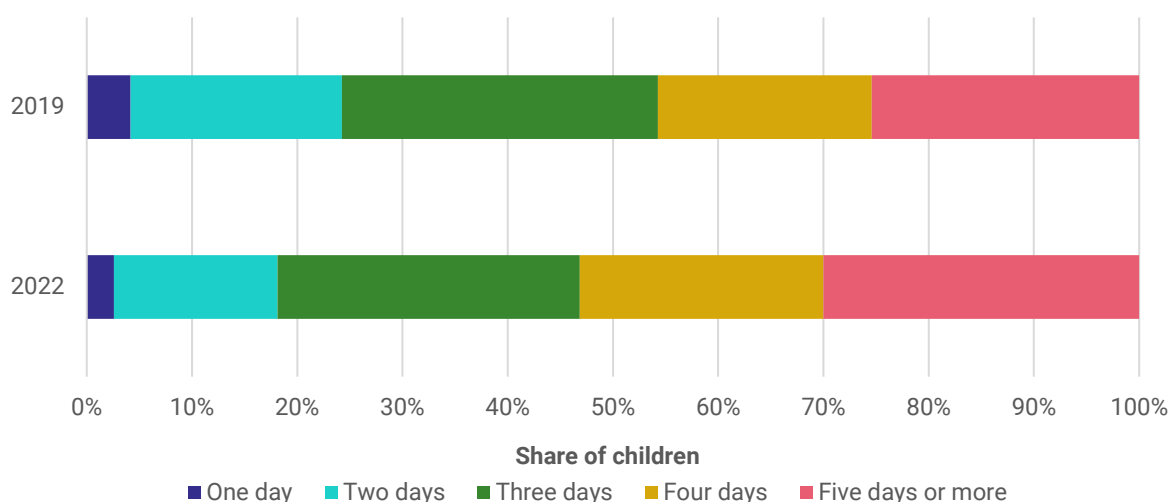
¹⁰⁷ Guardian Childcare and Education, [Child Care Subsidy Calculator](#), accessed 6 September 2023.

¹⁰⁸ See Goodstart Early Learning, [Flexible Sessions](#), accessed 6 September 2023.

The optimal session length is different for different households and depends on factors such as the number of subsidised hours they are entitled to and their childcare needs, including how many days they prefer to use.

There has been an increasing trend towards using more days of centre base day care, with the number of children enrolled for 4–5 days a week growing by 33% between 2019 and 2022, and representing more than half of all enrolments in 2022 (figure 4.6).

Figure 4.6: Days of childcare attendance, 2019 and 2022



Source: ACCC analysis of Department of Education administrative data.

4.4.1. The activity test influences session lengths

Under the Child Care Subsidy, the total number of subsidised hours a household receives is determined by how much work (or other approved activities) parents and guardians undertake. The maximum number of subsidised hours (and most common entitlement as shown in table 4.4) is 100 hours per fortnight. For most households using 5 days of childcare per week (10 days per fortnight), the maximum subsidised hours per day they can receive is 10. As shown below, this makes it beneficial for these households to use 10 hour sessions, which is what is increasingly occurring in practice.

Table 4.4: Share of households entitled to subsidised hours of care per fortnight, 2022

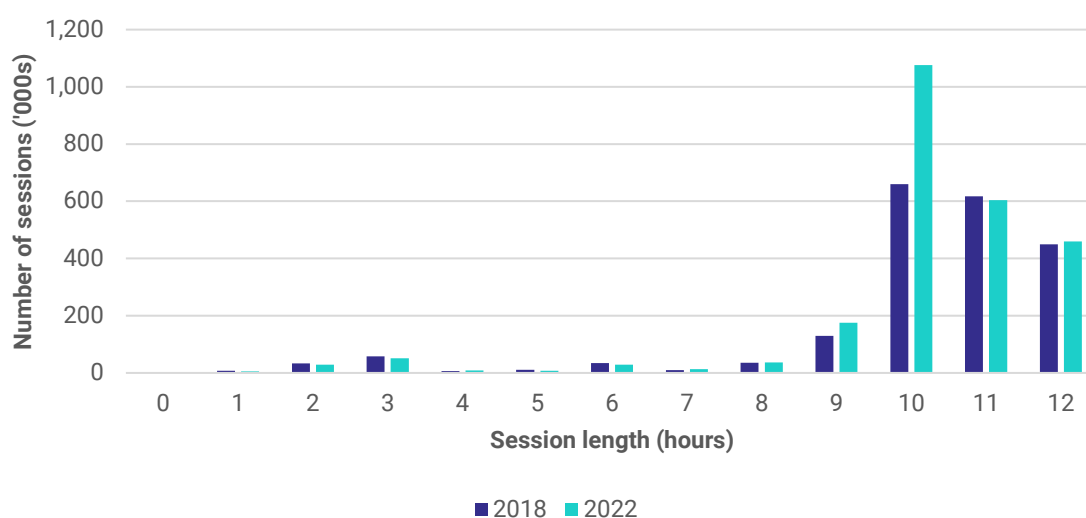
Hours of subsidised care per fortnight, per child	Share of households entitled to care
0 to 24 hours	4.4%
36 hours	3.8%
72 hours	26.7%
100 hours	65.1%

Source: ACCC analysis of Department of Education administrative data.

4.4.2. 10 hour session lengths are the most common and have grown significantly

Most centre based day care session lengths are charged for at least 9 hours, with 10 hours the most common in December 2022. As shown in figure 4.7, some shorter sessions lengths are used, in particular 3, 6 and 8 hours. These session lengths may be useful for parents and guardians who need greater flexibility or have lower entitlements, but they are much less common and may be difficult to find.

Figure 4.7: Centre based day care, number of sessions, by length of session, 2018 and 2022¹⁰⁹



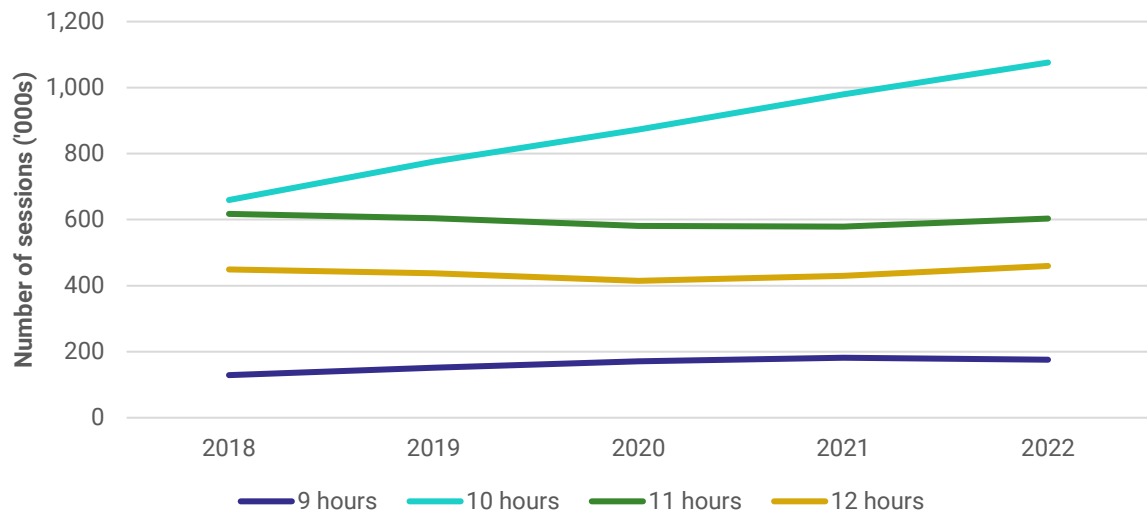
Source: ACCC analysis of Department of Education administrative data.

We also see in figure 4.7 a significant increase (about 63%) in the number of 10 hour session lengths in centre based day care across Australia between 2018 and 2022. Figure 4.8 presents more detail on the changes over time and show that there was also large growth in the number of 9 hours sessions, up 36% over the same period. The number of 11 hour and 12 hour daily sessions have remained relatively stable (figure 4.8).

The increase in 9 hour and 10 hour sessions likely reflects the greater use of 5 days of childcare (where despite having higher hourly rates, 10 hour sessions can maximise subsidy entitlement – as discussed above).

¹⁰⁹ Session lengths are not always provided in 1 hour blocks in the data. In these scenarios we have rounded the hours. For example, 9 hours represents sessions that are greater or equal to 9 and less than 10 (for example, 9, 9.25, 9.5).

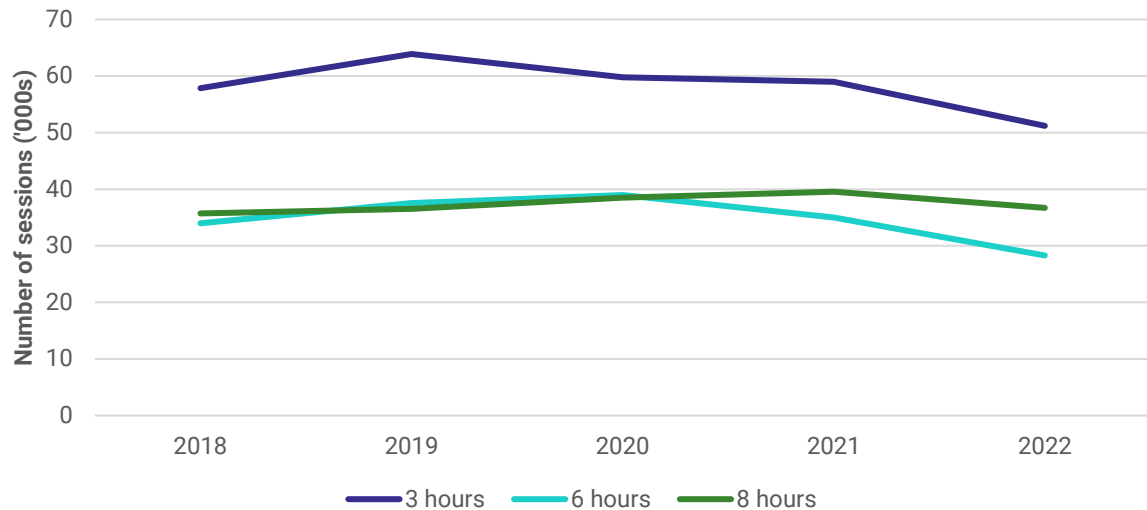
Figure 4.8: Centre based day care services, by selected session lengths, 2018 to 2022



Source: ACCC analysis of Department of Education administrative data.

Meanwhile, the number of centre based day care sessions of 3 hours or 6 hours have declined since 2018 (figure 4.9). This may indicate that shorter sessions are less available, despite potentially being useful for many parents and guardians who need flexible hours of care (such as shift workers) or are entitled to a lower number of subsidised hours.

Figure 4.9: Centre based day care services, by selected session lengths, 2018 to 2022



Source: ACCC analysis of Department of Education administrative data.

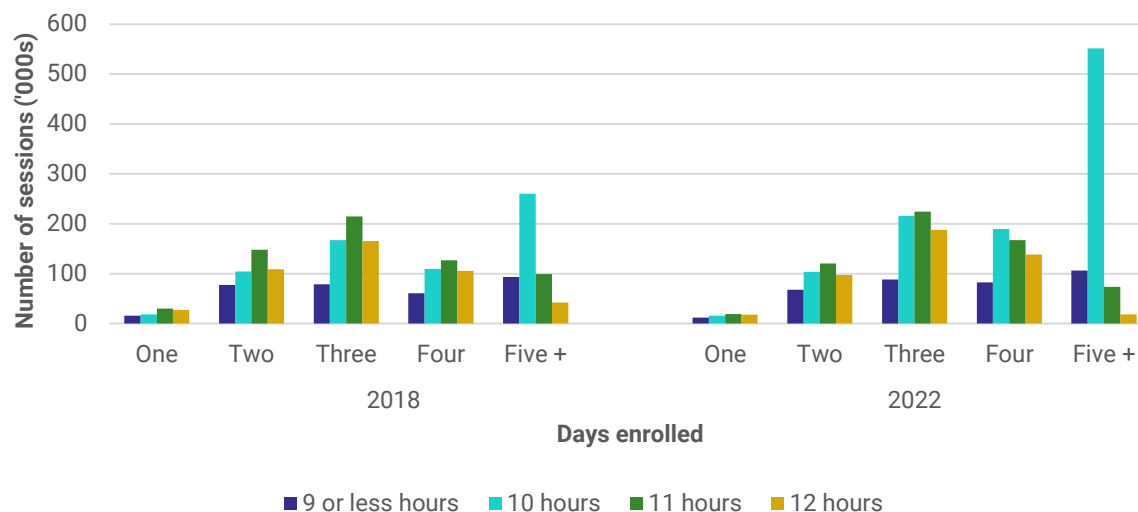
We discuss the broader implications of the activity test in section 4.5.

4.4.3. Significant growth in children attending 5 days a week with 10 hour daily sessions

The number of children enrolled in 5 (or more) days of care, using 10 hour sessions has more than doubled since 2018 (figure 4.10), while those enrolled in 5 days using 11 and 12 hour sessions has declined. These changes align with the incentives created by the activity test to maximise subsidised hours of care (as discussed in section 4.4.1).

Attending childcare 3 days a week is still the most common level of attendance. For children attending 3 days a week, there is a roughly even mix of 10, 11 and 12 hour sessions. This also aligns with the incentives created by the activity test. The greater use of 11 and 12 hour sessions for those attending less than 5 days a week will be better for providers and households as they seek to maximise the use of subsidised hours of care while maintaining flexibility.

Figure 4.10: Centre based day care session length (hours) and days enrolled in childcare



Source: ACCC analysis of Department of Education administrative data.

4.4.4. Daily prices are similar for 10, 11 and 12 hour sessions

Although the Child Care Subsidy that households receive is calculated on an hourly basis, services are generally priced on a fixed daily rate for a set session length.

We observe that providers are offering similar daily prices for their 10, 11 and 12 hour daily sessions. Whereas we would expect to see lower daily prices for the shorter session length to reflect the reduced costs to provide these services. As such, this appears to suggest that the decision to offer different session lengths may be based on optimising households' activity test entitlements.

When providing a centre based day care service, a provider must cover both its fixed and variable costs. Fixed costs (such as land, building and administration) are costs that do not depend on output (for example, length of session) level, while variable costs (like labour) are costs that do change based on output level.

We would expect that a service open for 12 hours will have the same fixed costs as a service open for 10 hours, and higher variable costs such as labour (which is approximately 70% of services' costs), as staff must work longer hours to cover the longer session length. But the increased variable costs will depend on the staffing structure of a service.

In our June interim report, we identified that a significant number of households are charged for 10, 11 and 12 hour sessions while the child only attends for 8 or 9 hours. This indicates that staffing costs may not vary significantly between 10, 11 and 12 hour sessions. But it also indicates that the difference in session lengths are somewhat arbitrary for many households as they are not utilising the extra hours.

In 2022, 63% of centre based day care services offered more than one daily session length between 10 and 12 hours. Of services that offered varying session lengths, we have identified some large providers where over a third of their daily 10, 11 and 12 hour sessions were offered at the same price for given age groups.

In analysing the Department of Education data, which looks at the national fees paid by households, we see a similar trend (table 4.5).¹¹⁰

Table 4.5: Average hourly and average daily fees (dollars), 2018–19 and 2022–23

Session length	2018–19		2022–23	
	Hourly fee	Daily fee	Hourly fee	Daily fee
10 hours	10.41	105.94	12.27	124.02
11 hours	9.82	109.67	11.65	130.06
12 hours	8.92	107.05	10.93	131.14

Source: ACCC analysis of Department of Education administrative data.

4.5. Implications of price regulation measures on affordability

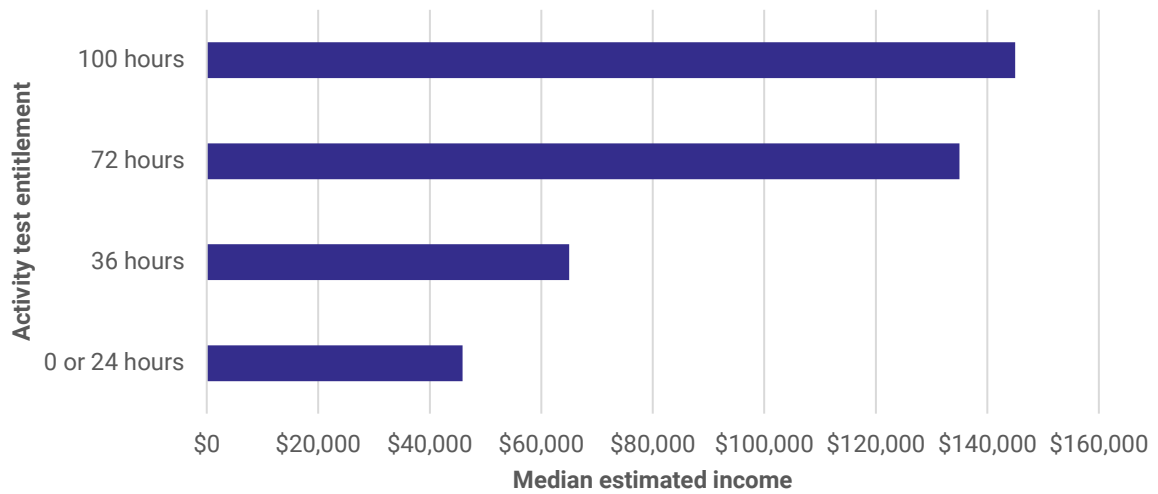
The activity test and hourly rate cap have broader implications beyond their impact on pricing and session lengths, as they can impact affordability.

4.5.1. Households on reduced activity test entitlements face affordability challenges

We find that the households with lower activity test entitlements tend to have a lower median household income than those with higher entitlements (figure 4.11). This makes sense as the number of subsidised hours a household is entitled to is determined by the activity test and primarily based on the number of hours of work (or other activities such as study, training and volunteering) the household undertakes. However, we also find that these households with a lower entitlement tend to use a greater share of unsubsidised hours, leading to higher out-of-pocket expenses and potential affordability concerns.

¹¹⁰ This data identifies the average and does not control for location or child age. This can impact the comparison of national average daily fees. For example, there may be more expensive 12 hour session providers in a certain location.

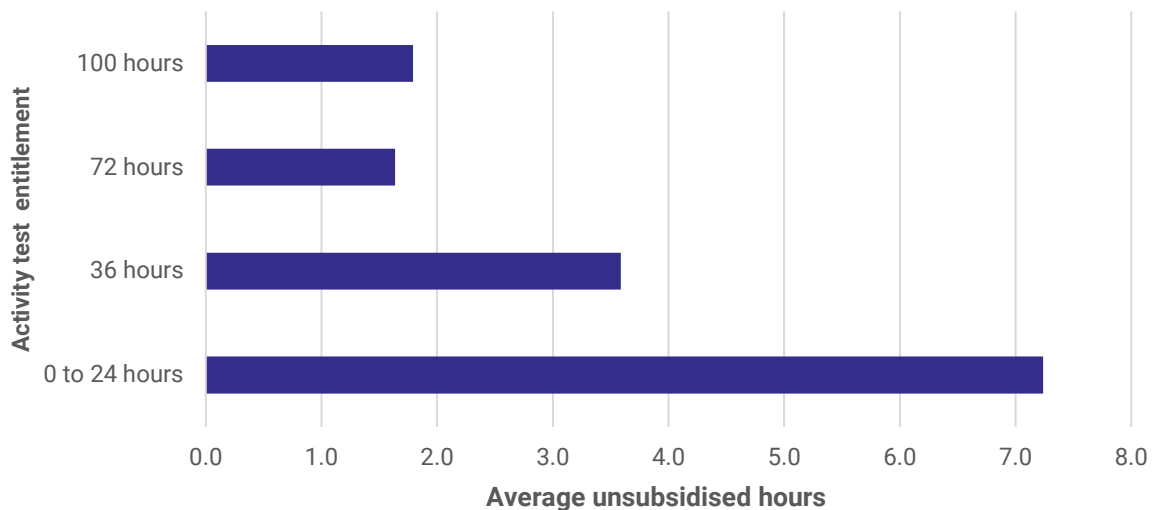
Figure 4.11: Median household estimated income, by activity level entitlement, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

Households on the 2 lowest level of entitled hours under the activity test tend to use the most hours of unsubsidised care (figure 4.12). Across Australia, households with 24 hours or less of entitlement are paying for more than 7 unsubsidised hours per week, on average (28.2% of their hours). While households with 100 hours of entitlement are paying for an average of about 1.8 hours per week (5.1% of their hours).

Figure 4.12: Average number of unsubsidised hours, by activity test entitlement, centre based day care, 2022



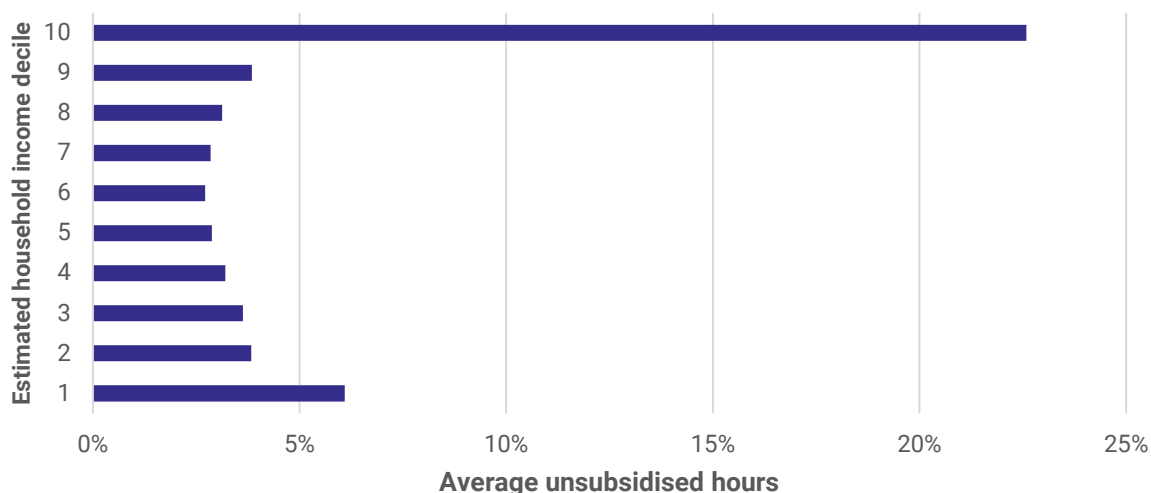
Source: ACCC analysis of Department of Education administrative data.

Looking at the average number of unsubsidised hours by income decile for households who use childcare (figure 4.13), we find that those in the lowest income decile (\$0 to \$36,999) are using more unsubsidised hours on average than households in all other income deciles other than the highest (\$247,144 and above)¹¹¹. From the 2nd to 6th income deciles (\$37,000 to

¹¹¹ Prior to July 2023, households earning above \$354,305 were not eligible for Child Care Subsidy but may still register for the Child Care Subsidy and use approved care.

\$149,999), the average number of subsidised hours decreases as household income increases. Above this, the trend reverses, and the average number of unsubsidised hours increases with income.

Figure 4.13: Average number of unsubsidised hours, by income decile for households who use childcare, centre based day care, 2022



Source: ACCC analysis of Department of Education administrative data.

Households on lower entitlements are likely to be impacted the most from the activity test. The relatively higher use of unsubsidised hours indicates the desire for care beyond what is available to them at subsidised rates. Further, because these households are often on the lowest incomes, the out-of-pocket expenses paid will represent a greater share of their household income than they would for higher income households.

4.6. The impact and effectiveness of the government price comparator website StartingBlocks.gov.au

Parents and guardians who intend to use childcare services require information to make their decision on which service to use. Where information asymmetry exists (one party has more complete information about a good or service than another party), there can be inefficient outcomes. In the market for childcare, parents and guardians have less information about the childcare service than the operator of that service does. Having accurate information about childcare services before parents and guardians enrol their child into a service can minimise the likelihood of choosing a service that does not suit their needs.

Price comparison websites can help consumers make purchasing decisions. They can also help place downward pressure on fees by encouraging consumers to switch to lower priced service providers. Private companies also provide comparison websites. However, these can be subject to conflicts of interests or a lack of independence.

As discussed in chapter 2, childcare has features of an 'experience good', meaning that parents and guardians can only assess the quality of certain aspects of a service (such as whether a child likes specific educators) once they have used or experienced a service. As

such there is an inherent limit to the extent that a comparator website like StartingBlocks.gov.au can facilitate price competition by reducing search costs.

In this section we examine the Australian Government's consumer facing childcare website StartingBlocks.gov.au.

4.6.1. StartingBlocks.gov.au

StartingBlocks.gov.au is a government comparison website that provides parents and guardians with information about children's education and care. It was launched in April 2015 by the Australian Children's Education and Care Quality Authority (ACECQA).

In February 2022 it was updated to allow households to:

- view childcare vacancies, prices and inclusions
- compare services side-by-side
- estimate their out-of-pocket expenses using a Fees Estimator.

It also includes childcare services' National Quality Framework ratings, the date the rating was issued, and the services' hours of operation.

As set out below, there appears to be limited awareness and use of StartingBlocks.gov.au among households. This is likely for similar reasons that we find limited reliance on National Quality Standards ratings. In chapter 2, we note the following.

- While parents and guardians do consider the price of childcare (particularly in the context of how much to use), they place considerable significance on indicators of quality.
- Rather than relying on a service's formal quality rating, parents and guardians tend to make their own assessment of quality based on their experience of a service (either from their own attendance, or from third-party recommendations and "reputation").
- The above reflects the nature of childcare services; in particular, it is difficult to accurately evaluate a service's quality without having used it, and even once in a service, it can be difficult to do so.

While prices may be more easily compared on a website, it is difficult for a comparator website to capture indicators of quality. Parents and guardians are likely to prefer to compare these quality factors on the basis of their own experience with the service.

Consumer surveys and research show lack of awareness

Preliminary results from the ACCC's parents and guardians survey showed that there is limited awareness of the StartingBlocks.gov.au website. Approximately 3.8% of respondents use the StartingBlocks.gov.au website to find information about childcare services.

A research project conducted for ACECQA in 2018 identified similar issues.¹¹² Despite StartingBlocks.gov.au being in its third year, most parents in the study could not recall having seen the website or any of its material prior to taking part in the research.

ACECQA also found that it was also not immediately clear to parents that StartingBlocks.gov.au is a government initiative. This ambiguity limited the credibility of information for some parents.

¹¹² ACECQA, [Families qualitative research project - Stage 2 Final report](#), 21 June 2018, p 70.

Information on StartingBlocks.gov.au can be missing, outdated and unhelpful

The information on StartingBlocks.gov.au may not always be useful to households. We have observed that fee data is not always available and that there is no way for a parent or guardian to know when fee data was last updated. Similar issues can exist for vacancy information.

Other concerns relate to fee data not being useful for households in making decisions. We have been told the following:

- Published fees are called 'typical daily fees' which are not standardised. This could include an 8 hour session being compared with a 12 hour session.
- Fees may not be consistent across rooms. Some providers charge more for certain age groups and it is not clear which room the fee on StartingBlocks.gov.au relates to.
- No information is available regarding discounts.
- Session lengths are not reported which makes it hard for households to calculate the hourly fee or their out-of-pocket expenses without doing separate research.

4.6.2. Improving the StartingBlocks.gov.au website

As outlined in chapter 2, parents and guardians first make a threshold decision about the amount of care they can afford, and then appear to focus more on considerations other than price when choosing childcare.

Location, availability, safety and quality were all more commonly identified than price as considerations when looking for a childcare service provider. The StartingBlocks.gov.au website could be improved with more information on these factors, which parents and guardians are likely to use.

As outlined above, the Child Care Subsidy is complex and it is important that households have a resource with *clear* independent information on the operation of the Child Care Subsidy, childcare services and service locations, prices, vacancies and quality. Further, the website would benefit from better integration of the expected out-of-pocket expenses for a household that dynamically responds to the specific centre viewed in the childcare finder. Child Care Subsidy calculators that exist on websites such as StartingBlocks, Services Australia and MyGov should be easily accessible and consistent.

The Behavioural Economics Team of the Australian Government is a multi-disciplinary team that seeks to understand how people make decisions and test innovative policy solutions to see what works. They may be best placed to provide valuable advice on how to best target information parents and guardians consider when choosing childcare and publish it in a way that encourages use.

5. International comparison of prices and price regulation models

Key points

- Organisation for Economic Co-operation and Development (OECD) data indicates that childcare in Australia is relatively less affordable than in many other OECD countries. In Australia in 2022, for a couple on average wages with 2 children (aged 2 and 3) in centre based childcare full-time, net childcare costs came to 16% of net household income compared to the OECD average of 9%.
- This is being driven by a relative increase in gross fees in Australia. From 2018 to 2022, nominal gross fees in Australia increased by 20.6% in comparison to the OECD average of 9.5%.
 - One reason for the relative increase in gross fees in Australia is likely to be a relative increase in supply-side subsidies in other OECD countries.
- OECD data shows that, in 2019, public expenditure on early childhood education and care for zero to 5 year olds was 0.6% of GDP in Australia compared with the OECD average of 0.8% of GDP.
- As in Australia, the Netherlands has an indirect price control comprising a demand-side subsidy with an hourly rate cap.
- As discussed in chapter 4, the out-of-pocket expenses paid by households can place downward pressure on fees depending on the extent to which markets are competitive and households are motivated to shop around to lower their out-of-pocket expenses. Such an indirect price control for Australia could be supported through:
 - changes to the design of the hourly rate cap including indexation to cost inputs (recommendation 2)
 - addressing barriers to competition such as improving the information available to households on StartingBocks.gov.au (recommendation 3), and policies to improve recruitment and retention of childcare workers (recommendation 4)
 - a stronger government market stewardship and monitoring role, possibly supported through the use of competitive tenders for operating grants to supply areas under-served by the market (recommendation 6).
- Many OECD countries (including the United Kingdom, Ireland, the Netherlands, Canada and New Zealand) are moving toward greater regulation of childcare fees such as mandated low fees or free hours, supported by supply-side subsidies to cover providers' costs of provision.
- Ultimately, the design of the price regulation model depends on a country's overarching policy objectives for its early childhood education and care sector.

Draft findings relevant to this chapter

- **Draft finding 17:** Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.
- **Draft finding 18:** Many OECD countries are moving toward greater regulation of childcare fees such as low fees or free hours for parents and guardians, supported with supply-side subsidies to cover providers' costs of provision.

5.1. Introduction

To inform our review of the impact and effectiveness of existing price regulation mechanisms in Australia, we have examined:

- OECD data which compares, across countries, net childcare costs and public expenditure on early childhood education and care
- price regulation mechanisms in several relevant OECD countries.

5.2. Affordability of childcare in Australia compared to other OECD countries

The OECD provides data for 34 OECD countries¹¹³ on the annual gross childcare fee and net childcare cost, after government support, from 2004 to 2022, for a family with 2 children (aged 2 and 3) enrolled full-time in centre based childcare¹¹⁴ (the 'OECD Comparator Family'). For the purposes of comparison, we have used this measure, although we note that Australian households, and those overseas, can have a range of childcare and household arrangements.¹¹⁵

¹¹³ [OECD tax-benefit model](#) – [Net childcare costs indicator](#) (34 OECD and 6 non-OECD countries). 2022 data is not available for 2 OECD countries.

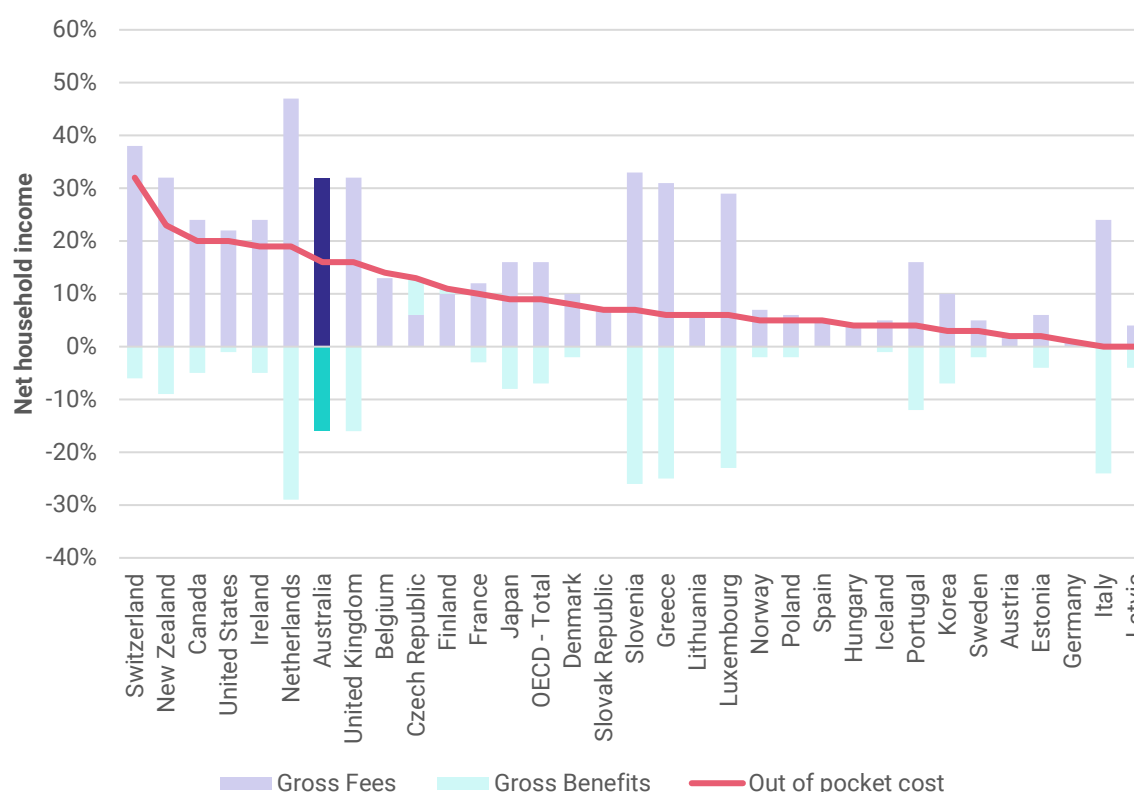
¹¹⁴ The OECD data is based on 2 children (aged 2 and 3) in centre based day care for 40 hours per week, 52 weeks a year. These assumptions enable the OECD to compare net childcare costs across countries.

¹¹⁵ For example, in Australia, average weekly hours in centre based day care is significantly less than 40 hours per week. Based on analysis in our [June interim report](#) (p 23, figure 1.2), in 2022, average weekly hours for centre based day care were 32 (charged) and 21 (attended).

5.2.1. Australia is relatively less affordable than many other OECD countries

In Australia in 2022, where the OECD Comparator Family is a couple on average wages, net childcare costs came to 16% of net¹¹⁶ household income. In contrast, the average for OECD countries was 9%, with Australia ranked 26th out of 32 countries (figure 5.1).¹¹⁷ This is despite the Australian Government contribution to fees being significantly higher than most other OECD countries – 16% of net household income in Australia compared to the OECD average of 7%.¹¹⁸

Figure 5.1: Net childcare costs as a share of net household income for a couple on average wages with 2 children, by OECD country, 2022



Source: [OECD tax-benefit model – Net childcare costs indicator](#).

For households on the minimum wage, Australia was closer to the OECD average. For a couple in Australia on minimum wages, net childcare costs were 10% of net household income compared to the OECD average of 8% (figure 5.2). For a single person on minimum wages, net childcare costs were 11% of net household income compared to the OECD average of 8% (figure 5.3).¹¹⁹

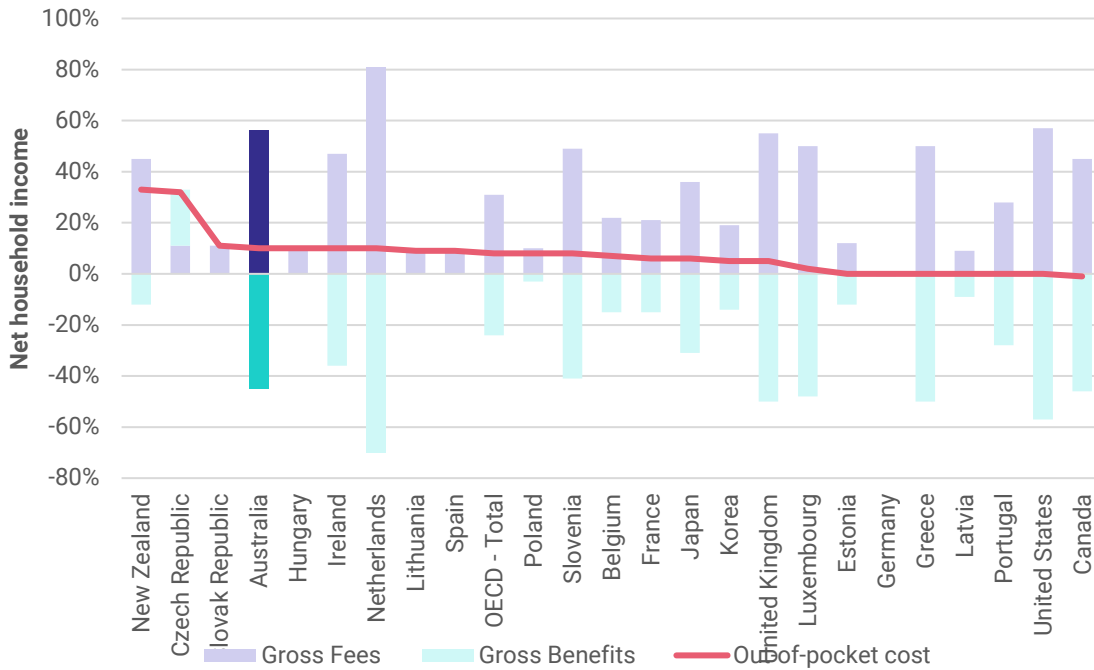
¹¹⁶ Including any social assistance and housing benefits.

¹¹⁷ The OECD data for Australia is for the March 2022 quarter (as at 1 January) so does not reflect the higher subsidy for families with more than one child aged 5 or younger in care which took effect on 7 March 2022.

¹¹⁸ Figure 5.1 shows that, in 2022, for a hypothetical couple in Australia on average wages with 2 children (aged 2 and 3) in centre based childcare full-time, gross fees were 32% of net household income and gross benefits were 16% of net household income (50% of gross fees). Our June interim report found that the average subsidy as a share of the total (gross) fee per day or session for centre based day care was 61% for the December quarter 2022 (ACCC, [Childcare Inquiry June interim report](#), p 14, figure 5).

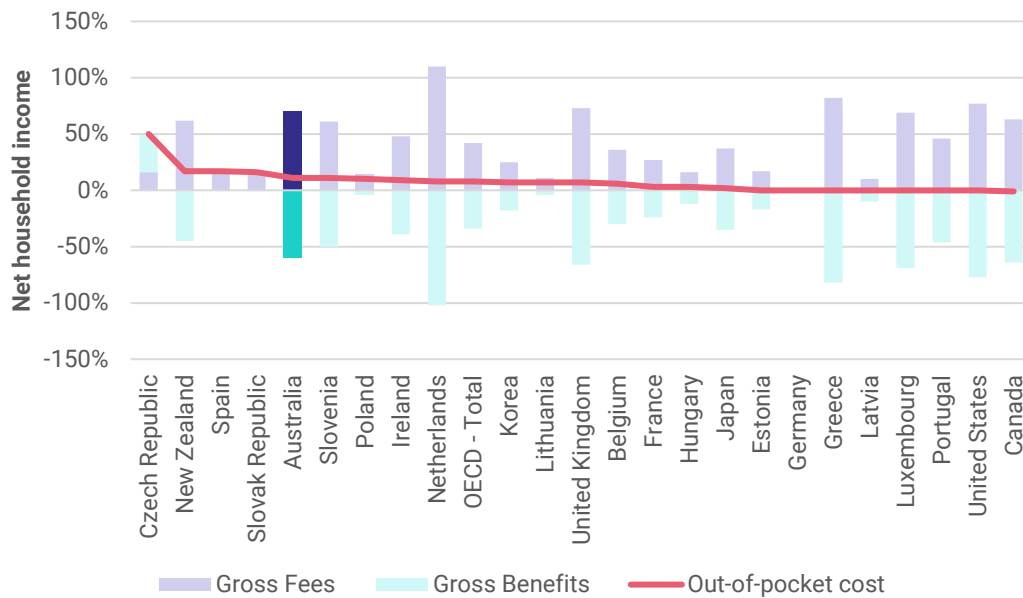
¹¹⁹ Our June interim report found that, in the 2021–22 financial year, of those Australian households which use childcare, those with the lowest incomes spent a greater share of their disposable income on childcare. A couple or single person working full-time (38 hours a week) (the OECD Comparator Family) on minimum wages in 2022 would not fall within the

Figure 5.2: Net childcare costs as a share of net household income for a couple on minimum wages with 2 children, by OECD country, 2022



Source: [OECD tax-benefit model](#) – [Net childcare costs indicator](#).

Figure 5.3: Net childcare costs as a share of net household income for a single person on minimum wages with 2 children, by OECD country, 2022



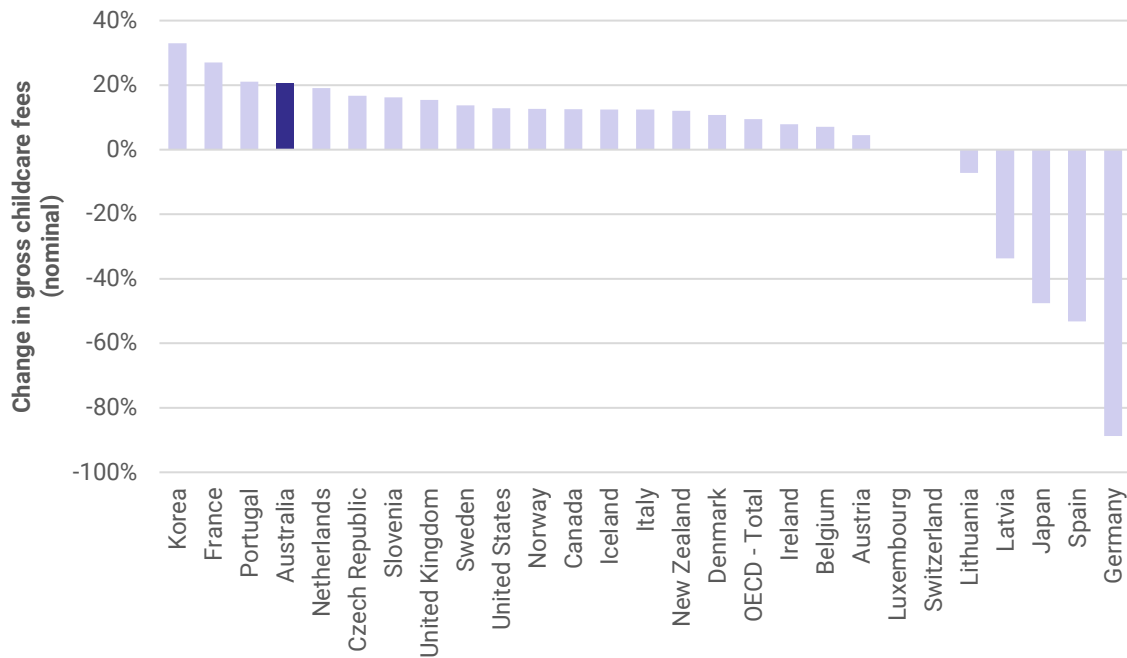
Source: [OECD tax-benefit model](#) – [Net childcare costs indicator](#).

lowest income decile in our analysis. A single person earning the minimum wage would be in our income decile 2 (approximately \$39,000 to \$56,000) and a couple earning minimum wages would be in our income decile 4 (approximately \$77,000 to \$96,000).

5.2.2. Gross fees have increased faster in Australia

From 2018 to 2022, nominal gross fees in Australia increased by 20.6% in comparison to the OECD average of 9.5% (figure 5.4). In real terms, the increase was 7.3% in comparison to the OECD average of minus 7.1% (figure 5.5).¹²⁰ This is comparable to our June interim report finding that, from 2018 to 2022,¹²¹ the average session fee for centre based day care in Australia increased by 20.8%, although we found a lower real increase of 4.8%.¹²²

Figure 5.4: Change in gross childcare fees, nominal dollars, by OECD country, 2018 to 2022



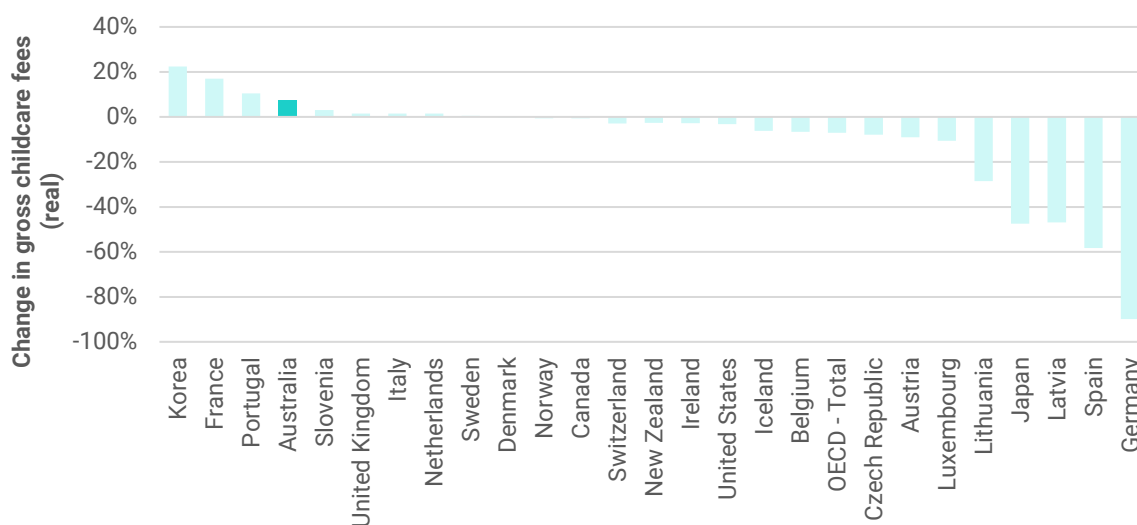
Source: [OECD tax-benefit model – Net childcare costs indicator.](#)

¹²⁰ Figure 5.5 uses the OECD [CPI All Items \(COICOP 01-12\) series](#).

¹²¹ September quarter 2018 to December quarter 2022.

¹²² ACCC, Childcare Inquiry June interim report, p 10. The June interim report finding that centre based day care per hour fees have risen 20.8% in nominal terms and 4.8% in real terms, adjusts for CPI for each quarter from September 2018 to December 2022. The OECD calculation applies an annual CPI from 2018 to 2022.

Figure 5.5: Change in gross childcare fees, real dollars, by OECD country, 2018 to 2022



Source: [OECD tax-benefit model – Net childcare costs indicator](#).

5.2.3. Possible explanations for why gross fees may be higher in Australia

There are a number of potential explanations for why gross fees as a percentage of net household income are higher in Australia, when compared to most other OECD countries. Some potential explanations are listed below.

Limited supply-side subsidies

Supply-side subsidies reduce the cost of provision and therefore, likely reduce the gross fee. The fact that the OECD average real gross fee has *decreased* from 2018 to 2022 by 7.1% when the average CPI increase was 17.8%, suggests that other OECD countries have significantly increased supply-side subsidies to providers compared to Australia.

Higher cost inputs

Australian providers may face higher input costs (for example, labour costs or land costs) which in turn lead to higher prices. Our analysis in chapter 1 confirms that labour is the main cost driver for supplying childcare services in Australia. Research conducted by the Australian National University indicates that, on balance, Australian child-to-educator ratios are not inconsistent with other countries for children aged 0-2 years, tend to be lower for 3 year olds, and higher for those aged 4 and 5 years.¹²³ There is limited global comparative data on wages of childcare workers but this information indicates that there is no clear evidence that higher cost inputs in Australia explain the differences in gross fees between Australia and other OECD countries.

¹²³ JR Bray and M Gray, Centre for Social Research & Methods, ANU College of Arts & Social Sciences, Productivity Commission Inquiry into Early Childhood Education and Care, [Submission](#), 29 April 2023, Figure 14 and Appendix A. See also A Gromada and D Richardson, [Where do Rich Countries Stand on Childcare?](#), UNICEF Office of Research, Innocenti, Florence, 2021.

Excessive prices

Gross fees as a percentage of net household income could also be higher in Australia if Australian childcare providers are setting prices that generate higher profit margins than those earned by providers in other OECD countries. We have not compared profit margins across countries, however, our analysis in chapter 3 finds that, while margins are highly variable between providers in Australia, margins for large providers do not appear excessive in aggregate over the period 2018 to 2022, although head office costs are significant which many indicate that higher prices are resulting in higher cost inputs. Chapter 3 also identifies limitations in the data available to the ACCC including in relation to small and medium providers and land costs for for-profit providers.

Data limitations

Limitations in the OECD data may also have impacted the comparative analysis of gross fees. For example, the OECD data does not control for quality, and countries with higher quality standards may have higher gross fees. The OECD data also does not control for availability. Countries may have a low annual cost for centre based day care while only being available for a small percentage of households to access. In some cases, the OECD information on fees represent only a specific location within a country, compared to the information for Australia which relies on national data.¹²⁴

5.3. International models of price regulation

The ACCC has undertaken an initial review of price regulation mechanisms used in other countries, focusing on the United Kingdom (England), Ireland, the Netherlands, the United States of America, Canada and New Zealand (as countries that primarily rely on market provision) and Sweden (as a comparator). The ACCC will continue this research for its final report.

¹²⁴ Further limitations are discussed in Ireland, Expert Group, [Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare](#), November 2021, pp 77–78.

5.3.1. Increased public expenditure to improve affordability

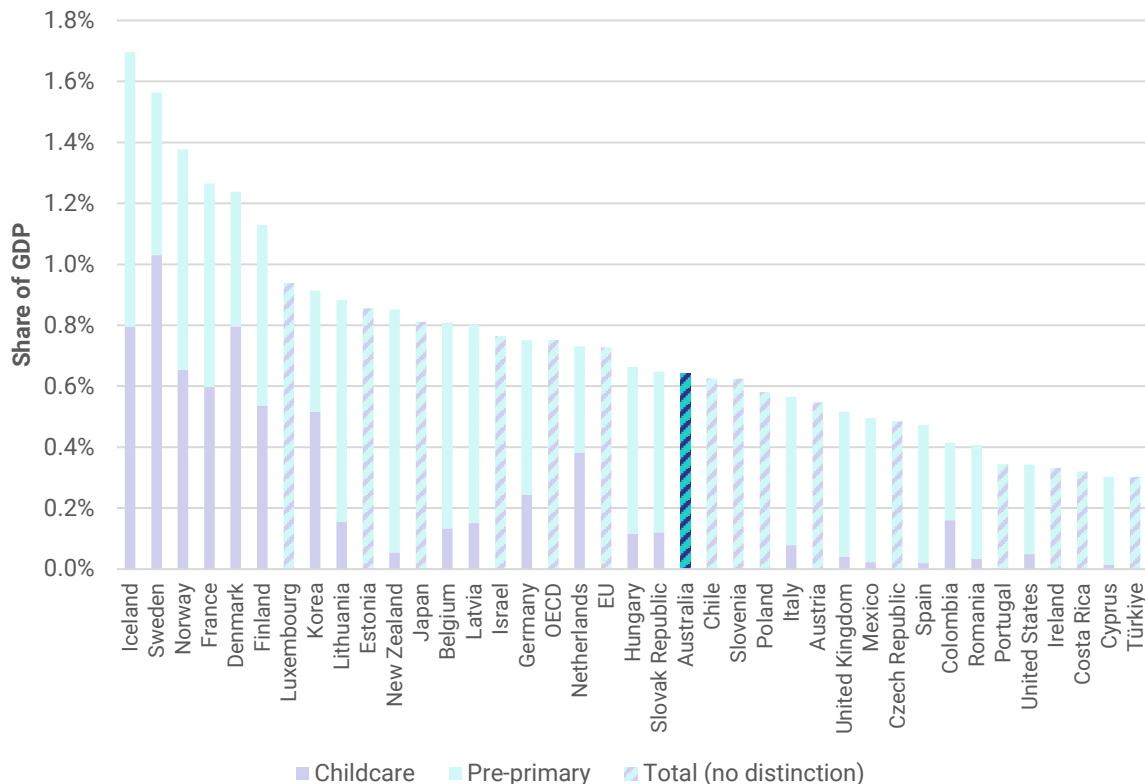
The OECD observes that all OECD countries provide families with some help in meeting the costs of non-parental care but the type and extent of public support varies enormously.¹²⁵ The [OECD Family Database](#) shows, using 2019 data or latest available, that Australia’s public expenditure on early childhood education and care for 0–5 year olds was less than the OECD average. In 2019, Australia spent:¹²⁶

- 0.6% of GDP compared to the OECD average of 0.8%
- \$4,500 per child aged 0–5 (US Purchasing Power Parity) compared to the OECD average of \$5,800.

There was significant variation in public expenditure across OECD countries (figure 5.6). Examples of countries:

- below the OECD average include Ireland and the United States (0.3% of GDP), United Kingdom (0.5%) and the Netherlands (0.7%)
- at or above the OECD average include Germany and Japan (0.8%), New Zealand and Korea (0.9%), Finland (1.1%), Denmark (1.2%), France (1.3%), Norway (1.4%), Sweden (1.6%) and Iceland (1.7%).

Figure 5.6: Public spending on early childhood education and care, by OECD country, 2019 or latest available



Source: [OECD Family Database](#) chart PF3.1.A.

¹²⁵ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹²⁶ Charts PF3.1.A and PF3.1B. Different Australian data is used in S Dougherty and C Morabito, [‘Financing and Delivering Early Childhood Education and Childcare Across Levels of Government’](#), *OECD Journal on Budgeting*, Volume 2023 Issue 2 (figure 6).

The OECD identifies a range of methods for delivering this public expenditure, including:¹²⁷

- supply-side subsidies, whether through direct public provision or operating subsidies to not-for-profit or for-profit private providers
- demand-side subsidies to reimburse families for childcare expenses, whether paid to families or providers, such as childcare fee rebates, targeted cash benefits and tax relief.

As discussed in section 5.2, the OECD net childcare costs data for centre based childcare from 2018 to 2022 suggests an international trend of increasing supply-side subsidies. The OECD identifies Denmark, Iceland, Norway and Sweden as examples of countries providing early childhood education and care through large-scale publicly operated and/or publicly subsidised systems.¹²⁸

More broadly, the OECD observes that quality childcare comes at a price, and there are few shortcuts available to governments looking to offer high quality, affordable early childhood education and care to all families regardless of circumstance. Those countries that have succeeded in providing affordable early childhood education and care – most notably, the Nordic countries – have directed substantial public resources to this service.¹²⁹

5.3.2. Indirect price regulation

In countries that rely on market provision, caps on the demand-side subsidy (whether paid directly to households, or to the provider that households have chosen to use) can act as an indirect price discipline. In this system:

- the controls specify the maximum amount that the government will pay per time unit (for example, hourly or daily) and/or maximum total amount that will be paid
- the control is indirect, as households may pay higher fees. The out-of-pocket expenses for households can place downward pressure on gross fees.

Australia's Child Care Subsidy is an example of this model where there is a cap on the hourly rate and a co-contribution determined by income, activity and number of children under the age of 5.

Ireland's 2021 childcare review identifies one other example of this model, the Netherlands' childcare allowance (paid through the tax system) for registered pre-school care and after-school care (table 5.1).¹³⁰

¹²⁷ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹²⁸ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹²⁹ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹³⁰ Frontier Economics, [Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare](#), November 2020, p 25, prepared for Ireland, Expert Group, [Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare](#), November 2021.

Table 5.1: International example – indirect price regulation

The Netherlands
<p>Policy</p> <ul style="list-style-type: none">▪ Providers determine fees (as in Australia). The reimbursement is currently subject to a maximum hourly rate cap (which depends on the type of childcare). The subsidy depends on income and the number of children, and is a sliding scale ranging from 33% (highest income) to 96% (lowest income).▪ From 1 January 2023, the activity test was removed so that households are entitled to a maximum of 230 hours per month per child regardless of whether they work or study.▪ From 2027 (extended from 2025), the Government will reimburse 96% of childcare costs for working parents (although there was a subsequent change in government in July 2023). The form of price regulation has not been announced.▪ In April 2023, the Netherlands completed 2 reports on market structure and the role of private equity and potential policy measures. As part of this review of potential policy measures, the ACCC understands that the Netherlands may also undertake a cost survey.¹³¹ <p>Process</p> <ul style="list-style-type: none">▪ The hourly rate cap was introduced in 2005, indexed annually based on inflation (20%) and wage index (80%) across the general economy.▪ Since 2005, there has been a significant increase in the share of prices above the hourly rate cap. Quarterly public reporting by the Netherlands shows that the share of day care providers charging above the cap increased from 57.4% in 2019 to 72.5% in 2022. The relative difference between the average price and hourly rate cap changed from 0.1% to 4.7%.

A key question identified by Ireland¹³² and the Netherlands¹³³ is whether a cap on the demand-side subsidy protects against price increases or pushes up prices, leading to higher profits for private providers and higher government expenditure and/or out-of-pocket expenses for households. The extent of the downward pressure on prices will depend on the extent to which localised childcare markets are competitive and households select providers on the basis of lower prices.

¹³¹ See the discussion on potential price regulation options in The Netherlands, Ministry of Social Affairs and Employment, *Report: Childcare Measures*, [Rapport Maatregelen Kinderopvang](#), April 2023.

¹³² Frontier Economics, [Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare](#), November 2020, p 10.

¹³³ The Netherlands, Ministry of Social Affairs and Employment, *Report: Childcare Measures*, [Rapport Maatregelen Kinderopvang](#), April 2023.

5.3.3. Direct price regulation

Direct price regulation mechanisms determine and limit the amount that providers can charge households for early childhood education and care services. A price control might:

- set a rate period (such as an hourly, daily or monthly amount) and/or impose a maximum amount
- require the provision of a free service for a certain number of hours
- vary the rate by income or other factors, such as the number of children or an activity test
- stipulate that parents or guardians can be charged no more than a certain percentage of the operating cost of care (for example, Denmark)¹³⁴
- be implemented through different tools such as legislation, licensing requirements, government grant conditions, terms of a contract (for example, tender processes in Australia for outside school hours care) or a policy directive (for example, to publicly-provided services).

In the countries reviewed by the ACCC, there is a trend towards direct price regulation, supported with increased supply-side subsidies (table 5.2).

Table 5.2: International examples – direct price regulation

Canada
<p>Policy</p> <ul style="list-style-type: none">▪ Canada is aiming to reduce fees to \$10 a day, on average, by 2026 in regulated care. The initial target for coverage of the scheme is 59% of children aged 0–5 years (based on the uptake of licensed childcare in Quebec).▪ The federal government is achieving this by entering into agreements with provinces/territories (grant funding is then directed to centres), with provinces determining whether the fee is income tested or universal.
<p>Process</p> <ul style="list-style-type: none">▪ Cost methodology example – Alberta: Alberta Cost Control Framework and For-Profit Expansion Plan developed under the Canada-Alberta Agreement, requires operators to commit to achieving an average fee to households of \$10 per day in 2025–26, and provides for Alberta to determine government supply-side funding based on Operator Core Child Care Costs and Reasonable Profit/Surplus Earnings (operator grant).▪ Market fee example – Newfoundland and Labrador: Childcare centres choosing to participate in the Operating Grant Program (65% of licensed centres in 2020) are required to use prescribed parent fees and receive an Operating Grant as compensation for lost revenue, based on average market rates for parent fees, for example, from 1 January 2023, for infants, \$10/day plus \$53.50/day operating grant with an extra \$10 for enhanced services.

¹³⁴ Fees vary locally but regulations stipulate that parents can be charged no more than 25% of the operating cost of care, with additional discounts for families on low incomes, single parents, large families and children with disabilities. For after-school care, parent payments are not allowed to exceed 30% of operating costs: OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020; Frontier Economics, [Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare](#), November 2020, p 52.

Ireland

Policy

- In 2022, Ireland [announced](#) an increase in childcare subsidies, and pledged to cut childcare costs by 50% over a two-year period.
- For providers that are part of the National Childcare Scheme – Core Funding Scheme, gross fees were frozen, from [September 2022](#), as at 30 September 2021 (around the time the Expert Group made its recommendations).¹³⁵ This means there is a wide variation of regulated fees. The fees are not automatically indexed, for example, to inflation.
- In addition to this, households receive a [demand-side subsidy](#) (which is paid to the childcare provider and subtracted from the fee paid by the family). Households can choose:
 - a universal subsidy which is not means tested (at €1.40 an hour up to a maximum of 45 hours a week per child), or
 - a subsidy which is based on household income, age and a work study test.

Process

- The [operating grant formula](#) under the Core Funding Scheme applies the same rates to all providers based on their operating hours, number of places offered by services, age group of children for whom the places are offered, and a premium for graduate staff.
- This year, cost data will be available through the requirement for services to provide validated financial returns. This will assist in determining the gap between operating costs and frozen fees.
- The demand-side subsidy was introduced in 2019. From January 2023, the base subsidy significantly increased, from €0.50 to €1.40 an hour.

New Zealand

Policy

- The [2023 Budget](#) includes an expansion of the ‘20 Hours Free’ policy to 2 year-olds in addition to children 3 and above.
- There is also a childcare [subsidy system](#) for up to 50 hours of care (or 9 hours per week if the activity test is not met). The [rate](#) depends on size of family, income and hours in childcare. Households receiving 20 hours free early childhood education cannot receive the Childcare Subsidy for the same hours.

Process

- The subsidy rate to providers per child under the ‘20 Hours Free’ Scheme was set in 2006/2007. There has been indexation but not in every year so the value of the subsidy has declined over time.¹³⁶ The ACCC understands that New Zealand may be considering a cost survey.¹³⁷

¹³⁵ See the [Core Funding Partner Service Funding Agreement](#) for Year 1.

¹³⁶ The range of policy options considered by New Zealand are set out in New Zealand, Ministry of Education, [Education Report: Advice for Income Support Ministers’ November meeting](#), November 2022.

¹³⁷ See New Zealand, Ministry of Education, [ECE Funding Handbook](#), section 2.5.

Sweden

Policy

- From ages 3 to 6, children are [entitled](#) to at least 525 hours of free preschool per year (roughly 15 hours per week excluding holidays).
- Fee caps apply to both private and public childcare providers.
- Households with infant children in childcare (2 years and under) or who require additional hours of care pay a co-contribution. The fee schedule has 2 components:
 - The charge per child is determined as a fixed percentage of gross household income (the fee for the first pre-school child can be a maximum of 3%; 2% for the second child; and 1% for the third child; from the fourth child there is no additional fee).
 - Per-child fees are capped (monthly income ceiling), indexed annually. Low income households pay nothing.
- Central government distributes [funding](#) to municipalities, but the cost of the scheme is also funded by municipalities through taxes.
- Municipalities are required to [distribute](#) funds for private providers on the same principles as they distribute to their public providers.¹³⁸

Process

- While there is a requirement for day care to have a teacher, there are no broader national [staff ratios](#) or minimum qualification requirements. A current issue in Sweden is the quality of care and an increasing number of staff with no educational qualifications.

United Kingdom (England)

Policy

- Currently, all 3 and 4 year olds are entitled to 15 hours per week of free childcare or early education, rising to 30 hours for working households, and 15 hours for disadvantaged 2 year olds, over 38 weeks of the year.
- The first 15 hours is universal, the additional 15 hours is not available if one parent has a taxable income of more than £100,000 a year.
- Government funding for these places is paid directly to providers. Many parents pay additional charges for meals and activities.
- By [September 2025](#), working parents will be able to claim 30 hours of free childcare a week, over 38 weeks of the year, from 9 months up to their child starting school.
- Parents can claim support for the additional hours of childcare through [tax free childcare](#) and, for those on lower incomes, [universal credit](#).

Process

- The UK Department for Education surveys a sample of more than 10,000 providers ([Survey of Childcare and Early Years Providers: Technical Report](#)) (includes costs) to determine the [funding formula](#) for local authorities to in turn allocate funding to providers.

¹³⁸ See Centre for Research on Families and Relationships, The University of Edinburgh, [Early Childhood Education and Care Provision: International Review of Policy, Delivery and Funding: Final Report](#), March 2013, p 51.

- The United Kingdom is currently reviewing funding rates for 2024–25.
- The threshold of £100,000 a year has been identified as having a distortionary effect.¹³⁹

United States of America

Policy

- Currently, the US provides funding to states/territories ([Child Care and Development Block Grant](#)) targeted at young children in poverty. Household income cannot exceed 85% of state median income but in practice US states and territories set a significantly lower threshold.
- President Biden’s 2021 [‘Build Back Better’](#) childcare reforms proposed to:
 - make attendance at licensed childcare centres free for the lowest-earning households, and would have cost no more than 7% of family income for those earning up to double the state’s median income
 - provide universal free preschool for children ages 3 and 4
 - increase the pay of [childcare workers and preschool](#) teachers to be equivalent to kindergarten teachers if they have similar credentials.
- As the reforms did not pass Congress, the April 2023 [Executive Order](#) requires federal departments to undertake initiatives to increase access to high quality childcare without additional funding.

Process

- To determine the subsidy amount, each state is required to undertake a market survey every 3 years. Most states use market rates, being the fees charged by providers. The federal benchmark is 75% of prices in the market (that is, the rate charged by 3 out of every 4 childcare providers). However, some states use a cost-based model, for example, New Mexico.
- Existing public programs, which target low-income households, serve a small fraction of eligible households. Of the children eligible under federal rules, only 14% received subsidies in FY2017 under state and territory funding criteria.¹⁴⁰

Regardless of whether the price control applies to public or private providers, the OECD notes that regulatory measures need to be designed carefully. In market-based systems, if price standards are set too low, regulation could lower quality or lead to market exit if service provision becomes economically unviable. Regulation could have similarly damaging effects in public systems if not accompanied by adequate public subsidies.¹⁴¹

¹³⁹ For example, [UK House of Commons Treasury Committee](#) hearing; Institute of Fiscal Studies, [Childcare Reforms Create a New Branch of the Welfare State - but also Huge Risks to the Market](#), Press release, 15 March 2023.

¹⁴⁰ US Department of the Treasury, [The Economics of Child Care Supply in the United States](#), September 2021.

¹⁴¹ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

5.4. Policy considerations for government

5.4.1. Indirect price control mechanisms

As discussed in section 5.3.2, a key question is the overall effectiveness of the cap and the extent to which a cap on the demand-side subsidy (such as the hourly rate cap), protects against price increases.

Chapter 2 of this report finds that parents' and guardians' demand for centre based childcare is driven by a combination of non-price and price factors. Providers tend to compete on quality rather than price, with low price variation within individual childcare markets.

However, as discussed in chapter 3, while margins are highly variable between providers, our analysis suggests that margins do not appear excessive in aggregate over the period 2018 to 2022:

- Our June interim report found that, from 2018 to 2022, childcare fees in Australia increased across all services by between 20% and 32%. These increases were more than inflation, and the wage price index. 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.¹⁴²
- However, chapter 1 of this September interim report finds that labour is the main driver of costs for supplying childcare (69% or more of total costs), and that labour costs have increased 28% for large centre based day care providers since 2018, greater than the wage price index over the same period. (Although chapter 3 also notes that head office costs are significant and that there are limitations in the data available to the ACCC).

This is consistent with the finding by Ireland that, while some providers were making significant profits, the sector is generally not regarded as highly profitable, and excessive profits were not being made.¹⁴³ The UK, in a 2022 report, found that, in 2021, 26% of all providers were in deficit, 51% around breakeven and 24% in surplus.¹⁴⁴

However, we note below some considerations for government in using demand-side subsidies as an indirect control on fees charged by providers.

Significant policy changes may require a different price regulation model

As outlined in the Overview, there are a range of objectives government may seek to achieve with childcare policy and support. If Child Care Subsidy settings are significantly changed to reduce out-of-pocket expenses for households, then this is likely to further reduce the indirect price impact of the hourly rate cap.

The Netherlands notes that fundamental changes to the childcare system such as paying up to 96% of the costs for all parents, reduces any price incentive households may have to choose a service based on price. Price becomes even less of a determining factor in the choice of whether or not, how much and which childcare service to use where only a small part of the price is paid by the household in out-of-pocket expenses.¹⁴⁵ This reduces the

¹⁴² ACCC, [Childcare inquiry June interim report](#), p 73

¹⁴³ Ireland, Expert Group, [Partnership for the Public Good: A New Funding Model for Early Learning and Care and School-Age Childcare](#), November 2021, pp 109-110.

¹⁴⁴ UK, Department for Education, G Cattoretti and G Paull, Frontier Economics, [Providers' Finances: Evidence from the Survey of Childcare and Early Years Providers 2021](#), Research report, March 2022, Figure 3.

¹⁴⁵ The Netherlands, Ministry of Social Affairs and Employment, [Report: Childcare Measures, Rapport Maatregelen Kinderopvang](#), April 2023.

extent to which competition can provide downward pressure on gross fees, which in turn impacts government expenditure.

Limits of competition in delivering broader government objectives: potentially pointing to a market stewardship role for government

The OECD notes that market-based systems can be more agile through the ability to quickly expand supply in response to profitable demand, but may also lead to insufficient coverage in poorer, less profitable areas.¹⁴⁶ This is consistent with our findings in chapter 2 that the decision of providers to supply childcare services in particular markets is driven by their perceptions of viability, which is influenced by occupancy. This in turn is determined by household demand, willingness/capacity to pay and as such, relative socio-economic advantage.

As identified by the Grattan Institute for the aged care sector, these limits on the ability of markets to deliver broader government objectives may support the need for government to take on a 'market stewardship' role, closely overseeing, and taking responsibility for, overall system functioning and coordination.¹⁴⁷ This would require a clear vision and objectives, developing clear lines of responsibility, active collaboration between providers and government – including regular feedback on best practice and place-based approaches, and evaluation of outcomes.

Role of operating grants and competition for the market

Where a need for government intervention is identified, such as delivery of a service in an under-served area or to a vulnerable cohort, supply-side subsidies (whether through public or private provision) may be required. This reflects our findings in chapter 2 on the supply of services in certain locations being financially unviable, and the limitations faced by some not-for-profit providers in accessing capital.

A competitive tender process is one tool that can be used by government to select a private provider, provide funding to support the service, and set a regulated fee.

In Australia, tendering or bidding to supply has been used for many outside school hours care services, which has tended to result in relatively flat prices across different areas of advantage, as observed in our June interim report.¹⁴⁸ We consider there could be broader utility in adopting these types of tendering/bidding arrangements for other childcare services, where the provision of services may not otherwise occur to the desired level, for example in areas that are not as financially attractive for providers.

Price monitoring with credible threat of intervention

It is common across countries for government agencies to report publicly on price trends in the regulated childcare sector. For example, both the [Netherlands](#) and [Australia](#) produce quarterly reports.¹⁴⁹ These reports tend to focus on average prices. However, public monitoring of prices of individual providers combined with a credible threat of further intervention could be another option to support the indirect price discipline of the hourly rate cap, as part of a market stewardship role for government.

¹⁴⁶ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹⁴⁷ S Duckett, A Stobart and H Swerissen, [Reforming Aged Care: A Practical Plan for a Rights-Based System](#), Grattan Institute, November 2020.

¹⁴⁸ ACCC, [Childcare inquiry June interim report](#), p 12.

¹⁴⁹ See also the United Kingdom's [reporting](#) on provider fees and finances, and Ireland's [Annual Early Years Sector Profile](#).

This approach has been used in Australia in sectors outside childcare to provide downward pressure on prices.¹⁵⁰ For example, the Australian Government might issue guidance to childcare providers on:

- a de facto formula for annual price increases (which considers the CPI and wage index for the childcare sector)
- an expectation that if a provider intends to exceed the de facto level because of higher cost inputs, they survey their customers on their willingness to pay, for example to pay a higher fee for renovations or for an additional language teacher
- a complaints process for consumers to escalate a concern over excessive prices to the relevant government agency
- the process that the government agency will follow to investigate the complaint so the provider is aware of the type of cost information they will be expected to produce to justify the price increase
- the backstop threat of further government action if the provider does not respond or the government finds that the provider is charging excessive prices. Options for further action could range from public naming, fee regulation under the Child Care Subsidy scheme, or declaration under the prices surveillance provisions in Part VIIA of the *Competition and Consumer Act 2010*.

Chapters 1 and 3 set out limitations in the historical data available to the ACCC to analyse providers' costs and profits in this inquiry. To inform future policy reviews and monitoring of prices, there may be value in further work with the childcare industry to develop a template for the collection and analysis of cost data, with a particular focus on related-party rents and corporate overheads, and improved reliable information from medium sized childcare providers. This could draw on the cost survey templates being used or developed in other countries.

As part of a market stewardship role, there could also be value in mapping progress over time in meeting government objectives including the delivery of childcare services in areas of relative disadvantage and/or to vulnerable cohorts.¹⁵¹

Potential changes to the hourly rate cap and barriers to competition

This September interim report includes draft recommendations around:

- resetting the methodology used to index the hourly rate cap so that it is more cost reflective (including for differences in staff ratios for age cohorts)
- improving the information provided through StartingBocks.gov.au
- policies to improve recruitment and retention of childcare workers.

Changes that address barriers to entry or expansion or which provide greater price transparency for households, may in turn increase the downward pressure on prices of the hourly rate cap.

¹⁵⁰ For example, the Australian Government's 2007 Aeronautical Pricing Principles. More broadly, Australia's *Prices Surveillance Act 1983* (now Part VIIA of the *Competition and Consumer Act 2010*) provided for the Prices Surveillance Authority to scrutinise (but not to prevent) proposed price increases.

¹⁵¹ See, for example, the [Digital Gap project](#) to identify gaps in the delivery of digital services to First Nations people.

5.4.2. Direct price control mechanisms

As discussed in section 5.3.3, many OECD countries (including the UK, Ireland, Canada and New Zealand) are moving toward greater regulation of childcare fees such as low fees or free hours, supported by supply-side subsidies.

As Ireland notes, fee controls (or fee controls in conjunction with supply-side subsidies) need to be set at a level which financially sustains provision without driving excessive profits or surplus for providers.¹⁵² There appears to be at least 5 broad approaches for achieving this.

Market fees

Under this approach, the regulated price/subsidy is based on either of the:

- provider's fees at the time the scheme was established, for example Ireland, where a regulated provider's fees are frozen as at September 2021
- fees of providers that are not part of the scheme, for example certain Canadian provinces and American states.

However, these approaches become less feasible over time (as there will be new entrants, along with a growing gap between operating costs and frozen fees) and as the scheme expands (as there will be fewer providers who are not part of the scheme and who can provide a benchmark to set the regulated fee for providers that are part of the scheme).

Benchmarking efficient costs

This approach uses a survey of costs incurred by providers to benchmark efficient costs and determine the:

- regulated price/subsidy, for example certain Canadian provinces and American states, or
- allocation of funding by central government to regional authorities, for example the United Kingdom, discussed further below.

Other countries are also currently undertaking or considering cost surveys, for example Ireland, the Netherlands and New Zealand.

This approach can be complex to apply in practice. Risks include the following:

- *Increasingly complex methodology*: There is a risk that the methodology and process for determining an efficient cost of service becomes increasingly complex over time, for example variations by the characteristics of the child or nature of service delivery or location and premises. This complexity can have unintended consequences. For example, the Netherlands refers to a locally/regional differentiated price cap incentivising services to open or relocate to boundaries of regions where there is higher funding.¹⁵³ Increasingly complex regulatory frameworks and funding arrangements also tend to deter smaller providers.
- *Reset process*: There is a risk that, at each reset, the focus of providers will increasingly shift to maximising profit through influencing regulatory settings rather than improving operations. This in turn may impact relationships between providers and government.

¹⁵² Frontier Economics, [Working Paper 4: Mechanisms to Control Fees Charged to Parents for Early Learning and Care and School-Age Childcare](#), November 2020, p 10.

¹⁵³ The Netherlands, Ministry of Social Affairs and Employment, *Report: Childcare Measures*, [Rapport Maatregelen Kinderopvang](#), April 2023.

The reset process and government budget cycle may also create investment uncertainty which can influence supply and availability of services.

- *Additional charges:* Ireland, the United Kingdom, the Netherlands, Canada and New Zealand have had to regulate to prevent providers circumventing the schemes through excessive charges for additional services and/or hours.
- *Quality regulation:* The OECD notes that price regulation needs to be accompanied by well-specified and enforced quality standards.¹⁵⁴ This is in part due to childcare services having, as discussed in chapter 2, some of the elements of ‘experience’ services (quality is difficult to ascertain at time of purchase) and ‘credence’ services (lowering the price can signal a lower quality). The Australian National University’s submission to the Productivity Commission observes that, for the services from the most recent (Quarter 4 2022) ACECQA ratings, 53.8% of centre based day care services, 56.9% of family day care services and 48.5% of outside school hours care services with a rating, were last rated in 2019 or earlier.¹⁵⁵ The submission concludes that the national average cycle for quality ratings is insufficient (chapter 2).
- *Administrative cost:* Price regulation can impose a significant administrative and regulatory burden on both government and providers, which in turn increases the cost of the scheme.

Competition for the market

As discussed in relation to indirect price controls, an option is to undertake a competitive tender process to determine a cost-efficient level of funding, for example tenders by Australian councils for waste management. This approach could be used to address specific issues such as childcare provision in a disadvantaged area. However, it may become less feasible as the scheme expands to potentially cover all of the current 14,000 services.¹⁵⁶ The process may also favour large providers who have the capacity to undertake tendering processes and standardise their approach while operating their normal business and can continue operating despite the outcome of an individual tender.

Public and not-for-profit provision

Our June interim report and chapters 1 and 3 of this September interim report set out the comparative prices, costs and margins of not-for-profit and for-profit providers. In particular:

- across all geographic and socio-economic areas, for-profit centre based day care service providers charge higher hourly fees, on average, compared to not-for-profit service providers¹⁵⁷
- not-for-profit providers typically have cost advantages in relation to land, which are often re-invested into labour (chapter 1)
- profit margins are higher, on average, for for-profit providers of centre based day care than not-for-profits (chapter 3).

In some Canadian provinces, funding has been prioritised for public or not-for-profit provision. For example, the [Canada – Ontario Canada-wide Early Learning and Child Care Agreement – 2021 to 2026](#) seeks to create more high-quality, affordable licensed childcare

¹⁵⁴ OECD, [Policy Brief on Employment, Labour and Social Affairs: Is Childcare Affordable](#), June 2020.

¹⁵⁵ JR Bray and M Gray, Centre for Social Research & Methods, ANU College of Arts & Social Sciences, *Productivity Commission Inquiry into Early Childhood Education and Care*, [Submission](#), 29 April 2023, p 22.

¹⁵⁶ ACCC, [Childcare inquiry June interim report](#), p 25.

¹⁵⁷ ACCC, [Childcare inquiry June interim report](#), pp 94–95.

spaces predominantly through not-for-profit licensed childcare providers. In Australia, from the late 1930s to 1972, Australian Government funding for childcare was primarily through the Lady Gowrie Centres.¹⁵⁸ Sweden's central government does not promote public or private provision but instead requires municipalities to distribute funds to private providers on the same principles as they distribute to their public providers.¹⁵⁹

Conditional central government funding to regional authorities

Sweden, Canada and the United Kingdom are examples of more decentralised models where central government provides funding to state or local authorities who in turn determine the model for delivering the regulated fees, whether this is through public or private provision, benchmarking market fees, a cost methodology, tender process or a combination of approaches. This is intended to support a model of service delivery that is tailored to the needs of localised markets.¹⁶⁰

5.4.3. Alignment with policy objectives

The design of the price regulation model depends on a country's overarching policy objectives for the early childhood education and care sector. Direct price regulation is more likely to be required where countries expand public expenditure, whether this is to secure universal high-quality education and care for children, encourage workforce participation of parents, or support gender equality.

A country's objectives also shape its broader policy settings and in turn the design of any price regulation mechanism. For example, the universal entitlement to free hours commences, or is proposed to commence, at age 3 in Sweden, 2 in New Zealand, 9 months in the United Kingdom and 6 weeks in the Netherlands. The number of free hours also varies depending on whether the objective is to support labour force participation (for example, the United Kingdom's proposed entitlement to 30 hours a week)¹⁶¹ or childhood education (for example, Sweden's entitlement to about 15 hours a week excluding school holidays).

These broader policy issues form part of the Productivity Commission's terms of reference. The ACCC's analysis seeks to identify options for further investigation as part of this broader review.

¹⁵⁸ JR Bray, Australian National University Centre for Social Research & Methods, [Childcare in Australia: Historical Trends in Provision and Australian Government Funding. A Statistical Compendium 1969-2022](#), June 2023.

¹⁵⁹ The United Kingdom, as part of the '30 hours free' scheme, requires local authorities to introduce a universal base rate of funding for all types of providers to create a level playing field. See UK Department for Education, [Early Education and Childcare: Statutory Guidance for Local Authorities](#), April 2023, A4.7.

¹⁶⁰ See S Dougherty and C Morabito, [Financing and Delivering Early Childhood Education and Childcare Across Levels of Government](#), 2023, *OECD Journal on Budgeting*, Volume 2023 Issue 2, p 12.

¹⁶¹ Institute of Fiscal Studies, [Does More Free Childcare Help Parents Work More?](#), IFS Working Paper W16/22, May 2018.

Appendix A – Competition and Consumer (Price Inquiry—Child Care) Direction 2022



Competition and Consumer (Price Inquiry—Child Care) Direction 2022

made under the *Competition and Consumer Act 2010*

Compilation No. 01

Compilation date: 25 August 2023

Includes amendments up to: *Competition and Consumer (Price Inquiry—Child Care) Amendment Direction 2023*

Prepared by The Treasury

Authorised Version F2023C00816 registered 19/09/2023

About this compilation

This compilation

This is a compilation of the *Competition and Consumer (Price Inquiry—Child Care) Direction 2022* that shows the text of the law as amended and in force on 25 August 2023 (the **compilation date**).

The notes at the end of this compilation (the **endnotes**) include information about amending laws and the amendment history of provisions of the compiled law.

Uncommenced amendments

The effect of uncommenced amendments is not shown in the text of the compiled law. Any uncommenced amendments affecting the law are accessible on the Legislation Register (www.legislation.gov.au). The details of amendments made up to, but not commenced at, the compilation date are underlined in the endnotes. For more information on any uncommenced amendments, see the series page on the Legislation Register for the compiled law.

Application, saving and transitional provisions for provisions and amendments

If the operation of a provision or amendment of the compiled law is affected by an application, saving or transitional provision that is not included in this compilation, details are included in the endnotes.

Modifications

If the compiled law is modified by another law, the compiled law operates as modified but the modification does not amend the text of the law. Accordingly, this compilation does not show the text of the compiled law as modified. For more information on any modifications, see the series page on the Legislation Register for the compiled law.

Self-repealing provisions

If a provision of the compiled law has been repealed in accordance with a provision of the law, details are included in the endnotes.

Authorised Version F2023C00816 registered 19/09/2023

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Part 1—Preliminary

1 Name

This instrument is the *Competition and Consumer (Price Inquiry—Child Care) Direction 2022*.

3 Authority

This instrument is made under the *Competition and Consumer Act 2010*.

4 Definitions

Note: Expressions have the same meaning in this instrument as in the *Competition and Consumer Act 2010* as in force from time to time—see paragraph 13(1)(b) of the *Legislation Act 2003*.

In this instrument:

approved child care service has the meaning given by section 194G of the *A New Tax System (Family Assistance) (Administration) Act 1999*.

child care subsidy has the meaning given by section 3 of the *A New Tax System (Family Assistance) Act 1999*.

goods has the meaning given by subsection 95A(1) of the Act.

inquiry has the meaning given by subsection 95A(1) of the Act.

not-for-profit has the same meaning as it has in the *Charities Act 2013*.

price has the meaning given by subsection 95A(1) of the Act.

services has the meaning given by subsection 95A(1) of the Act.

State or Territory authority has the meaning given by subsection 95A(1) of the Act.

supply has the meaning given by subsection 95A(1) of the Act.

the Act means the *Competition and Consumer Act 2010*.

Part 2—Price inquiry into child care services

5 Commission to hold an inquiry

- (1) Under subsection 95H(1) of the Act, the Commission is required to hold an inquiry into the market for the supply of child care services. The inquiry is *not* to extend to any of the following:
 - (a) the supply of a good or service by a State or Territory authority;
 - (b) reviewing the operation of any Australian law (other than the Act) relating to approved child care services, except as necessary to consider the matters set out in section 6; and
 - (c) reviewing the operation of any program funded by the Commonwealth, or any policy of the Commonwealth (other than policies relating to competition and consumer protection, and in considering the matters set out in section 6).
- (2) For the purposes of subsection 95J(1), the inquiry is to be held in relation to goods and services that are approved child care services.
- (3) Under subsection 95J(2), the inquiry is *not* to be held in relation to the supply of goods and services of that description by a particular person or persons.

6 Directions on matters to be taken into consideration in the inquiry

Under subsection 95J(6) of the Act, the Commission is directed to take into consideration all of the following matters in holding the inquiry:

- (a) the costs incurred by providers of goods and services covered by subsection 5(2), including:
 - (i) the cost and availability of labour; and
 - (ii) the use of land and related costs; and
 - (iii) finance and administration costs; and
 - (iv) regulatory compliance costs; and
 - (v) the cost of consumables; and
- (b) the prices charged, since 1 January 2018, by providers of goods and services covered by subsection 5(2), including:
 - (i) price changes following the commencement of the *Family Assistance Legislation Amendment (Cheaper Child Care) Act 2022*; and
 - (ii) price changes as a result of Commonwealth policies that have the objective of lowering child care costs to consumers; and
- (c) how costs and prices differ by:
 - (i) provider type (for example, commercial and not-for-profit); and
 - (ii) provider size (for example, providers operating a single child care centre and providers operating multiple child care centres); and
 - (iii) type of child care services provided (for example, centre based day care, outside school hours care, family day care and in home care); and
 - (iv) age and characteristics of the child in child care; and

-
- (v) geographical location (for example, urban, regional, and remote); and
 - (vi) level of competition present in the market for the supply of child care services; and
 - (vii) overall quality rating of the child care services provided, as assessed against the *National Quality Standard* (as at 1 February 2018) under the National Quality Framework, as published on the Australian Children’s Education and Care Quality Authority website; and
 - (d) factors affecting demand, supply and competition in the market for child care services, including:
 - (i) the extent and existence of supplier practices and strategies in response to the existing government funding arrangements and regulatory settings; and
 - (ii) the impacts on the market from the coronavirus known as COVID-19, including the impact of the temporary coronavirus response measures contained in the *Child Care Subsidy Minister’s Rules 2017*; and
 - (e) the impact of the above factors on child care provider viability, quality and profits; and
 - (f) the impact and effectiveness of existing price regulation mechanisms and any impediments inherent in those mechanisms to their effective operation.

7 Directions as to holding of the inquiry

Under subsection 95J(6) of the Act, the Commission in holding the inquiry is directed to do all of the following:

- (a) give to the Treasurer a first interim report on the inquiry by no later than 30 June 2023;
- (b) give to the Treasurer a second interim report on the inquiry by no later than 30 September 2023.

8 Period for completing the inquiry

For the purposes of subsection 95K(1) of the Act, the inquiry is to be completed, and a report on the matter of inquiry given to the Treasurer, by no later than 31 December 2023.

Endnotes

Endnote 1—About the endnotes

The endnotes provide information about this compilation and the compiled law. The following endnotes are included in every compilation:

Endnote 1—About the endnotes

Endnote 2—Abbreviation key Endnote

3—Legislation history Endnote 4—

Amendment history **Abbreviation**

key—Endnote 2

The abbreviation key sets out abbreviations that may be used in the endnotes.

Legislation history and amendment history—Endnotes 3 and 4

Amending laws are annotated in the legislation history and amendment history.

The legislation history in endnote 3 provides information about each law that has amended (or will amend) the compiled law. The information includes commencement details for amending laws and details of any application, saving or transitional provisions that are not included in this compilation.

The amendment history in endnote 4 provides information about amendments at the provision (generally section or equivalent) level. It also includes information about any provision of the compiled law that has been repealed in accordance with a provision of the law.

Misdescribed amendments

A misdescribed amendment is an amendment that does not accurately describe how an amendment is to be made. If, despite the misdescription, the amendment can be given effect as intended, then the misdescribed amendment can be incorporated through an editorial change made under section 15V of the *Legislation Act 2003*.

If a misdescribed amendment cannot be given effect as intended, the abbreviation “(md not incorp)” is added to the details of the amendment included in the amendment history.

Endnote 2—Abbreviation key

ad = added or inserted	Ord = Ordinance
am = amended	orig = original
amdt = amendment	par = paragraph(s)/subparagraph(s) /sub-subparagraph(s)
c = clause(s)	pres = present
C[x] = Compilation No. x	prev = previous
Ch = Chapter(s)	(prev...) = previously
def = definition(s)	Pt = Part(s)
Dict = Dictionary	r = regulation(s)/rule(s)
disallowed = disallowed by Parliament	
Div = Division(s)	
exp = expires/expired or ceases/ceased to have effect	reloc = relocated
F = Federal Register of Legislation	renum = renumbered
gaz = gazette	rep = repealed
LA = <i>Legislation Act 2003</i>	rs = repealed and substituted
LIA = <i>Legislative Instruments Act 2003</i>	s = section(s)/subsection(s)
(md not incorp) = misdescribed amendment	Sch = Schedule(s)
cannot be given effect	Sdiv = Subdivision(s)
mod = modified/modification	SLI = Select Legislative Instrument
No. = Number(s)	SR = Statutory Rules
	Sub-Ch = Sub-Chapter(s)
	SubPt = Subpart(s)
	<u>underlining</u> = whole or part not

Endnotes

Endnote 3—Legislation history

Name	Registration	Commencement	Application, saving and transitional provisions
Competition and Consumer (Price Inquiry—Child Care) Direction 2022	1 November 2022 (F2022L01421)	2 November 2022	—
Competition and Consumer (Price Inquiry—Child Care) Amendment Direction 2023	24 August 2023 (F2023L01113)	25 August 2023	—

Endnote 4—Amendment history

Provision affected	How affected
s2	rep LA s48D
s7	rs F2023L01113