Australian
National
University

ACCC Childcare Inquiry
September Interim Report

Submission in Response

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Glossary

ABS	Australian Bureau of Statistics
ACCC	Australian Competition & Consumer Commission
ACECQA	Australian Children's Education & Care Quality Authority
ANU	Australian National University
ARIA	Accessibility/Remoteness Index of Australia
AWE	Average Weekly Earnings
CBD	Central Business District
CBDC	Centre Based Day Care
CCCF	Community Child Care Fund
CCS	Child Care Subsidy
EMTR	Effective Marginal Tax Rates
EFT	Electronic Funds Transfer
FDC	Family Day Care
FMW	Federal Minimum Wage
IHC	In Home Care
NWC	National Workforce Census
OECD	Organisation for Economic Cooperation and Development
OSHC	Outside School Hours Care
SEIFA	Socio-Economic Index for Areas
SRC	Social Research Centre
ToR	Terms of Reference

1. Introductory and overview comments

On 1 October 2023 the ACCC released its second, September 2023, Interim Report (ACCC 2023a) from its inquiry into childcare services and invited submissions in response to the draft findings and recommendations in the report. An earlier Interim Report (ACCC 2023b) was released in June 2023. While containing extensive analysis and reporting this earlier report presented neither findings nor recommendations.

Here I respond to the call for submissions on the draft findings and recommendations.

1.1. Background

I am a Research Fellow in the Centre for Social Research and Methods at the Australian National University, a position I took after a long career in the Australian Public Service primarily working at the interface between economic and social policy across a range of social policy and related portfolios.

Between 2018 and 2021 I was a member of the consortium which undertook the evaluation of the 2018 'Child Care Package' (Bray et al 2021a), along with a number of related projects, in particular with regard to inclusion in childcare and the Inclusion Support Program (Bray 2020 and Bray et al 2021b).

1.2. Approach

This submission is in 4 parts:

- In this chapter I address a number of overarching issues with the ACCC report which are relevant to the findings and recommendations.
- Chapter 2 responds to the ACCC findings.
- Chapter 3 responds to the ACCC recommendations.

Specifically, the following sections of this chapter consider:

- The potential need for the report to provide a broader overview of the nature of the childcare market.
- Whether there should be a specific finding concerning tendering approaches to Outside School Hours Care.
- The ACCC approach to measuring and reporting on profitability, and the implications of this for regulatory approaches.
- The implications of the broader regulatory environment in addition to the current focus primarily on cost regulation.
- The nature, analysis and presentation of data.
- The ACCC approach to geographic analysis.

1.3. The operation of the market

While a number of specific aspects of the childcare market, and indeed some non-market based responses, are discussed in the September Interim Report, including in findings and recommendations, it does not appear to directly address the broader nature of the market and its capacity to generate the level and type of care demanded across locations, and which matches government objectives for the availability of care to meet policy objectives related to workforce participation and early childhood education. It may be that it is intended that such an overview be included in the final report once all parts of the ACCC work are undertaken, or it may be a consequence of the ACCC primarily focusing on the detailed specific items detailed in the "Directions on matter" in the Terms of Reference (at times as 'examples'), rather than the market overall. In either case it would appear appropriate for the final report to directly and cohesively provide such an overview.

Some of the possible features to be considered include:

- The highly regulated nature of the product (and potentially the limited variation in product quality, in part related to this, as well as the limited capacity of consumers to determine product quality).
- The extent to which competition between services most frequently operates within quite narrow geographic boundaries.
- Limited price competition – and the apparent existence of price quality signalling (consumer perception that a lower price reflects lower quality).
- Apparent economic unviability of service provision in some locations.
- The extent to which government subsidies may lower consumer price responsiveness.

The outcome of such an analysis, in addition to directly addressing the focus of the inquiry, "the market for the supply of childcare" (ToR 5(1)) would provide a framing for the other findings and recommendations which is currently missing.

1.3.1. Findings from the June 2023 Interim Report

Associated with the above concern about providing a clear picture of the market is the extent to which the ACCC findings should also highlight what was found in the June Interim Report, and the need for these findings to also be subject to review. While a small number of the 'findings'[1] from this earlier report have been incorporated into the September Report, much has not. Some of the issues which would appear to merit attention include: the distribution of out-of-pocket expenses, including, for example, the distributional data by household income decile (ACCC 2023b, 107); the share of hours subsidised; and effective subsidy rates. Also, as discussed in section 1.3.3, is the question of undersupply.

1.3.2. Cost of preschool in Centre Based Day Care

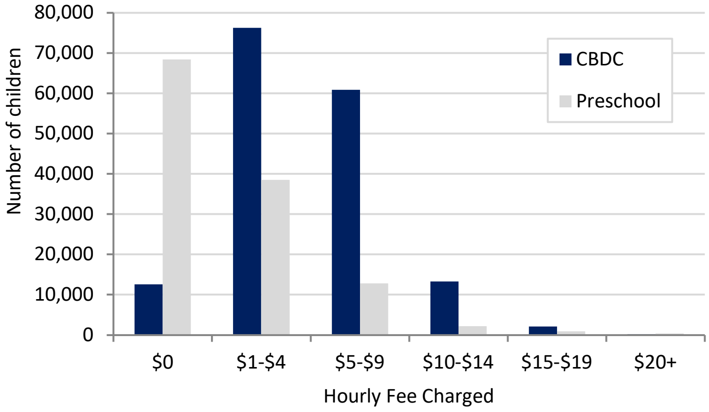
In addition to treating childcare as a whole, and the specific sectors, it would be appropriate, given the distinct nature of preschool and the role of childcare services as part of the Government's policy of Universal Access, for the ACCC to examine the operation of this market separately.

In addition to the specific policy role this is important as this market has considerable, and relative to other dimensions of childcare, different patterns in the variation of cost to parents, depending upon how preschool is delivered, which in turn is impacted by state approaches.

Figure 1 shows the distribution of the net hourly cost (ABS indicates that "Fees refer to the actual tuition fees charged for the child to attend a preschool program after subsidies have been deducted") of preschool by sector, that is through 'freestanding' specific preschools, or in CBDC. The chart highlights the wide distribution of costs to parents, including the marked difference between the sectors.

[1] As noted this report did not include any formal findings.

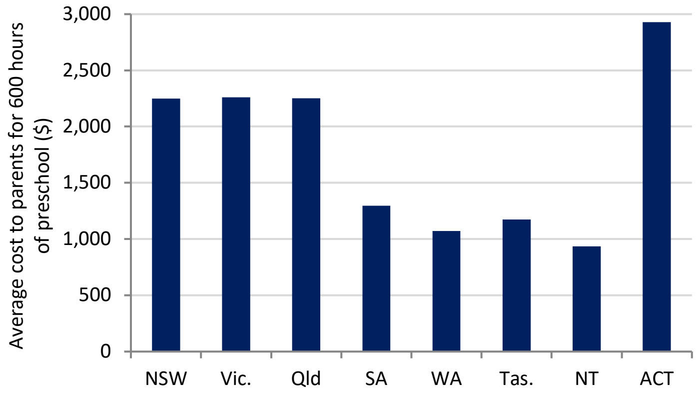
Figure 1. Preschool, children aged 4 or 5 years, hourly fees charged by sector, 2022



Source: ABS 2023a (Preschool Education, 2022), Table 18.

The implications of this, and of different state approaches, is shown in Figure 2, which presents the effective average cost of 600 hours[2] of preschool by state, taking into account the variation in delivery by CBDC and Preschools, and the distribution of fees.

Figure 2. Average cost to families for a child aged 4 or 5 years attending preschool for 600 hours per year, by state, 2022



Notes: Average cost based on mid points of hourly fee ranges as detailed by ABS using an estimate of $22.50 for the category "$20+"

Source: ABS 2023a (Preschool Education, 2022), Table 18.

1.3.3. Undersupply

Given the extensive claims which have been made concerning the availability of childcare (for example Hurley, Matthews and Pennicuik 2022), this has only been given relatively little attention in the Interim Reports – although the June Interim Report reported, based on the parent survey, that: "Notwithstanding recent growth in approved places in Major Cities and regional areas, the challenges parents and guardians continue to face when it comes to availability, suggests that the barriers (for example, providers unable to expand capacity) identified in the 2015 Productivity Commission have yet to be overcome by providers" (ACCC 2023b, 64).

Of course these claims need to be balanced against other information, including analysis of occupancy (see section 2.3.2) as well as somewhat dated, but only recently released ABS estimates of there being, in

[2] 600 hours reflects the provisions of the Preschool Reform Agreement under which Australian Government funding is provide to the states to support "the delivery of 15 hours of preschool a week – 600 hours a year – for all children in the year before they start school" (Department of Education 2023a).

2020-21, an estimated 18,300 people who were working part-time and wanted more hours, or were not participating in the labour market and wanted a job, and were available to start within 4 weeks, who gave as their main barrier “Childcare not available, childcare booked out, or no childcare in locality” (ABS 2023b, Table 5.1).

It would appear appropriate for at least some reference to this aspect of the market, and the ACCC’s work in identifying the extent to which this represents a market failure, to be included in the findings of the report.

1.4. Outside School Hours Care tendering

The nature of OSHC is distinct in market terms with respect to these services being quasi locational monopolies in terms of the provision of services to parents, and with schools being monopolies from the perspective of potential providers who are wishing to operate in that specific market. This is recognised in the September Interim Report in Section 2.4 “Competition operates differently for outside school hours care services” (ACCC 2023a, 114).

Given this, it would appear appropriate for this distinction to be reflected in both the findings, as discussed in section 2.1.2, and potentially the recommendations. Specifically given the differentials in approaches to tendering, the ACCC should consider recommendations on what may be best practice, including the extent to which schools in some states under the tendering approach may seek excess licence fees to cross-subsidise their other activities, that is, potentially using their monopoly powers to obtain excess rents from the child care sector to compensate for state government underfunding.

1.5. Profitability

While it may well be that the ACCC is waiting to provide a definitive response to the question of profitability, and the extent to which the cost of childcare has been inflated by excess profits, in the final report, to the extent it is discussed in the September Interim report, a number of the more detailed comments on the findings and recommendations in subsequent chapters relate to this matter. There are, in addition, however a number of issues which warrant further consideration, as detailed below. Some of these are methodological, related to the approach and concepts used by the ACCC, while the final is concerned with the approach of the draft report with respect to price regulation.

1.5.1. Overall status of profitability

While it is recognised that there are some limitations in the data that the ACCC has collected, it would seem reasonable for the ACCC to make a clearer statement with regard to profitability, especially in the light of some community concerns that high childcare pricing in Australia may reflect excess profits.

In this regard I note that the report, while presenting the formal finding: “On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable” (ACCC 2023a, 28); later presents a more explicit summary: “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” (p. 191).

Given that the question of excess profits, potentially due to inappropriate regulation, or other barriers to entry, is critical to the price of childcare, it would appear central that this be answered in a definitive, consistent, and clear manner.

It would also seem appropriate for this analysis to extend to consider profitability in the childcare sector relative to other industry benchmarks.

1.5.2. Concept of profitability and core costs

The ACCC approach to profitability is to focus on what are described as “core costs” relative to the revenue of services. In the September Interim Report, as I best can identify, there is however no clear comprehensive description of what these core costs precisely involve, nor whether certain expenditures have been excluded, as being non-core.

1.5.3. Capital, debt, finance and ROI

While the report notes that interest payments are included in the core costs, this provides little insight into the actual economic structure of the sector, and indeed the analysis clouds the issue by only presenting a combined value of "finance and administration costs". These are quite different categories of cost and should be presented as separate items.

More generally there is a need for the analysis to address the issue of capital, asset values and debt. Currently the report has statements such as: "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" (p. 18); this needs to be unpacked.

Specifically:

- There is a need for reporting on the capital investment in the sector, and the capital value of childcare services. This is important from a number of dimensions:
  - In terms of profitability with respect to generating ROI estimates.
  - In terms of the market for childcare services, in particular given descriptions of 'acquisition growth strategies" (pp 18, 19), to understand the extent to which the asset values of these acquisitions, and more generally across the sector, represents physical capital, such as property value, fit-out and equipment, or if it is comprised of intangibles such as goodwill, going concern organisational value (ie structured and organised existing workforce and system, or if it is a capitalisation of the costs of regulatory requirements (including potentially any premium associated with scarcity because of this).
    - This latter, if it exists, could also provide some insight into the impact of regulation on the cost of provision. That is if in sales and acquisition of services a significant part of the value of a service is that it is an approved service with x places, then this gives a clear estimate of the cost impact of regulation.
  - This is also an issue which arises from the Provider Roundtable discussions "For a range of reasons, it is more likely that for-profit providers will be able to access the capital required to build new centres than not-for-profit providers. This means that new centres and growth will more likely be in the for-profit sector" (ACCC 2023d, 2).
- There is further discussion of some related issues at 2.1.2, including a question on related entities and the extent to which these need to be considered in order to obtain a clear picture of the operation of childcare services.

1.5.4. Focus on average margins

With the exception of Figures 3.20 and 3.23, the focus of presentation in the interim report is on average margins/profitability. Variability in profitability is only discussed on the basis of a number of limited categorisations. Three lines of inquiry would, in the first instance, appear to be important.

- The first is the incidence and characteristics of apparently unprofitable childcare services (of which there appear to be significant numbers in both of the above figures), to understand whether or not this is some simple transitory state as a result of the use of single year financial data, or a more systematic issue of some services operating at a loss. Analysis in this latter case would identify the degree to which some services are not financially viable, and as a consequence under the current regulatory framework, including the funding system, are liable to close.
  - Very clearly this would have significant implications for the provision of childcare in Australia – as well as calling into question the existing regulatory and assistance framework.
  - In this regard I would note that in the September Interim Report, reflecting the broader issues I raise, it is unclear as to whether the reported data includes taking account of any CCCF funding

services have been provided with which in some cases is as a result of inadequate financial viability.

- The second is that to understand the sector there is a need to move away from both the focus on average outcomes, and from simple one-way area cross classifications, and adopt strategies such as the use of a more robust multivariate analysis to identify the factors associated with profitability. This is critical to understanding the actual factors contributing to outcomes. As well as using all of the available characteristics of services, this should include items such as parental income and more detailed geographic characteristics (see discussion below) and the density of childcare provision.

- The third is directly addressing the question of whether or not there are excess profits which appear to be inappropriately driving up the cost of childcare.

1.5.5. Implications for regulation

As raised in discussion on Draft Recommendation 1, in the following chapter, I would consider that the essential first question to be answered in the final report, arising from the consideration of profitability and market behaviour, is whether or not there are indeed issues which warrant regulation. Much of the discussion throughout the report on price regulation appears to start from a perspective that it is needed, rather than from that it is warranted.

It can be suggested that there are some grounds, other than the existing state of the market, which might warrant price regulation:

- Given the critical role of childcare for families, it might be argued that the risk of not having any price regulation is too high (including that, if circumstances changed and it was actually needed, the lags in implementation would be too great).

- Alternatively, under circumstances where most of the cost of care is carried by the government (for example under a universal 90 per cent subsidy[3]), it could be considered that price signals would be so weakened that the market can be considered to be ineffective, and regulatory control is required.

This central question of the rationale is however not explicitly addressed in the findings.

Consideration of these questions might also give greater clarity to some of the later discussion where concepts of price surveillance, and information, are discussed, approaches more consistent with light-touch precautionary regulation, relative to more significant interventions such as a "credible threat of intervention, to place downward pressure on fees" (p. 30).

1.6. Regulatory environment

While the report explicitly makes findings with regard to the regulatory environment with regard to price regulation [ToR 6(f)], it does not appear to consider the regulatory compliance costs [ToR 6(a)4] to the same extent.

Although there is some data on "regulatory compliance costs", this is not detailed, and it is unclear as to what aspects of compliance are being reported on. However, given that this is on average 0.59 per cent for CBDC services and 1.05 per cent for OSHC services, it would appear that the item is capturing only a small element, potentially related to reporting, rather than the actual cost impact of complying with regulation.

Broadly it can be considered that there are 4 main areas of regulatory compliance beyond that of pricing:

- Child to staff ratios and staff qualifications.

- Quality related compliance including record keeping.

[3] "We'll also get the ACCC to design a price regulation mechanism to drive out of pocket costs down for good, and the Productivity Commission will conduct a comprehensive review of the sector with the aim of implementing a universal 90 per cent subsidy for all families" (Albanese 2022).

- Health, safety, and related regulation.
- Planning regulations impacting the cost of property development.

It would seem appropriate for the ACCC to consider the cost implications of these, and any other dimensions of regulation which can be identified, separately.

1.7. Data source and quality and reporting

The work of the ACCC has seen extensive data collected and analysed. There are however a number of issues which arise in trying to understand the data presented in this report.

1.7.1. ACCC financial data

The interim report describes a number of limitations in the data they collected on costs, noting that this was done "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" (ACCC 2023a, 41). It concludes: "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" (p. 41).

The report does not however provide any information on the actual proportion of services from which data has been obtained, or the extent to which this varied by service characteristics. This information is important to understand the extent to which there may be biases in the data, as a result of non-response in the case of large providers (if indeed there was any non-response), and as a consequence of voluntary participation by other providers. Similarly, there is no indication of whether the results represent raw responses or are weighted to account for response rate. More generally there is no assessment of data quality, including whether some of the variability in the results arises from reporting, rather than being substantive.

While as cited the ACCC report the data as being 'typical', it can only be assumed that the above type of analysis has been conducted in order to draw this conclusion, and it is appropriate that this be reported on, and not simply stated.

1.7.2. Sectoral presentation

A recurrent issue across the report is the presentation of data on services in charts without any information on the relative size of the populations. One obvious issue is that identified below where the category "major cities" represents some 80 per cent of services and 'very remote' represents less than half a per cent. At a minimum the number of services (or possibly the number of children using these services) should be detailed. This also applies in the case of the presentation of data by service size, provider type, and so forth.

More generally, the publication should report the underlying data, potentially as a data appendix, rather than simply relying upon charts, with occasional numbers being cited in text. It would also be beneficial where tables are presented for various quantiles to indicate the direction of these, for example 'smallest to largest'.

1.7.3. Cost per charged hour

A key metric used in the report in presenting data on costs is that of the cost per hour. While this approach has considerable validity, it also has some weaknesses because of the different charging models across the sector. A particular issue arises with comparisons between those services which charge on a sessional, and those which charge on an hourly, basis, but is also relevant to comparisons between CBDC and OSHC.[4]

[4] This also raises a question about what parents purchase. That is, do they purchase 7 hours and 13 minutes of child care, for example, or are they purchasing the right to have their child in childcare on a particular day between the hours of 8 am and 6pm? From the perspective of a service, it is this latter which is the product they are

While I only have limited and somewhat dated data available (Bray et al 2021a, 25), this suggested in Q4 2019 that hours of care used represented 68.9 per cent of charged hours in CBDC for children under 6 years, and 84.3 per cent in FDC for these children, and 61.0 per cent for children aged 6 years and over in OSHC. This would suggest that comparisons on the basis of the cost per charged hour are likely to understate the cost of actual care delivered in OSHC relative to the other two sectors, and in CBDC relative to FDC.

Obviously more recent data needs to be considered to understand the extent to which such distortions in comparisons continue to exist.

1.7.4. Parent survey

As with the financial data the reports provide very little information on the characteristics of 'parents and guardians' survey, other than it being voluntary. To the extent data is sourced from this survey it is appropriate that more information is provided on the survey itself and the respondent population (relative to known benchmarks), to understand the extent to which there may be biases in responses. While this may be less of a concern where the data is used purely qualitatively, it is more serious where it is presented quantitatively.

1.8. Geographic analysis

The ToR identify a need for analysis of "how costs and prices differ" by "geographical location (for example, urban, regional, and remote)". In this interim report this appears to have been interpreted as being by the relative socio-economic status of the location, and by the location's ARIA classification.[5] Both of these are quite limited for the purposes of an understanding of the childcare sector and the costs of delivering this care, and indeed at times their use appears to frame certain outcomes inappropriately.[6]

Taking the ARIA classification, a key problem is the lack of granularity. This can be seen in Table 1 which plots the number, and distribution of places by ARIA location. As illustrated, 77.7 per cent of Centre Based Day Care services and 80.5 per cent of Outside School Hours Care services are located in the "Major Cities of Australia". This leads to a situation where potentially most of the variation occurs within these locations and hence it is not an effective tool to investigate differences by location.

Table 1. Distribution of childcare places by ARIA, Q2 2023

ARIA Classification	Number of places		Distribution of places	
	CBDC	OSHC	CBDC	OSHC
	- Places -		- % -	
Major Cities of Australia	492,726	285,569	77.7	80.5
Inner Regional Australia	97,340	49,363	15.3	13.9
Outer Regional Australia	37,265	18,145	5.9	5.1
Remote Australia	4,505	1,322	0.7	0.4
Very Remote Australia	2,580	340	0.4	0.1
Total (a)	634,416	354,739	100.0	100.0

(a) Excludes 11,285 CBDC places and 5,898 OSHC places for which an ARIA location was not available.

Source: ACECQA National Quality Standard Data, as at 1 July 2023, Released on 10 August 2023

producing. This type of charging is typical across many products – for example gym memberships, many parking arrangements, and so forth.

At a minimum the ACCC should discuss this question – including the parallels with other product and service markets, as well as the implications of taking different approaches to the measurement of cost for their analysis.

[5] One exception to this is the analysis on the dispersion of fees and out of pocket expenses which was undertaken at the SA2 level, although the results were grouped by one of the analysis variables.

[6] While the June 2023 Interim Report also used the Greater Capital City Statistical Areas classification, in some presentations this again is of limited value in understanding the actual nature of spatial distribution of childcare within these cities.

While this problem does not exist to the same extent with the analysis using the SEIFA where the locations are based on deciles, the use of this classification as a descriptor tends to lead to attribution of outcomes the characteristic of the measure, rather than the range of other characteristics of the location which may be driving the result. That is outcomes are treated as being dependent upon socio-economic advantage or disadvantage, rather than potentially other characteristics which might drive geographic variability. As detailed above, there is a clear role for multivariate analysis to be undertaken to attempt to identify the unique contribution of the various characteristics of locations rather than relying upon simple classifications where they are compounded.

One specific aspect of location, which I note later in section 3.2, is that of potentially high costs in CBD locations in capital cities. At a minimum there is a strong case for the ACCC to repeat elements of the geographic analysis using either SA3 or SA4 regions to identify the extent of variation within the 'major cities'.

1.9. Standing of report

Reflecting the unique data available to the ACCC, as well as the extensive analysis, including the detailed analysis of patterns of use of childcare in the June Interim Report, the ACCC needs to recognise that notwithstanding its general legal disclaimer of the information being "for general guidance only", these reports are also reports of record and sources of information for a range of users both currently and into the future.

Recognition of this has motivated a number of the issues raised in this response to the September Interim Report, including the need to provide results in tabular as well as graphical formats.

It is also important with regard to descriptions of the program and elements of the program. I have not looked at this systematically but note, for example, the September Interim Report reports that 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" (ACCC 2023a, 86). This is a misstatement of the program, which is focused on improving the "capacity and capability [of services] to provide quality inclusive practices for all children, to address access and participation barriers and to support the inclusion of children with additional needs, with their typically developing peers" (Department of Education 2023b, 8).[7]

A careful review of the final report to address this type of issue is important.

[7] While from a 'lay' reading the ACCC summation may appear not to be too inconsistent with the program objective, the differences between the model it describes – which focuses on support for the child (essentially to address their 'problem') and the 'inclusionary approach' which underlies the Inclusion Support Program is stark. The ISP and the broader approach to inclusionary practice rather identifies the problem in terms of the physical, structural, relational and other barriers which act as barriers to the child ability to participate. This is described in the Report of the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability:

> The path to the Royal Commission opened up in the 1970s and 1980s, when disability theorists rejected the medical model of disability in favour of the social model. The medical model saw disability as an individual defect to be eliminated, cured, or hidden away. The social model focuses on the environment in which a person with disability lives. This model sees people being disabled by social barriers, including discriminatory attitudes, inaccessible physical environments and forms of communication, and failures to provide adjustments needed to enable people with disability to participate in education, workplaces and the wider community" (Sackville et al 2023, p. x)

2. Response to findings

This chapter reviews the findings reported in the September 2023 Interim Report. While it is recognised that the intent of these findings is to provide concise summaries, at the same time this needs to be balanced by providing some insight into the actual nature of the sector, including diversity, and to focus on the fundamental drivers, as opposed to more descriptive approaches.

As noted in chapter 1, in my reading of these findings, one major gap relates to the childcare industry and market overall. These are findings with respect to:

- To what extent is it competitive, and hence generates effective pricing,
- Does the competitive market operate effectively meeting demand.
- To the extent there are inadequate outcomes, are these the consequence of the nature of the regulatory framework, including the subsidy structure.

2.1. Costs

2.1.1. Labour costs

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.

There would be value in providing a clearer description of what this ‘labour’ cost comprises. Is this the cost of direct child caring roles, does it include ancillary staff – for example cleaners and cooks (where these are paid employees, rather than contracted services[8]), and does it also consider office and management staff.

More generally it would also be useful for the finding to provide some insight into the contributors to these costs, including:

a) the extent to which these costs are directly linked to the regulatory requirements for minimum staffing to child ratios (an aspect of regulatory impact which, as discussed in section 1.6, does not seem to be explicitly addressed), relative to any more discretionary ‘above minimum staffing’.

b) the incidence of above award payment of staff, a practice which, while discussed in the body, does not appear to be reflected in a finding, although potentially contributing to finding 12.

As one part of the underlying analysis, I would consider it appropriate for conclusions to be presented relating to the relative and absolute contribution of labour costs, based on multi-variate analysis, considering the range of characteristics of services and their employment conditions (including taking into account the extent to which the analysis might also be distorted by administrative functions being attributed to labour in some small services). In addition to addressing the above cited factors, as well as issues of provider characteristics and size, if, for example, the findings on economies of scale reported on page 70 are sustained,[9] this would also appear an appropriate issue to be identified as a finding with regard to labour costs.

[8] This also raises the question of the need for comparisons to be able to be made across these types of different structures.

[9] One critical issue here is the extent to which there are trade-offs between the two reported categories of ‘labour’ and head office ‘administration’. This could, for example, be as a result of centralisation of some administrative functions, training and so forth. This should be explicitly analysed in the report.

2.1.2. Land costs

Finding 2. Land and related costs are the other significant driver of cost for centre based day care providers.

While it is recognised that the terms of reference refer to "the use of land and related costs", it would aid interpretation if this was entitled something such as 'property and related' rather than the use of the language of 'land'[10]. This would seem appropriate:

a) given data such as that in Figure 1.31 and Figure 1.32 which suggests that upwards of 90 per cent of all property across the sector is either leased or rented, or in the case of OSHC licensed, and

b) that the data does not appear to address the actual contribution of land, as opposed to building costs to the costs incurred.

As noted in section 1.4, given the discussion on the different approaches across states and sectors with regard to the charging of OSHC services, it may be appropriate to have a direct finding, and indeed a recommendation, with regard to the charging policies in the public education sector.

While only a small proportion of services appear to operate from premises they own, or are purchasing, there would appear to be merit in considering the property related costs for these separately. As noted later, this is also important in the context of estimating profit in terms of the return on investment (ROI) for these services.

A further critical issue which needs to be investigated and reported on is the actual nature of the 'renting and leasing' sector. Specific questions include:

- To what extent is the 'renting and leasing' from related parties. For example, does the apparent high incidence of 'Rented or Leased Site' relative to "Owned Site" seen in the report simply reflect corporate structures.
- What are the characteristics of the market which supplies the properties.

2.1.3. Relative land costs for NFP

Finding 3. Not-for-profit providers appear to face lower land costs than for profit providers, but these savings are invested into labour.

In the first instance this finding, in terms of "savings are invested into labour", appears to reflect the analysis relating to CBDC. Data in Figure 1.25 does not suggest this is the case in OSHC where it is reported "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" (ACCC 2023a, 59).

At an analytical level attention needs to be given to the processes underlying this finding. These include:

- The impact of the small number of services which own or are purchasing the property they are utilising where the effective property costs should be estimated on the basis of an imputed rental value, or a return on capital.
- The distribution of land costs. This is a finding which appears to be based on average costs. It is more probable that there is a distribution of property related costs across both for-profit and not-for-profit providers. As each provider can be considered as an independent 'firm', caution needs to be exercised in presenting generalisations which seem to imply something about the production function of childcare across the sectors.

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10 Technically it is also noted that the ToR refers to "the use of land" rather than just "land" costs.

- The need for this sort of conclusion to be based on multivariate analysis drawing upon the full attributes of services which may be potentially associated with variability. For example, to what degree is this finding a reflection on differences in the locational distribution of services between the sectors.

2.1.4. Locational aspects

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.

To the extent the actual magnitude and direction of variations in locational cost vary by the 'cost category', it would appear important that this finding actually addresses this directly, rather than simply indicating that variation exists. Again the report lacks the multivariate analysis to provide insight into this finding – ie the difference between aggregate levels of association as opposed to specific contributions.

While the finding may not sustain more substantive analysis, data in Figure 1.49 points to lower costs for CDBC in inner and outer regional Australia.

As detailed in section 1.8 the simple cross tabulation of data by SEIFA decile and ARIA is not a robust analysis of the actual impact of location on the cost of providing childcare. This is particularly the case with the ARIA classification where some 75-80 per cent of services are grouped in the "Major cities" classification – which effectively provides little capacity to actually understand locational aspects.

2.2. Competition

2.2.1. Nature of demand

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.

Just referring to a "complex combination of factors" provides little insight into the nature of demand. More so the 'finding' while referring to some "key considerations", appears to ignore some of the more fundamental drivers. These, for example, may include:

- The demands of labour market participation and parental attitudes to childcare.
- The net economic benefits of workforce participation – at both the extensive and intensive margins, along with questions of affordability (in an absolute sense rather than the relative variation between services) and the impact of EMTRs.
- Options about and decisions on forms of care – ie informal versus formal, CBDC vs FDC (this is noted on page 102[11]).
- Decisions about choice of CBDC services – which appears to be the factors mainly identified in the above finding. However it is noted that the issue of proximity discussed on page 93 would also appear to be highly relevant, and the finding should address the critical role of limited geographic characteristic of this market.

As this finding is simply about CBDC should there be a complementary finding with regard to OSHC?

[11] In the discussion on page 102 there would appear to be a need to better consider the statement "single parents were twice as likely to use outside school hours care". This as I understand it is not a statement with regard to propensity of use of OSHC, but rather the relative use of different types of care within the population of voluntary respondents. To simply classify this as a 'demand preference' is somewhat misleading. Rather it is a result which is likely to be driven very much by patterns of workforce participation by this population, and in turn the extent to which this has been driven by the nature of income support payments, and their mutual obligations.

2.2.2. Providers response

Finding 6. Providers' supply decisions are influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location.

While it is correct to say that the decisions are 'influenced by expectations of viability" presenting supply decisions in these terms tends to obscure the actual factors which underlie these expectations. Central to these is expected (current and future) demand and the capacity of the provider to meet this at a scale which is economic, given the nature of costs in the location, as well as current and future competition.

With respect to the identification of "relative socio-economic advantage and geographic location" the analysis should be further fleshed out. Specifically, noting the concept of location discussed in section 2.2.1 of local regions, this is a very specific factor which is not echoed in the finding. In addition it is not socio-economic advantage per se which is the driver, but rather it reflects issues such as income and workforce participation. Indeed, as detailed in the text, the SEIFA operates as a proxy indicator for demand: "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" (p. 102)

There is also an important question as to the level of generalisation in this finding, in particular the need to reflect different motivations between the for-profit and not-for-profit sectors, including the extent to which some of the latter, as discussed on page 106 may make supply decisions based on other criteria, including social need.[12]

2.2.3. Staffing constraints

Finding 7. Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets.

Given the discussion in the paper, should this finding be limited to just "entering or expanding", or should it be extended to reflect the reported incidence of services restricting their current level of operation?

As this set of findings relates to competition are there any additional findings the ACCC can make about the implications of these constraints in terms of the competition for labour. Is the market operating effectively, or are there barriers, including regulatory impediments to this? And, of course, if there are regulatory impediments are these justified in terms of their costs.

2.2.4. Price and demand

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 is a highly significant finding which defines one of the key dimensions of the market which needs to be taken into account in regulatory approaches, however as discussed in the previous comments it is important that the "unique demand and supply factors" have in fact been clearly detailed in this and in the earlier findings.[13]

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[12] In making this comment I am assuming that this approach was identified in the not-for-profit sector, although this is not systematically identified in the discussion. This again would benefit from clarification in the text.

[13] As I understand it this finding is also reflecting the discussion on pages 107 to 110 with respect to the dispersion of fees, and net costs to parents. This analysis while useful does raise some issues which are not discussed. One is the use of the standard deviation as a measure of dispersion, in particular without reference to the shape of the distribution, no discussion of the distribution of services across the SA2s (including whether this is a factor in the different categories of SD range reported on. It is also unclear whether the analysis actual shows "price convergence" (ACCC 2023a, 110). The discussion of out-of-pocket expenses needs to consider the extent to which the variation reported on is a variation in the fees, or a variation in household income and hence the rate of subsidy. That is the statement "perhaps suggesting that where the variance in price exists, more of that variance is passed through to

2.3. Profitability, viability and quality

2.3.1. Overall profitability and viability

Finding 9. On average, large centre based day care and outside school hours care providers appear to be profitable and financially viable.

As a significant headline finding this needs to be more carefully considered:

- As indicated in the introductory overview comments the concept of 'profitable' as used has considerable limitations, including ignoring returns on capital.
  - There is also a question of terminology, or conceptualisation, with respect to the 'not-for-profit' sector being deemed as 'profitable'.
- As an overall statement of the state of the sector it should not simply address the outcomes 'on average' but give insight into the distribution of outcomes.
  - This is particularly important with respect to whether:
    - There are some providers who are potentially non-viable – a situation which could give rise to instability, or a shortage of supply, or
    - There are some providers who can be considered to be taking excess profits (and if so, does this reflect any regulatory or other market constraints).
- Given the role of the not-for-profit sector, the language of 'being profitable' appears misplaced. This could perhaps be approached by treating the two sectors separately, perhaps with reference to the existence of cross subsidies within the not-for-profit sector, and of approaches such as the Goodstart 'social dividend'.

In terms of findings caution is also needed in ensuring that these consider the industry as a whole and not just selective sectors. (That is this finding relates only to larger CBDC and OSHC, without reference to small and medium CBDC, FDC and IHC). In this regard a finding about some sectors needs to be complemented by references to the other sectors, even if this is to state that the ACCC has been unable to come to a definitive finding. However, the data on small and medium CBDC services and providers on pages 128-130 and the discussion of FDC in Section 3.7 suggests something can be said about these sectors as well as those currently discussed in the finding.

2.3.2. Occupancy and profits and viability

Finding 10. Occupancy is a key driver of revenue and therefore profits and viability.

While some of the data shows an association, there does not appear to be evidence of actual causality, implied by the use of the language of this being a 'driver'.

More generally the measure of average occupancy used by the ACCC also suggests a very high level of under-occupancy. In the first instance is a question of whether this should be a direct finding of the Inquiry rather than just an explanatory factor, secondly the analysis raises a number of issues which would benefit from further consideration:

- Firstly, the occupancy measure should be more fully explained – at the moment it is described as "the total number of children invoiced for a relevant service, divided by the number of offered places for that service". Specifically, is it the number of children based on average daily, weekly or some other period of charging? (Taking these different approaches may, for example, find a difference between

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customers" (p. 110) is highly speculative. At a minimum perhaps a correlation between the fees and out-of-pocket variance may assist. Additionally it needs to be made clear that the proportionality of variation in out-of-pocket expenses is much higher than that in fees due to the smaller denominator.

say weekly average occupancy and day of the week based peak occupancy. Also how has the 'number of offered places' derived. Is this the number of formal approved places, or something else. Issues to be considered here include the extent to which the number of 'approved places' includes places includes allowance for future expansion.

- The underlying economics of occupancy should be explored. Does under occupancy lead to overstaffing relative to other services, or is it that rent and other expenses represent high fixed costs.
  - Importantly from this analysis are the implications of underoccupancy on fees and the costs for government and parents.

- The causal factor for low occupancy should be considered. If it is services operating below capacity due to an inability to obtain staff, then obviously the driver is not the level of occupancy but labour shortage. Alternatively, if it is associated with large numbers of competing services and a locational oversupply of places, this has quite different implications. Similarly if, in contrast, it is driven by services operating in thin markets where the underoccupancy reflects an inability of such locations to actually support the scale of operation which is required for efficient provision.
  - Indeed in terms of the objective of the Inquiry as an "inquiry into the market" the question of a large segment of the market potentially operating at a level below their productive capacity would appear to be a focus for investigation.
    - Does it, for example, suggest an overinvestment in infrastructure in the industry?
- The level of occupancy reported by the ACCC appears to be somewhat lower than that reported in the 2021 National Workforce Census (SRC 2022). For example, the ACCC data for large CBDC providers suggests 50 per cent had vacancy rates over 20 per cent, the NWC reports, for all CBDC services, that just 19.1 per cent did. Is this the result of different methodologies – or different time points?
  - It would also be appropriate for the ACCC to balance this finding with that reported in the June interim report "Notwithstanding recent growth in approved places in Major Cities and regional areas, the challenges parents and guardians continue to face when it comes to availability, suggests that the barriers (for example, providers unable to expand capacity) identified in the 2015 Productivity Commission have yet to be overcome by providers" (p. 64).

Dependent upon the above considerations, and again the use of multivariate analysis to permit a better focus on the specific contributions of each of the factors associated with profitability, a more robust finding may be identified.

2.3.3. Factors associated with profitability

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.

Firstly, there is a question about the focus of reporting on margins, language which in the report is used for different aggregates. Is this operating or profit margin, and as discussed in the introduction, if it is profit is it taking into account returns on capital?

Second the compounding of providers and services is confusing[14], and the limitation of service level margins must be taken into account, especially where the distribution of services by whether they are independent (effectively full costs) or part of a provider network (excluding some costs shared across the network) may well not be independent of the variable used to describe where margins vary.

[14] Indeed, in trying to read this finding it is ambiguous as to whether "in Major Cities and more advantaged areas" referred to providers or services, and it was only by deduction, recognising that this level of classification is not possible for providers who may operate in multiple locations by remoteness and socio-economic status, that this is in fact a finding for services.

- Additionally, I would note that given that 77.7% of CBDC services are located in the 'Major Cities', the significance of this being a location of higher margins is of only limited value -- and as has been previously indicated it is likely to hide as much as it reveals.
- Once again this emphasises the need for better geographic descriptors and the use of multivariate analysis across the report.

In addition, the issue of margins for not-for-profit services is not well examined in the report. This is in particular with regards to the legal status which requires these organisations to use any profits to further the aims of the organisation – usually in terms of their 'charitable purposes'. This obviously places some bounds on their margins – unless their charitable purpose extends beyond the provision of childcare, and other activities are being cross-subsidised.

2.3.4. Staffing and profitability and quality

Finding 12. The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service.

Again the actual ACCC work only points to an association, not causality. It is assumed hence that the reference to this being a determinant is based on claims by industry and others – in which case this qualification should be noted. The actual process underlying the statement also needs to be clarified. Is the finding that attracting and retaining staff, for example through higher wages impacts positively on quality – but because of the costs of this, it then cuts profitability and hence viability? This is another case where the underlying economics of these finding needs to be clear, and explicitly stated.

2.4. Price regulation mechanisms

2.4.1. Impact on prices

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.

The ACCC may wish to consider a more neutral reference to government expenditure than describing this as a "burden on taxpayers". There is also a need for this finding to better reflect how the cap actually impacts expenditure. That is the cap can be seen as an instrument which limits the amount of Australian Government spending on childcare by transferring the full cost of charges above the cap onto the consumer. (That is once prices reach the cap there is no impact of any additional price increases on government spending, only on the spending of users.) As such, given the extent to which many services are charging fees above the cap it can be considered that it has, in the language of the finding, actually had a significant impact on the "burden on taxpayers" in that it has limited the value of the subsidy actually paid relative to the price of care.

A more fundamental issue which I would consider the ACCC should address in making this finding is that of the actual scope to put "downward pressure on prices". Such downward pressure can only be achieved if services are currently achieving excess profits, which can be reduced down, or through cost savings in the operation of services. The scope for either of these cannot be considered to have been identified within the report.

More generally it should also be noted that the 'objective' of elements of the regulatory framework have also appeared to change over time. For example, the co-contribution was initially proposed as a mechanism to control costs. This was emphasised in the Regulation Impact Statement for the 'Jobs for Families Child Care Package' in which this was introduced: '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' (Department of Education and Training, 2015, 43). However the changes in 1 July 2023 requiring that the gap fee is paid through EFT only places the payment of the gap fee as an anti-fraud measure "This requirement helps us protect CCS against fraud and non-compliance. It helps us prevent fraudulent CCS claims for care that did not take place." (Department of Education 2023c)

2.4.2. Service response to regulations

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.

It may be appropriate for the ACCC to place this finding more strongly in terms of poorly designed regulation. As reported in the Child Care Package Evaluation there was a deliberate policy objective to use the approved hours and other mechanisms to force services to move away from the daily sessional basis to provide session lengths more aligned with actual use and in line with the approved hours parents were eligible for. Specifically, we reported that:

> It was anticipated that as a consequence of the Package, there would be growth in the number of services offering shorter sessions of care and in changed operating hours and days. The abolition of minimum operating hours was also seen to allow all services to offer sessions of care to meet demand for casual or short sessions, such as that which had been the primary focus of occasional care services.
>
> More broadly, the Productivity Commission saw flexibility as being associated with a move to charging child care on an actual hourly use basis, rather than per session.
>
>> The removal of caps on occasional care, and the removal of requirements around the hours of operation that differentiate occasional care from other care – as recommended by the Commission – will make it harder for providers to sustain charging models based on hours booked. As such, the Commission expects that short-term enrolment where parents are charged on the actual hours their children are in care will become increasingly common (Productivity Commission, 2014, p. 434)
>
> This sentiment was further elaborated on by the then Minister for Education Birmingham, who declared 'it is unacceptable that families who routinely need and use only four, 6 or 8 hours of care are charged for 10 or 12 hours' (Bita, 2015). This, in conjunction with the requirement that services report on children's actual attendance, resulted in concerns in the sector that the Package was a first step towards subsidies being paid on the basis of per hour of use instead of sessions.
>
> … In the period of transition to the Child Care Package, a Child Care Services Business Support Resource was made available to services and providers. This was intended to help services to review their business and operation ahead of the introduction of the Package. This proposed 'some options and ideas child care services may want to consider to take advantage of the greater flexibility that will be supported from 2 July 2018' (Department of Education and Training, 2018, p. 6) … Services are also encouraged to consider these issues in the Child Care Provider Handbook:
>
>> Child care providers should consider changes that deliver flexible, cost-effective care and learning services for families. For example, providers could choose to offer parents receiving 36 hours of subsidy under the preschool category six

> sessions of six hours or four sessions of nine hours per fortnight. (DESE, 2019, p. 90). (Bray et al 2021a, 145-146)[15]

Essentially in this context the policy can be seen as one which had a potentially unrealistic underlying objective of changing the charging structure used by most CBDC services, without an appreciation of the reasons why they have adopted the long sessional charging structure. This is amplified by the focus on the 'hourly rate' which is essentially a derived component working in concert with the limitations imposed by approved hours on session lengths.

It would be appropriate for this finding to also recognise an additional consequence of the introduction of shorter sessions due to the activity test which is reducing the flexibility of childcare provision for some parents as a result of the reduced 'window' in which they can utilise care. As reported on page 175 some services have sought to ameliorate this reduction in flexibility by introducing quite large 'grace periods'.

2.4.3. Legibility of Child care subsidy

Finding 15. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.

This may need to be somewhat nuanced. Research as part of the Child Care Package evaluation pointed to a distribution of parental perceptions about their understanding of the Child Care Subsidy, and I would have expected a similar distribution to be found in the survey conducted by the ACCC, although I cannot find a direct discussion of this in either of the interim reports. As to the difficulty of estimating out of pocket expenses this is likely to also have a distribution, and hence a qualification such as 'it can be difficult' may more appropriately reflect the situation.

For these reasons, while there is evidence that this may be the case for many parents, this finding should be less absolute.

2.4.4. Utility of information

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.

In contrast to the above I consider that the evidence cited by the ACCC provides a strong case for this finding to be robustly worded. Specifically:

- With regard to the timeliness of information the evidence clearly suggests that much is dated and hence the wording of "it does contain" rather than "it can contain" may be more appropriate.
- This finding should also extend to reference to the timeliness of the Quality Ratings, and what may be appropriate from a consumer focus, both with regard to timing and content. Presentation of a finding on this which should in turn lead to this being reflected explicitly in Recommendation 3.
  - In considering the current rating system some of the issues which may need to be considered are:
    - While I do not know the balance of evidence collected by the ACCC I note that the Educators' Roundtable reports "quality standards should be realistic and objective, and assessment officers should be highly qualified, experienced in current practice and consistent" (ACCC

[15] This was also explicitly stated by the Minister with regard to the 'safety net provision' of 24 hours: "The Child Care Safety Net will support families earning around $65,000 or less who do not meet the light-touch activity test, by providing up to 24 hours per fortnight of subsidised care. This is equivalent to two weekly six-hour sessions and will be provided at the highest rate of subsidy for these families … I say it provides two sessions per week because, remember, these are families who are not working, not studying, not volunteering, not meeting the activity test. They do not need day-long sessions of care like those who might be engaged in the workforce. They need sessions of care to meet early education opportunities, and early education opportunities should be provided within a reasonable window of time. The government believes that six hours provides that capacity" (Birmingham 2017).

2023c, 3), a statement which carries with it an implication that this is not the case. Similarly it is not clear whether this was identified as an issue in the parent survey.

- In the submission to the Productivity Commission which I prepared with Professor Gray we indicated "Reflecting these issues, we consider that the role and performance of the ACECQA, and the broader question of the extent to which the current rating system is effective in providing information to parents, and indeed whether the rating system adequately addresses quality, would merit some attention by the Productivity Commission in the course of this Inquiry" (Bray and Gray 2023, 23).

2.5. International childcare costs and price regulation mechanisms

2.5.1. International comparisons of affordability

Finding 17. Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.

I consider there is a need for two qualifications to be made with respect to this finding and in the analysis provided in the September Interim Report:

- The first is the OECD's use of 40 hours of care per week as the basis for costings for families where both parents in a couple, or a single parent, are deemed to be working full-time. This is unrealistic and provides a distorted picture of the cost of care for Australia. As I detail in the attached note (Attachment B) this is a relatively recent revision to the OECD methodology and is inconsistent with a) the level of approved hours of care for such families; b) the actual sessions of care provided by CBDC, which as shown in Figure 5.8 in the June Interim Report are most frequently 10 hours, and are rarely under 9 hours; c) the actual hours of care a person working full time requires to cover their working time; and d) the actual session lengths used to derive the average fee which is used in the calculation. There are no grounds given by the OECD for this revision, although as I demonstrate in Table 1 of the attachment, it operates to present a much more favourable picture for Australia.

- The second is, as noted in footnote 117 of the September Interim report, that the modelling is based on pre-March 2022 policy settings. As I detail in the attached note (Table 2), the March 2022 change (treatment of a second child), and the July 2023 change (the increase in the maximum subsidy rate from 85 per cent to 90 per cent, along with the introduction of a constant taper above $80,000) results in marked reductions in the net costs for Australian families.

The impact of these to Australia's ranking with regard to the net cost of childcare as a proportion of household income is illustrated in Table 2.

Table 2. Australia. relative ranking of net cost of childcare, OECD Countries

	Couple						Single Parent		
Family earnings (a)	AWE: AWE	AWE: 2/3 AWE	AWE: FMW	2/3 AWE: 2/3 AWE	2/3 AWE: FMW	FMW: FMW	AWE	2/3 AWE	FMW
Australian Rank (b) : Childcare cost as proportion of net family income (%)									
2022 rank using 40 hours	30	31	24	32	24	19	25	27	21
2022 rank using 50 hours	36	36	26	34	26	26	33	28	23
Post July 2023 rank using 50 hours	29	25	13	18	12	11	20	19	14
Countries (c)	39	39	30	39	30	30	39	39	30

(a) Combination of first and second (for couples) earners. AWE = Average Weekly Earnings, FMW = Federal Minimum Wage.

(b) Countries ranked from lowest to highest.

(c) The number of countries in the comparisons varies as some do not have a statutory minimum wage.

Derived from Bray (2023).

In addition to taking this into account the ACCC should also consider directly addressing the question of the appropriateness of the current OECD methodology, in the light of its own analysis of the hours of care paid for by these families, and the implications of using the hourly rate based upon long sessions as the cost for shorter ones.

2.5.2. International mechanisms for funding

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.

This is noted. More generally it may be appropriate to report a finding that the issue of the cost of care and the financing of childcare is a current challenge being faced by a significant number of major economies, and as noted, in the September Interim Report is a question which is closely linked to the policy objectives, including the role of early childhood education.

3. Response to draft recommendations

This chapter provides comment on the Draft Recommendations contained in the September 2023 Interim Report.

3.1. Draft recommendation 1: 'Objectives'

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.

I strongly support the need for clear and explicit statements on goals and priorities for child care, with these being complemented by clear benchmarks and monitoring to allow public and transparent, judgement on the extent these are being met.

The issue of price regulation mechanisms however requires some further attention.

The central question, as noted earlier, is the extent to which price regulation is actually required. In the first instance this requires consideration of the degree to which the market is not operating efficiently. I would suggest this requires consideration of four specific dimensions:

- Excess profits.
- Evidence of cartel type or other anti-competitive behaviour such as predatory pricing.
- Inefficient production, potentially due to a lack of competitive discipline.
- Inappropriate cost loading including featherbedding or inclusions of non-childcare services.

While there is a clear need to protect parents and the government from the adverse impacts of the above types of conduct, there appears little evidence contained in the current reports of the ACCC that this is the case.

While a recommendation as the above which simply calls for the government to 'reconsider and restate' its 'price regulation mechanism' might be valid, my expectation is that such a recommendation would draw upon the key findings of the ACCC, including specific reference to the above issues, as to the reasons why this is needed, and what it should address.

3.2. Draft recommendation 2: 'CCS structure and monitoring'

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.

These recommendations are in general supported. As noted in sections 2.4.1 and 2.4.2, the hourly rate cap is very much a derived concept and hence point (b) represents a realistic approach to reflect the actual sessional structure of care provision. Given this it should perhaps be the first subpoint of the recommendation as it provides a context for recommendation (a).

With regard to (a) I would note:

- Consideration should be given to including age specific rates, given the variation in minimum staff to child ratios for younger age groups.
- The question of costs for "children with disability and/or complex needs" is, as discussed in section 1.9, complex and is one where there are some fundamental conceptual differences in the approach to their participation in childcare, including the specific role of the Inclusion Support Program. It is possible that some further insight into this may be obtained from the Inclusion Support Program Review being undertaken by Deloitte Access Economics. While the Department reports that "The review will be completed by mid-2023" (DE 2023d), and would "feed into concurrent activities" including the ACCC inquiry, it does not appear to be publicly available.
- The ACCC should also consider the question of high cost locations, including for CBDC and other services. As noted in earlier commentary on the findings, the current geographic classifications used for analysis do not provide an effective framework for examining these, leaving open the question as to whether across the 'major cities' there are large and unavoidable differences in the cost of provision depending upon location.

Recommendation (c) should be expanded to consider the full implications of the activity test. In addition to the extent it can operate as a barrier for vulnerable children, this includes:

- Its impact, implicit in (b), on services having to develop complex session structures (along with 'grace periods' and other devices) to ensure parents can obtain care which they can utilise effectively within the constraints of their 'approved' hours.
- Further analysis of (and if needed additional data collection related to) the phenomena of "unsubsidised hours' as discussed on pages 24 and 25 and 160 of the draft report. Specifically the finding that households with "lower incomes tend to use more unsubsidised hours of care" raises some significant questions. This includes the actual extent to which these hours are fully paid for by families – and the impact on affordability and ongoing patterns of use, or whether they may result in debts which are eventually written off.

While the monitoring component of recommendation (d) is strongly supported, the question of a 'credible threat' requires further consideration in the context of the discussion with regard to Draft Recommendation 1 as to the extent there are behaviours against which such threats are needed. More generally the recommendation needs to address the degree to which it is proposed that such intervention is conceived as some broad measure across the industry or a more targeted mechanism at specific providers or sectors.

Missing in this discussion is also reference to the parental co-payment. As discussed in section 2.4.1, this was envisaged as being a key element of the price regulatory approach, but now appears to be seen as being mainly an anti-fraud measure. Specific attention to this should be included in the recommendations, including questions around its potential impact on the participation of children from vulnerable families where it may be considered that even at the minimum level of co-payment ,of effectively 15 per cent[16] of the fee, represents a significant cost to families.

3.3. Draft recommendation 3: 'Information'

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.

There would appear to be merit in this recommendation considering more specifically the timeliness and merit of the quality assessment and reporting. This could include:

- The regularity of ratings, including the extent different states appear to have different approaches most of which do not seem to be publicly documented and with which the Australian government appears to have little, if any, engagement.
- The regulatory approach to these ratings assessment, including the extent to which this reflects best practice.
- The extent to which the National Quality Framework appropriately frames quality from consumers' perspective.

Attention should also be given to how the wider range of potentially relevant information – including any enforcement action, along with incidents subject to mandatory reporting – can be made accessible to families.

The ACCC may also wish to reflect here on the perspective provided in the Parents and Guardians Roundtable: "There should be consistency in how fees for childcare services are presented, particularly with respect to what is included in the fee. For example, how many hours of care are included in the daily rate and whether the daily rate includes food, nappies, and other consumables" (ACCC 2023e, 2).

With respect to (b) it should be noted that some such calculators exist. As I understand it there are at least two different calculators on Australian Government sites which allow for estimation of out-of-pocket fees. These are on StartingBlocks (StartingBlocks 2023), and the Centrelink Payment and Service Finder (Centrelink 2023). The language should more directly address the utility of these,[17] rather than just their existence and the issues which arise with having two separate calculators.

[16] While the notional co-payment for families with annual incomes below $80,000 is 10 per cent of the fee up to the cap (ie the subsidy is 90 per cent) for the first child, and 5 per cent for the second and subsequent child, parents are also required to pay, in the short term, the 5 per cent of the fee for which the subsidy is withheld, pending annual reconciliation. This effectively means a 15 per cent up front co-payment.

[17] Both these calculators have limitations, and there is a case for both to be subject to consumer testing. Specifically:

- The Centrelink calculator is embedded in the wider Centrelink ecosystem and many of the questions relate to detailed areas of eligibility including disability, income support type etc. It relies upon administrative concepts such as the hourly rate – rather than session length, is rigidly based on fortnights rather than giving flexibility around weekly and other periods, it requires the input of a child's name and service name (neither of which seem relevant to the actual calculations), and is somewhat unclear for most users as to what the calculated 'Out

3.4. Draft recommendation 4: "Staffing"

> 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.

This recommendation would benefit for clearer identification of who should undertake this activity and any specific aspects that have been identified by the ACCC which require consideration. At the moment the framing is so wide that it is unclear who has responsibility, an approach which most frequently leads to suboptimal implementation of recommendations.

3.5. Draft recommendation 5: "Support for ACCO services"

> 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.

The question of supply side approaches (also identified in Draft Recommendation 7) is important. It would be appropriate for the ACCC to place this recommendation in a fuller context and consider the extent to which the regulatory constraints associated with the CCS represents a significant barrier to achieving effective participation of Aboriginal and Torres Strait Islander children.

Specifically associated with the introduction of the CCS in 2018 was the cessation of Budget Based Funding of a significant number of services and effectively the mainstreaming of the services, with full requirements for parental registration with, and participation through, the CCS, co-payments and so forth. This significantly disrupted the models of access and care that these services provided. At the same time the government used the CCCF (in particular CCCF Restricted Non-competitive Grants) as a means of providing underpinning funding for many of these services.

In the evaluation of the 2018 Child Care Package a number of issues were identified with this including the unwillingness, and or inability, of many parents to comply with the requirements of the CCS, the rigidities of this including approved hours, the extent to which the social construction of 'parents' did not reflect kinship and other care giving responsibilities, as well as the demand on parents to make co-payments for services.

Specifically the ACCC needs to place this in the context of a clear finding which identifies the market's inability to deliver these services, and whether:

- This is a result of a failed model of mainstreaming these services.
- The response is simply a matter of addressing 'supply side support', or if it also requires attention to removing barriers associated with the constraints imposed on the demand side. For example, while the ACCC reports: "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" (ACCC 2023a, 34), a perusal of these documents would suggest these services will continue to operate within the constraints of the CCS.

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of Pocket' cost is: "This is the amount you will pay to the child care provider and is the gap between the fees you are charged and the amount of Child Care Subsidy paid directly to your child care provider to reduce the fees you pay (after a withholding amount has been taken out)." It also does not allow parents to easily do 'what if' type comparative calculations. (That is the sort of calculation a parent might wish to make if they are contemplating the number of hours they are working.)

- In contrast the StartingBlocks calculator is quite simple and easy to use, and does provide weekly as well as fortnightly reporting, however as with the Centrelink Calculator it does not allow for easy 'what if' type calculations and it would appear to ignore the amount withheld when informing people "What you will pay".

3.6. Draft recommendation 6: "Stewardship"

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.

The concept of 'stewardship' requires some further clarification. In a mixed market the concept of stewardship could have many levels of interpretation, and degrees of difficulty in implementation. The role could, for example, range from monitoring and reporting, through to nudging, to more direct roles – such as intervention and support for services in areas of apparent lack of supply. Alternatively it could take a stronger planning role – including, for example, licence approvals to ensure that areas are not oversupplied. A clearer statement of what is intended would seem important – especially whether stewardship also implies having responsibility for the achievement of certain outcomes. Discussion should also note that Australian government formal planning of childcare services effectively ceased at the end of the 1990s.

The question of placement of such a stewardship role also requires more consideration. As with Draft Recommendation 4 one can apply the adage of "shared responsibility leads to avoided responsibility", with the track record of poor coordination between the Australian and state governments being a hallmark of the Australian childcare system. Some sectoral analysis may also be relevant – for example, at least for the public education system, it might be argued that the states should be responsible for ensuring that appropriate before and after school care is available at all state schools.

Critically absent in this recommendation (and more generally in the analysis in both the June and September Interim Reports) is discussion of the CCCF Competitive Grants.

In the first round of these, in 2018-19, $124m was allocated to services with the objective to help 'new and existing services, particularly in rural, regional or vulnerable communities, to reduce the barriers for families to access those services and to increase the supply of places in areas of high, unmet demand' (Birmingham 2017).[18] The concept of these and the competitive grants process which was used seems to be very close to what is being proposed in this recommendation and it would thus appear appropriate for the ACCC to provide some more substantive analysis of this grant process, including the impact of the grants on actual provision over time. Such a review would provide insight into the feasibility of this recommendation in achieving its desired outcome.

3.7. Draft recommendation 7: "Future policy settings"

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.

This is an important recommendation. It would however benefit from a clear statement of the rationale and context.

This could either be done by at a more conceptual level – effectively identifying that (some or all) aspects of the current demand side approach are not effective, and hence where an alternative approach is

18 Understanding this program from the publicly available information is difficult. Initially the Minister referred to the CCCF as being an "annual fund of $110 million" (Birmingham 2017) it is unclear as to whether this has been the case. As a mid-October the Department detailed three rounds of funding – the last of which closed on 1 March 2021, with successful projects being announced in July 2021, and simply advised: "Find out when new rounds open. Subscribe to our newsletter and join our Facebook group to learn when the next round opens" (Department of Education 2023e). Most recently this has been updated to advise "A CCCF round 4 grant opportunity has been forecast for 2024 on the Grant Connect website. More information will be available in early 2024." It now also lists some "Limited supply grants" which were awarded on 23 October 2023, indicating that under this program element $16 million would be available over two years.

required (in total or in part), or by providing a more detailed consideration of the approach. For this a range of questions and issues should perhaps be considered, including:

- Reflecting earlier points a clear identification of whether, and if so where the current market, or the regulatory and subsidy environment, is failing to deliver.
  - In this regard as has been previously noted the extent to which the hourly rate cap actually acts "as an indirect price control" needs to be reviewed. This should take account of both the data which suggests it currently had little if any impact, and conceptually that it operates as a means of limiting the cost implications for government by transferring these to families, rather than price control.
- More explicit explanation of what is meant by "Some changes to the policy settings are likely", to detail the specific changes, or potential changes, being referred to, and in which way they would further reduce the impact.
- The nature and role of supply side subsidies needs to be clarified. Are they being proposed:
  - On a targeted basis, and if so on what basis, for example in locations where provision may not be economic due to either high production costs or limited demand which restricts the scale of operation.
    - Whether these subsidies are seen as being recurrent, or capital (especially given the structure of the sector, and questions about whether investors would engage in providing facilities for lease in some locations).
  - More generally across the sector as part of the fundamental subsidy structure extending across all services.
    - In this regard, is the reference to 'regulated childcare providers' a reference to all childcare providers subject to regulation through state legislation under the National Law and under Family Assistance Legislation with regard to receipt of CCS, or is it a more restricted reference to services which might be supported through these means.
  - What is the proposed relationship between the supply side subsidy and the role of demand side subsidies and user charges.
- The framework being considered for direct price control –whether this would be focused on a standardised price across all services – or varying by location and for example in CBDC by child age, as well as by service type, and if allowance would be made for quality.

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Appendix A: Data for figures

Data for: Figure 1. Preschool, children aged 4 or 5 years, hourly fees charged by sector.

Hourly Fee Charged	Number of children	
	CBDC	Preschool
$0	12,574	68,412
$1-$4	76,206	38,502
$5-$9	60,869	12,845
$10-$14	13,288	2,159
$15-$19	2,112	941
$20+	229	359

Data for: Figure 2. Average cost to families for a child aged 4 or 5 years attending preschool for 600 hours per year, by state 2022.

State	Average cost
	$ pa
NSW	2,250
Vic.	2,260
Qld	2,251
SA	1,297
WA	1,071
Tas.	1,174
NT	935
ACT	2,929
Australia	2,052

Appendix B: Bray commentary on OECD Estimates of relative affordability of childcare

OECD Estimates of relative affordability of childcare

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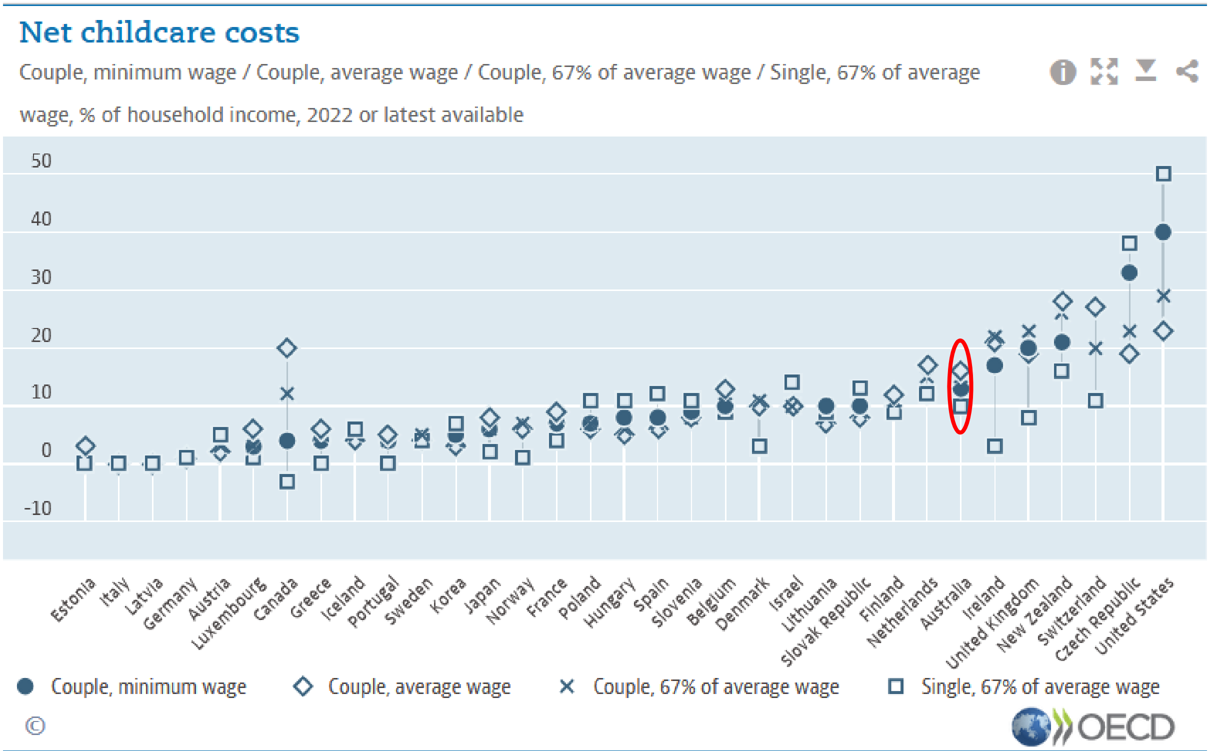
9 June 2023

This note considers OECD estimates of the relative cost of childcare for families in the workforce, with a particular focus on issues relating the estimation of these for Australia.

1 OECD Estimates

The OECD regularly publishes data on the relative affordability of childcare. Figure 1 reproduces some of this which typically shows Australia as having less affordable care than most other OECD countries. The extent of this is however less marked in the chart, and other more recent estimates published by the OECD, than it has been in the past, due to a methodological change in how the Australian costs are calculated by the OECD.

Figure 1. **OECD reported cost of childcare as a proportion of net household income, OECD countries, 2022, or latest available**



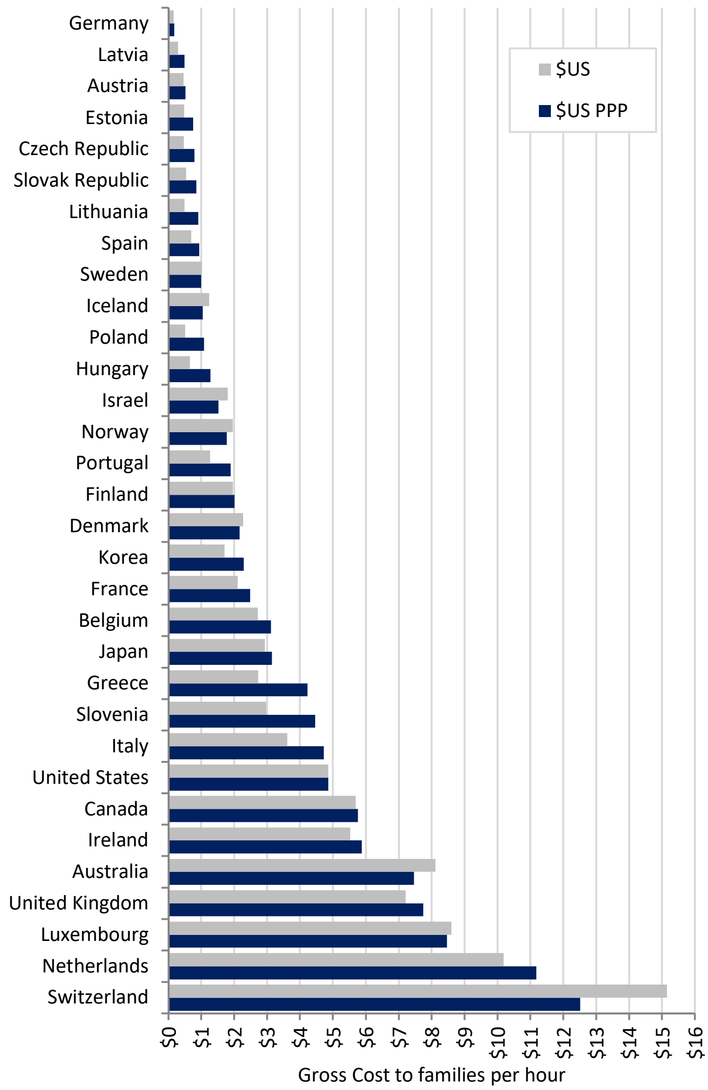
Source: OECD (2023), "Benefits and wages: Net childcare cost for parents using childcare", OECD Social and Welfare Statistics (database)

The data, derived from OECD tax-transfer modelling, presents the net cost of using centre based full-time childcare for families with two children aged two and three years as a share of disposable family income, taking into account the impact of taxes and transfers, including those related to the use of childcare. (Table a.1 presents this data for families with a wider range of earnings combinations.)

1.1 Gross 'cost' of child care

One of the key factors underlying the variation of costs is the level of fees charged by the services. These, as illustrated in Figure 2, vary significantly across countries.

Figure 2. **Estimated hourly gross cost of childcare, OECD countries, exchange rate and Purchasing Power Parity, 2022 (or 2021 in some cases)**



Note: Hourly rate derived by dividing estimated annual cost per child by 40 hours per week for 52 weeks.

Source: OECD (2023), "Benefits and wages: Net childcare cost for parents using childcare", OECD Social and Welfare Statistics (database), PPP (2021 data used) https://data.oecd.org/conversion/purchasing-power-parities-ppp.htm Exchange rates (2021 year used) https://data.oecd.org/conversion/exchange-rates.htm#indicator-chart.

Underlying data is at Table a.2.

While it can be assumed that some of this variation relates to differences in aspects of provision, such as staff to child ratios, and levels of remuneration, it would appear that for many countries it is the result of supply side subsidies which reduce the upfront cost of services to users.

Investigating the extent of this is however complex. While the OECD produces some estimates of social expenditure on early childhood education and care for children aged 5 years and under, this is limited by:

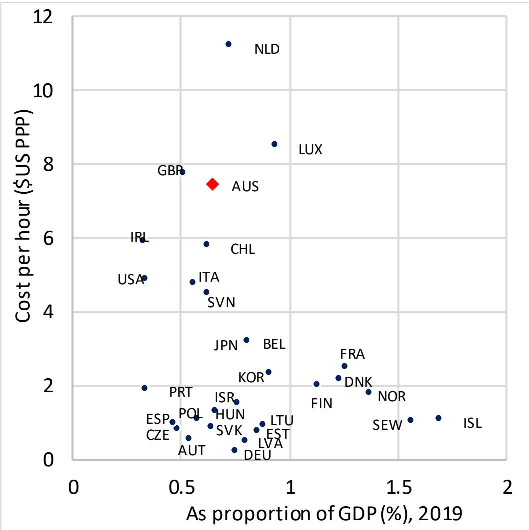
- The conceptualisation of 'childcare' and the extent to which in a number of countries the recorded expenditure includes the cost of early education as well as that of spending on childcare[1].
- Varying patterns of childcare use across countries which impacts on the total volume of care which is being financed.
- The extent to which these aggregate expenditures include both supply and demand side spending, whereas the variation for which the explanation is being sought relates to supply side spending only.
- The comprehensiveness of the data. Specifically the OECD provides a note on the public expenditure data which cautions: "In some countries local governments play a key role in financing and providing childcare services. Such spending is comprehensively recorded in Nordic countries, but in some other (often federal) countries it may not be fully captured by the OECD social expenditure data" (note to Chart PF3.1.B. Public spending on early childhood education and care per child)

Notwithstanding this, Figure 3 plots the relationship between various estimates of the hourly gross childcare cost and social expenditure on early childhood education and care. While it can be seen that there are a number of countries which fall into the quadrant of having high expenditures and low costs, the pattern is less consistent amongst the high cost countries.

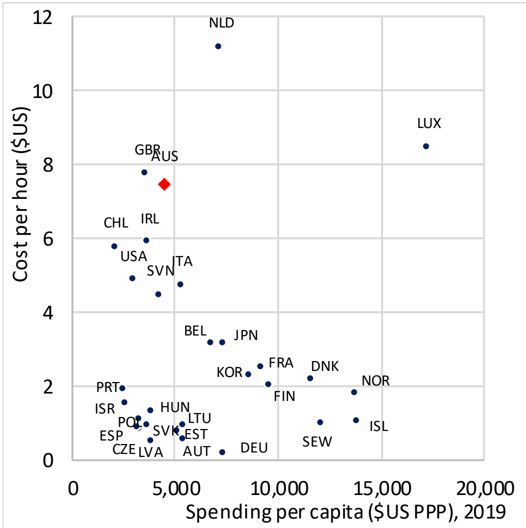
[1] While noting this, it is recognised that there is in fact a continuum of care, child development and education across all forms of early childhood education and care, which makes such classification difficult.

Figure 3. **Relationship between gross cost of childcare and public spending on early childhood education and care for children aged 0-5 years, 2021**

Cost (PPP) relative to spending as a share of GDP



Cost (exchange rate basis) relative to per capita spending (PPP)



Source: OECD (2023), "Benefits and wages: Net childcare cost for parents using childcare", OECD Social and Welfare Statistics (database), OECD, Chart PF3-1B and associated tables including historical spending as a share of GDP, http://www.oecd.org/els/family/database.htm

While it is possible that more detailed analysis may be able to better identify the extent to which the gross costs are impacted by supply side subsidies this, and given the constraints on the immediately available data, and the above identified issues, such analysis has not been attempted here.

2 The OECD methodology

The estimates of the cost of childcare published by the OECD are derived from the organisation's Tax-Benefit model. This model incorporates national tax and transfer rules to enable the calculation of the impact of these on different households. Additionally the model includes modelling of support provided to families who utilise childcare, as related to their employment.

2.1 OECD Methodology

The key parameters used in the OECD methodology are:

- Calculations are for families with two children aged 2 and 3. Parents are aged 40.
- Both parents in a couple, and the single parent, are assumed to work full-time.
- It is assumed that both children are in full-time centre based care
- The approach to the estimation of the cost of this varies across countries.

- Where there is a national consistent approach national rules are used. However 'local rules' are reported as being used in a number of the OECD countries: Australia (New South Wales), Germany (Berlin), United Kingdom (England), and the United States (Michigan).[2]
- Fees are modelled on an annual basis with this being variously taken from annual costs, 12 times monthly fees, or 52 weeks of weekly fees. In some countries, such as Australia and the UK, the fees are based on an hourly rate which appears to then be multiplied by 40 hours to derive a weekly fee.

- Net childcare costs are equal to gross childcare costs less childcare benefits, plus any resulting impact in taxes and other benefits following the use of childcare.
  - The models permit the production of these net costs on a number of bases including whether or not social assistance and housing benefits are included. In the analysis here the estimates are inclusive of both these forms of assistance.

3 OECD approach and the use of childcare in Australia

As indicated in the introduction the OECD appears to have adopted a revised approach to the estimation of childcare costs in Australia in 2022. In earlier iterations of the model the weekly fee, was based on the Productivity Commission's Report on Government Services (Table 3A.22 "Median weekly cost of 50 hours of Australian Government CCS approved child care services"), and modelled on the basis of the use of 50 hours of childcare. In 2022 this was revised so that an hourly rate was derived from the publication, and this was used to model the cost of child care to families for 40 hours of care at this cost.[3]

This section initially compares the impact of the revised approach, then considers some of the issues involved in the modelling of Australian costs. The following section considers the impact of the subsidy structure to be introduced in July 2023 relative to the OECD estimates and historical funding arrangements.

3.1 Revised approach

Table 1 provides a summary of the estimated Australian net cost of childcare as a proportion of family income and Australia's ranking relative to the other OECD countries for which the OECD provides estimates in 2020, using the old and the new OECD methodology.

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[2] The approaches are detailed in the "Descriptions of policy rules " which are produced by the OECD for each of the years modelled (available at https://www.oecd.org/social/benefits-and-wages/), with fees being described in Section 5.1 and the following sections of part 5 of the rules detailing the operation of subsidies, concessions and other support.

[3] It is noted that while the Australian Productivity Commission has published estimated net costs of child care on the basis of 30 hours use as an indicator for access and affordability in its Report on Government Services since 2017 this seeks to reflect 'average use' and not a substantive reference point for international comparisons. (It is also a rather questionable approach given that the balance of modelling uses a 60:40 income split. Given that 30 hours of care reflects 3 days employment this would suggest that the earnings rate of the person working these three days was 11 per cent higher than that of the member of the couple working full-time. This would appear to be atypical.)

Table 1. Australia, Childcare costs as a proportion of family income, and Australian ranking, using old and new methodology, 2020

Family type	Family earnings rate		Childcare costs as a proportion of net household income (%)		Ranking (highest) (a)	
	First earner	Second earner	Childcare cost basis		Childcare cost basis	
			OECD Old	OECD Revised	OECD Old	OECD Revised
Couple	Average Wage	Average Wage	20	16	2.5	8
		2/3 Average Wage	20	16	5.5	7
		Minimum Wage	19	15	4	5
	2/3 Average Wage	2/3 Average Wage	18	14	4	5.5
		Minimum Wage	16	12	3	4
	Minimum Wage	Minimum Wage	12	10	2.5	8.5
Single Parent	Average Wage		15	12	3	9
	2/3 Average Wage		12	10	5	10.5
	Minimum Wage		13	11	3	6

(a) Decimal ranking indicates equal ranking at digit value. (ie 2.5 => equal second)
Source: OECD, NCC-2021-1-EN-20220628T102034 , NCC_30052023090209504

As shown, the revised approach results in a significant lowering of the net cost of childcare as a share of family income by some 2 to 4 percentage points – falls of some 15 to 20 per cent. It also tends to reduce Australia's ranking from being close to the most costly country, to being in the middle of the high cost countries.

3.2 Issues with the OECD approach

Two issues are considered here with regard to the OECD methodology:

- The validity of the change in approach; and
- The overall relevance of the OECD to the actual experience of Australian families. In approaching this question it is emphasised that while this analysis suggests that the actual level of cost indicated by the OECD is not a good reflection of the actual costs experienced by Australian families, this does not detract from the importance of the OECD modelling which illustrates the comparative impact of different national approaches.

3.2.1 Cost of full-time care

The rationale for the change in assessing the affordability of childcare in Australia in the OECD model from using 50 hours care to 40 hours does not appear to be documented by the OECD. It is a change which does not appear to be warranted.

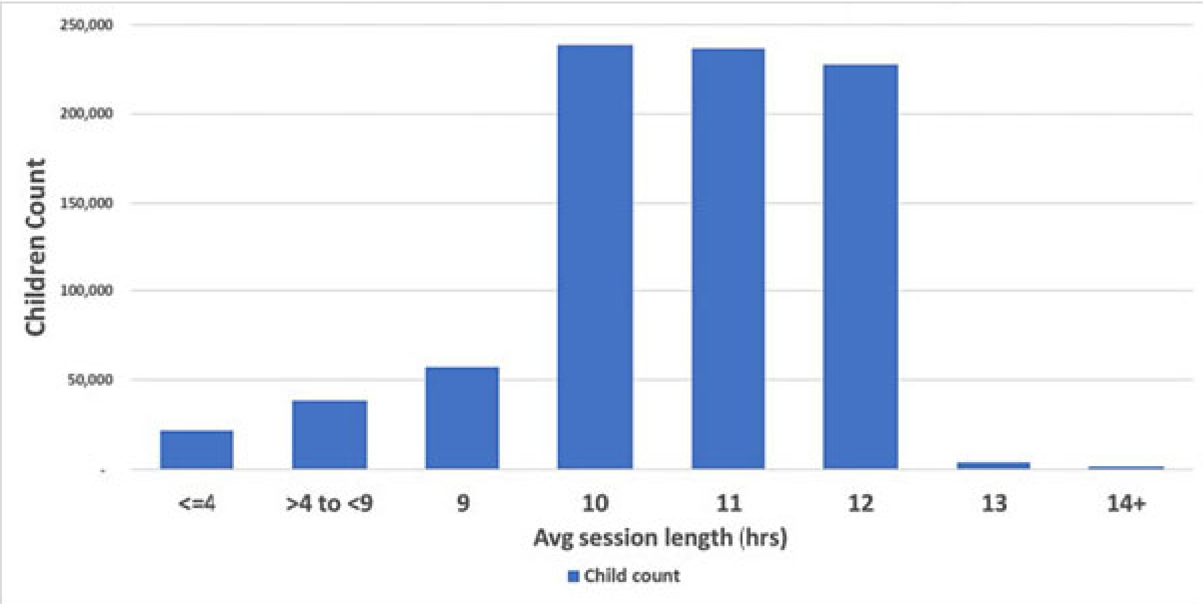
Specifically:

- The structure of the Australian child care activity test. This entitles parents who record more than 48 hours of 'approved' activity (usually employment) per fortnight to 100 hours of subsidised care a fortnight – 50 hours per week.
- For most parents who are working a minimum of 38 hours per week as a full-time employee, two hours per week (40 hours of care less 38 hours of employment) is not sufficient to cover

travel time between care and work and associated activity with delivering children into care and picking them up.

- Centre Based Day Care in Australia predominantly operates on a sessional basis[4]. As shown in Figure 4 most children attend sessions of some 10 to 12 hours, with Bray et al 2021[5] reporting that 10 hour sessions were the most frequently offered session length. As also shown in the chart the proportion of children who are likely to attend a session length of 8 hours is very small.

Figure 4. **Distribution of children using Centre Based Day Care by session length, September 2022**



Source: Department of Education Submission to 2023 Productivity Commission Inquiry into Early Childhood Education and Care, Figure 20: Distribution of Average Session Length for Children in CBDC, September Quarter 2022, page 42.

Indeed, it is much more probable that a parent who is employed full-time would access a session length of 11 or 12 hours, and need to pay the full cost of the time in excess of the 50 hours of subsidised care, than they would access an 8-hour session and be able to undertake employment within this constraint.

On this basis the modelling of the cost on the basis of 40 hours of childcare per week for a full-time employed parent appears to be totally unrealistic and the 50 hour approach is more likely the minimum usage that they would incur.

3.2.2 Patterns of workforce engagement

While the OECD modelling is predicated upon families where all parents are employed full-time this is not the usual pattern amongst families with young children in Australia.

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4 Services can choose the sessions they wish to offer and can also operate on an hourly fee basis. For Centre Based Day Care services this latter approach is not common. Usually sessions are based on a 'window' of potential use – for example a 10-hour session from 8am to 6pm, or an 11-hour session between 7am and 6pm. On average hours of attendance are significantly less than notional session length (see Bray et al 2021, 25). Estimates of the hourly cost of care are based upon sessional fees divided by the notional session length.

5 Bray, J. Rob, Jennifer Baxter, Kelly Hand, Matthew Gray, Megan Carroll, Richard Webster, Ben Phillips, Mikayla Budinski, Diana Warren, Ilan Katz and Anna Jones. 2021. *Child Care Package Evaluation: Final report, August 2021*. Melbourne: Australian Institute of Family Studies.

- In couple families with a youngest dependent child aged under 5 years in June 2021 only 28.3 per cent of women are employed full-time and 39.0 per cent part-time, and across all couple families with dependent children aged under 15 years only 30.8 per cent have both parents working full-time, with a further 36.6 per cent having one working full-time and one part-time, along with 3.2 per cent where both work part-time.[6]
- Only 15.0 per cent of female single parents with a child aged under 5 years work full-time, along with 27.6 per cent who work part-time.

While there are potential questions about causality in considering these patterns of participation and the nature of childcare usage, such as whether the high rates of part-time employment are driven by the affordability of child care, it is noted that quite high rates of part-time employment tend to persist amongst partnered women with older dependants, as well as those without.[7]

3.2.3 Patterns of childcare use

The use of Centre Based Day Care for 5 or more days a week, the basis of the OECD modelling, is unusual in Australia. As reported in Bray et al (2021, 24) only 13.0 per cent of children attending this type of care attend for this period. Most common is the use of care for two days a week (28.5 per cent) or three days (28.5 per cent), along with 14.0 per cent of children who attend for a single day and 13.8 per cent for four days.

Taking into account the low rate of full-time use of centre based day care, and that only some 10 to 12 per cent of families have two or more children in such care, it is probable that the proportion of Australian families using childcare matching the OECD modelling is in the region of a couple of per cent at most.

3.2.4 Actual experienced costs

The child care evaluation reported that the average spending of families on childcare was 4.1 per cent of gross family income[8], with the median proportion being 2.7 per cent. As shown in Figure 5, there was however considerable variation in spending across families, and in the pattern of spending by family income.

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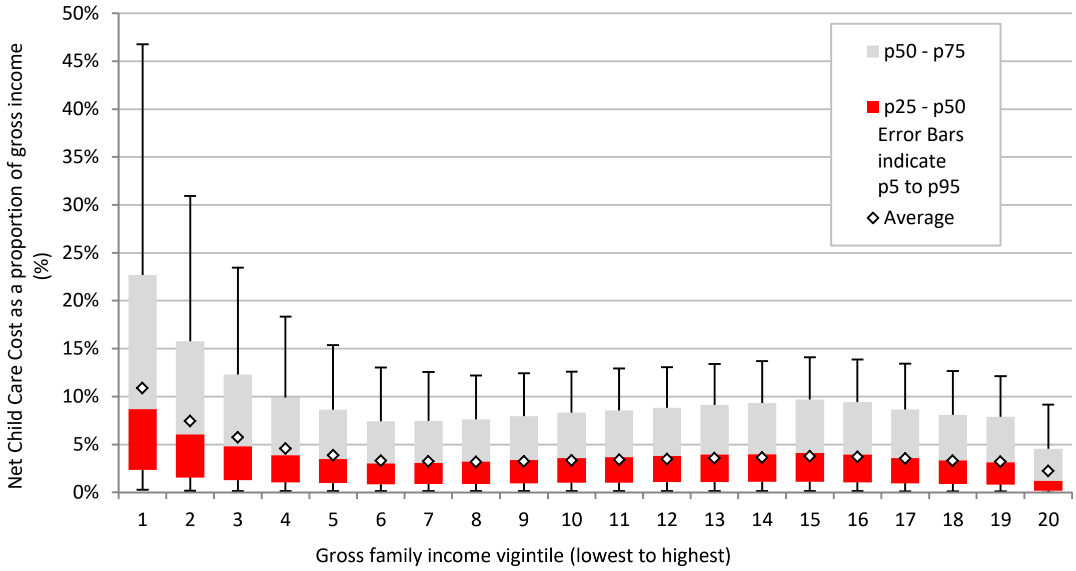
6 For a more detailed review of recent trends in the workforce participation of parents see Baxter, Jennifer. 2020. *Employment Patterns and trends for families with children*. Melbourne: AIFS.

7 As documented in Bray and Gray (2023, 40) the effective marginal tax rates from increasing workforce participation in Australia tend to be higher at the more intensive margin, ie for those moving from, for example 4 to 5 days, relative to moving from 0 to one day of employment. Bray, J Rob and Matthew Gray. 2023. *Submission to Productivity Commission Inquiry into Early Childhood Education and Care*. Canberra: ANU CSRM.

8 In the main administrative dataset, which was used by the evaluation for the modelling, only gross income was available.

Figure 5. **Proportion of gross family income spent on net childcare costs, 2018-19.**



Source: Bray et al 2023, Figure 66.

Of particular note is the higher proportion spent on care by lower income families. Analysis undertaken in the evaluation highlighted higher costs for those families in receipt of income support, those with more than one child in care and those with younger children.

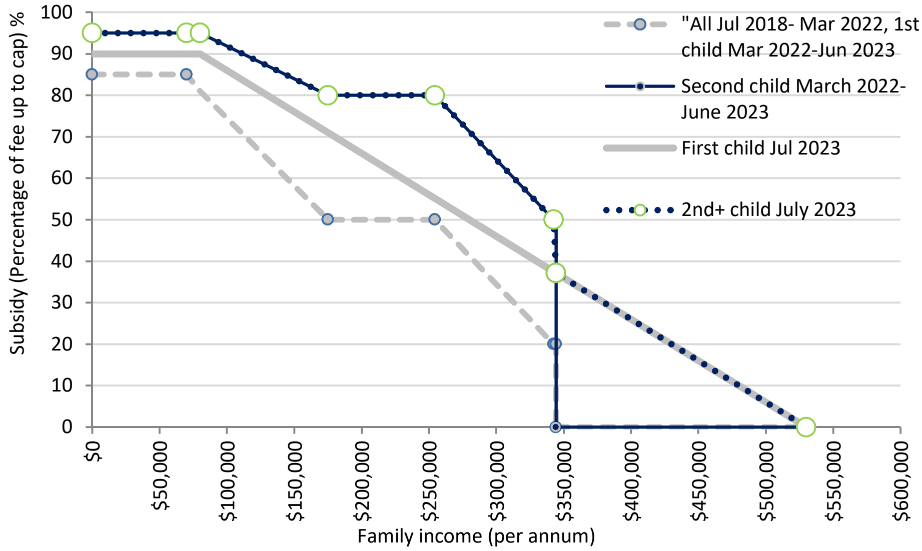
4 Re-estimating the OECD for current and future changes to childcare subsidies in Australia

Table 2 presents a series of estimates of the cost to families of childcare using a modelling approach similar to the OECD. Specifically for the family earnings combinations identified by the OECD, and modelling the net cost as a proportion of net family incomes, and assuming 2 children using centre based day care, it presents estimates:

- On the OECD methodology of assuming 40 hours of childcare per child, and the alternative, and as discussed more representative 50 hours per week basis.
- Using three different settings of Child Care Subsidy:
  - That prior to March 2022 when the same rate of subsidy was applied to the second child in care.
  - The subsidy arrangements from March 2022 to July 2023 where the subsidy rate for a second or above young child in care was raised.
  - The subsidy rate being introduced in July 2023 which provides a higher rate of subsidy for the first child, and for higher income earners with a second or additional young child.

The structure of these subsidy arrangements are illustrated in Figure 6.

Figure 6. **Child Care Subsidy Structure**



Note: The Family income points are indexed and have varied over the periods that these different subsidy structures have been, or will be, in place. Those shown are those which applied in 2021-22.

The results of the modelling are detailed in Table 2.

Table 2. Childcare costs as a proportion of family income, various scenarios, Australia 2022

Family earnings	Couple AWE : AWE	AWE : 2/3 AWE	AWE : FMW	2/3 AWE : 2/3 AWE	2/3 AWE : FMW	FMW : FMW	Single Parent AWE	2/3 AWE	FMW
	Childcare cost as proportion of net family income (%)								
	40 hours per week								
OECD Published	16.0	16.0	15.0	15.0	13.0	10.0	12.0	10.0	10.0
Modelled:									
Pre- March 2022	17.1	17.8	16.7	16.2	14.0	11.2	13.6	10.3	11.0
March 2022	11.9	11.9	10.0	9.3	8.3	7.1	8.2	6.9	7.3
July 2023	9.1	7.8	6.2	5.9	5.4	4.7	5.4	5.1	5.5
	50 hours per week								
Pre- March 2022	21.3	22.2	20.9	20.3	17.5	14.0	17.0	12.9	13.7
March 2022	14.9	14.8	12.6	11.6	10.4	8.8	10.3	8.6	9.2
July 2023	11.3	9.8	7.7	7.4	6.7	5.8	6.7	6.4	6.9

Notes:

Tax and transfer settings as of January 2022, Plunket Model.

Childcare costs $11.70 per hour, September quarter 2022

AW (Average wage – Average Weekly Earnings) $1,879 (Persons, Average Full-Time Adult Total Earnings, November 2022) (ABS 6302.0)

FMW (Federal Minimum Wage) $813 (July 2022-June 2023)

'OECD Published': https://stats.oecd.org/Index.aspx?DataSetCode=NCC#

Key results of the modelling are:

- The estimated baseline modelling is a little higher than the published OECD modelling. This is likely to reflect the specific cost and income parameters used.

- The use of an assumed 50 hours of care in lieu of 40 hours makes a very marked difference, and the results are not dissimilar to the costs reported by the OECD prior to their adoption of the shorter duration of care.
- The changes introduced in March 2022, providing a higher subsidy for a second and above child aged under 5 in care makes a marked impact on the costs for families, with the July 2023 having a lesser, although still significant, reduction in the cost.

5 Summary

While the conceptual basis of the OECD modelling of the cost of child care being for families with all parents employed full-time with two young children in full-time care is not representative of families using childcare in Australia, as a tool for consideration of the relative costs to families across countries, it can be considered valid.

However:

- As an instrument to understand the role of government assistance in the provision of early childhood education and care it is limited by the extent to which the gross cost to families incorporate supply side subsidies which cannot be easily derived from the available data.
- The adoption of the revised methodology in 2022 to cost childcare provision in Australian on the basis of 40 hours care is unrealistic and does not appear to be warranted. The OECD should revert back to using a costing model based upon being charged for 50 hours of care per child per week.

Although Australia has recorded high net costs of child care to families, historically more recent changes, commencing with the higher rate of subsidy for a second and above child aged under five years introduced in March 2022, and the new subsidy structure being introduced in July 2023, act to significantly reduce the cost.

Table a.1. OECD Estimates of net cost of childcare, 2022

Family income:		Couple						Single Parent			
	First earner	Average Wage	Average Wage	Average Wage	2/3 Average Wage	2/3 Average Wage	Minimum Wage	Average Wage	2/3 Average Wage	Minimum Wage	
	Second earner	Average Wage	2/3 Average Wage	Minimum Wage	2/3 Average Wage	Minimum Wage	Minimum Wage				
		Proportion of family income (%)									
Australia		16	16	15	15	13	10	12	10	10	(a)
Austria		2	2	–	3	–	–	4	5	–	(b)
Belgium		14	13	12	12	10	7	12	9	6	(b)
Canada		19	20	14	12	4	-1	2	-3	-1	(a)
Czech Republic		15	18	20	21	30	32	27	33	50	(b)
Denmark		8	10	–	11	–	–	7	3	–	(b)
Estonia		2	3	0	0	0	0	4	0	0	(b)
Finland		11	12	–	11	–	–	10	4	–	(b)
France		10	9	8	8	7	6	6	4	3	(b)
Germany		1	1	1	1	1	0	1	1	0	(b)
Greece		6	6	5	5	4	0	0	0	0	(b)
Hungary		4	5	6	6	8	10	8	11	3	(b)
Iceland		4	4	–	5	–	–	5	6	–	(b)
Ireland		19	21	24	22	17	10	12	10	9	(b)
Israel		9	10	10	10	10	10	13	12	9	(a)
Italy		0	0	0	0	0	0	0	0	0	(b)
Japan		9	8	10	6	6	6	11	2	2	(b)
Korea		3	3	4	4	5	6	5	7	7	(a)
Latvia		0	0	0	0	0	0	0	0	0	(b)
Lithuania		6	7	8	8	8	9	5	7	7	(b)
Luxembourg		6	6	3	3	3	2	2	1	0	(b)
Netherlands		19	17	16	15	12	10	13	11	8	(b)
New Zealand		24	28	30	26	21	17	19	15	16	(c)
Norway		5	6	–	7	–	–	10	1	–	(b)
Poland		5	6	6	7	7	8	8	10	10	(b)
Portugal		4	4	3	3	0	0	0	0	0	(b)
Slovak Republic		7	8	8	9	10	11	11	13	16	(b)
Slovenia		7	8	7	8	9	8	9	10	11	(b)
Spain		5	6	7	7	8	9	9	12	17	(b)
Sweden		3	4	–	5	–	–	4	4	–	(b)
Switzerland		32	27	–	20	–	–	18	11	–	(b)
United Kingdom		16	17	12	10	5	5	6	6	7	(b)
United States		20	23	31	29	40	0	37	50	0	(b)

(a) 2021
(b) 2022
(c) 2018
– = No minimum wage

Table a.2. Gross hourly cost of childcare

	$US PPP	$US
Switzerland	12.51	15.15
Netherlands	11.18	10.18
Luxembourg	8.47	8.60
Croatia	8.01	4.10
United Kingdom	7.74	7.21
Australia	7.46	8.11
Ireland	5.88	5.52
Canada	5.76	5.69
United States	4.86	4.86
Italy	4.72	3.62
Slovenia	4.46	2.97
Greece	4.23	2.73
Japan	3.15	2.93
Belgium	3.12	2.72
Cyprus	2.74	1.94
France	2.48	2.11
Korea	2.29	1.71
Denmark	2.16	2.27
Finland	2.01	1.97
Portugal	1.89	1.27
Norway	1.77	1.96
Israel	1.52	1.80
Malta	1.49	1.02
Hungary	1.28	0.65
Poland	1.09	0.51
Iceland	1.05	1.24
Sweden	1.00	1.02
Spain	0.94	0.70
Lithuania	0.91	0.49
Romania	0.88	0.36
Slovak Republic	0.85	0.54
Czech Republic	0.80	0.47
Estonia	0.76	0.49
Bulgaria	0.58	0.25
Austria	0.52	0.47
Latvia	0.49	0.29
Germany	0.18	0.16