Why childcare is not affordable

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Any errors or omissions remain my own.

Executive Summary

In Australia, more parents are using formal childcare to support their participation in the workforce. Yet, childcare is becoming less affordable, with fees and out-of-pocket costs growing above inflation in recent years – despite the availability of taxpayer subsidies.

- Childcare is essential for many working parents in Australia, with around 50% of families using some form of it. This includes both formal, centre-based childcare and informal or home-based arrangements such as grandparents or nannies.
- Remarkably, there has been little change in the overall use of childcare in the past 20 years. More children are in formal care now, but this is offset by fewer children receiving informal care. This suggests that government subsidies for formal childcare have encouraged a substitution effect.
- Yet problems of affordability and accessibility of childcare have persisted, despite the growing number of childcare services in Australia and the high level of government support for the sector.

Regulation and government support

- Childcare is a highly regulated sector in Australia, despite many childcare services traditionally being delivered informally by friends, family and community groups in the local neighbourhood.
  - Formal childcare in Australia has been subject to growing regulation over decades, which culminated in the adoption of the National Quality Framework (NQF) in 2012, and endorsed by the Council of Australian Governments (COAG). The aim of the NQF was to deliver a harmonised level of quality in childcare services across the states and territories.
  - Changes to the NQF were recently introduced to improve its operation. These changes include simplifying some aspects of the NQF and increasing regulatory oversight of the family day care sector.
- The childcare sector is also heavily reliant on government subsidies to support parents' access to affordable childcare. The three largest childcare providers were estimated to have received more than $500 million worth of subsidies in 2011-12.[1]
  - The federal government has offered childcare subsidies for decades, but the design and policy objective of these subsidies has evolved over time. In July 2018, the government introduced the Child Care Subsidy, a new funding system that provides more generous fee assistance for some families, but is subject to stricter means testing.

Fees and availability

- Childcare fees in Australia have been growing well above inflation in recent years. Across all childcare types, hourly fees increased on average by 20.7% in real terms between 2011 and 2017.
- Even with taxpayer-funded subsidies, out-of-pocket costs have increased for parents in recent years, growing by 48.7% in real terms (or 6.8% annually) from 2011 to 2017.
- Despite reports of oversupply in some urban areas of Australia, it appears that availability of suitable childcare services remains a problem for some parents. Waiting times for childcare places can reach as high as two years, while places for children aged under two, and after-school care services, are reported as undersupplied.

Regulation is driving up costs in the childcare sector

- A core element of the NQF is the staffing and qualification rules, comprising minimum staff-to-child ratios for childcare services and qualification standards for staff.
    - Ahead of the NQF commencing, COAG estimated that the staff-to-child ratios and qualification rules would add $1.2 billion (in 2009 dollars) to the costs of providing long day care – the most common type of childcare – over a 10-year period.[2]
- However, these staff and qualification requirements lack a compelling evidence base and the purported benefits — that is, improved child outcomes — are highly contestable.[3]
- Furthermore, as a type of occupational regulation, mandatory qualifications can create barriers to entry for new workers, push up prices and restrict supply.
- The direct impact of the staffing requirements is evident in the rapid growth and professional development of the childcare workforce:
    - The workforce has grown by 72% since 2010, outpacing the 46% increase in the total number of children in childcare. For long day care, the workforce has increased by nearly 60%.
    - More than four fifths (85.2%) of childcare contact staff had a relevant qualification in 2016, compared to 68.9% in 2010.
    - The highest growth has been in the number of diploma-qualified staff, which has increased by 85% over that period.
    - Around 25% of childcare workers in 2016 were reported as 'upskilling' to meet the qualification requirements.
- These changes have come at a significant cost to the workforce, service providers, governments and families.
    - For workers, obtaining qualifications represents a major cost and time commitment, with diploma-level qualifications taking up to two years to complete; while the cost can be as high as $10,000.
    - For childcare providers, wage expenses have increased significantly as a result of both the staff ratios and qualification rules. Estimates suggest that wage costs for the childcare sector in 2016 were around $200 million more, due to the increased proportion of staff with higher level qualifications.
    - Minimum staff-to-child ratios have also reduced the productivity of services and eroded the commercial viability of some types of services, particularly childcare places for children under two years of age.
- Furthermore, the supposed achievement of the NQF, national harmonisation in the regulation and licensing of childcare, is largely a myth.
    - The states and territories have retained the power to require local services to *exceed* the nationally agreed standards. This has resulted in most states and territories choosing to retain at least some of their own qualification rules and staff-to-child ratios.
    - A lack of harmonisation adds to the regulatory costs of the NQF by forcing providers to comply with different rules across the states and territories.

The importance of flexibility and parental choice

- The regulation of childcare has fundamentally transformed the structure and operation of the sector, which has seen rapid growth in the workforce and the number of child care centres — especially in urban areas — but unaccompanied by lower prices or greater availability in some cases.
- The key problem is the supply-side regulation of the childcare sector, which has cemented childcare as a high-cost and inflexible service, and works at cross-purposes to government *subsidies* for childcare. One policy puts upward pressure on costs; the other attempts to reduce costs.
- If Australia is to have affordable and accessible childcare services, a more flexible approach to childcare regulation is required.
- The Council of Australian Governments (COAG) should revisit the recommendations of the Productivity Commission's 2014 inquiry into childcare; to simplify, relax or remove some elements of the NQF staffing and qualification requirements. COAG should assess to what extent the recommendations have been adopted (or the underlying problems addressed through other policy changes) or remain outstanding.
- Governments at all levels must also decide if the primary policy objective of supporting childcare is female workforce participation or the early education of children — as the regulation and funding of childcare currently work at cross-purposes. This requires a politically difficult decision, as there are strong public interests lobbying for both objectives.
- If the primary objective is to support workforce participation, governments should rework the design and elements of the NQF that are driving up childcare costs and fees.
- Regulation should focus on core health and safety standards, while allowing childcare centres to have more autonomy and scope to tailor their services to suit parents' individual needs.
- This would go far in promoting accessible childcare — delivering the types of services that parents want, in the right locations and at the times required.

Introduction

In Australia, families have a high reliance on childcare to support their living and working arrangements. Around 50% of children aged under 12 receive some sort of non-parental care. Not all childcare is formal centre-based care. Around 32% of children receive some form of informal childcare — such as grandparents and nannies.[4]

Yet, informal care — particularly unpaid — is not always an available option for parents. Many parents rely on the formal childcare sector to provide the services they need. This sector was traditionally dominated by small, community-run childcare centres. However, there has been a marked shift in the market, with an increasing share of large, corporate childcare providers.

Given the need for affordable and accessible childcare, it is critical to identify whether the sector is delivering good outcomes for parents. In particular, there is a need to shine a spotlight on the effects of government regulation on childcare costs and accessibility.

This assessment is needed more than ever, as childcare subsidies are expected to reach an annual cost to the federal budget of $9.5 billion within four years.

There are important issues on both the supply side and the demand side. A subsequent report will look at the demand side issues, such as how and why parents use childcare, and the role and effectiveness of subsidies.

This report examines the supply side regulation of childcare and the rationale for government intervention. It then explores the impact of national regulations on the childcare workforce, service providers and the flow-on effects for consumers. Finally, it identifies the policy trade-off between affordability and regulated quality in childcare — a trade-off that federal and state governments will eventually need to confront.

Childcare in Australia: an overview

How is childcare delivered in Australia?

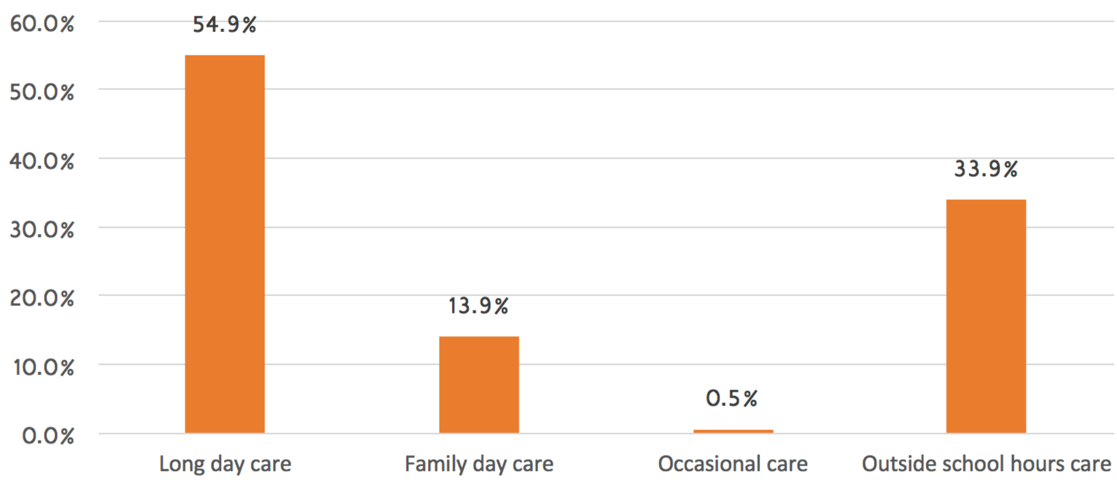
In Australia, formal childcare generally refers to centre-based, non-parental care and early learning services for children. Informal childcare, on the other hand, refers to care provided by other individuals, such as relatives, friends, neighbours, nannies, au pairs and babysitters, on a paid or unpaid basis.[5]

Formal childcare in Australia is provided through a 'managed' market-based model.[6] That is, fees are subsidised by taxpayers and services are heavily regulated. However, services are mostly delivered by non-government providers on a fee-for-service basis, unlike many health and education services in Australia that are directly provided by government.

Long day care is the most common type of formal childcare in Australia and is focused mainly on children aged zero to five years.[7] Some long day care centres provide other services, like preschool programs and after-school care.

Other service types include family day care, occasional care, outside school hours care and preschool services. The majority of children in formal care are placed in long day care, with 34% in outside school hours care and 14% of children in family day care or in-home care.[8]

Figure 1: Proportion of children in care, by childcare service type



Use of formal childcare

Around half of all children aged 12 and under in Australia receive some sort of childcare, but less than a third, around a million children, are placed in formal childcare.[9] Other children in care receive either informal care (for example, from grandparents, a nanny or au pair) or a mix of formal and informal care.

According to data on children aged under five from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, 49% of couple parents and 50.4% of single parents used paid childcare in 2015-16.[10] Of those using a form of paid care, just 2.5% of couple parents and 2%[11] of single parents use informal, paid care (for example, a nanny or babysitter). Recent ABS data indicates that nearly a third of children aged 12 and under (31.9%) receive some type of informal childcare — with grandparents accounting for most informal care.[12]

Notably, there has been little change in the overall use of childcare in the past 20 years. The proportion of all children in care was 46% in 1996, compared to 47% in 2017.[13] There has also been little change in the average number of hours of childcare used by families. The average number of hours was 16.9 in 2005, compared to 16 hours in 2017 — a slight decrease.

However, between 1996 and 2017, the proportion of children aged 0–11 years in formal care more than doubled from 9% to 19%. Over the same period, the proportion of children in informal care fell from 31% to 19%.[14] This suggests that government subsidies may have encouraged a shift from informal to formal childcare, rather than increasing the overall use of childcare.

It is also not clear that using childcare is associated with increased female workforce participation, although it is well established that workforce participation is responsive to childcare prices.[15] The participation rate of mothers with dependents increased from 57% in 1994 to 67% in 2014.[16] In the last decade, the participation rate continued to grow but at a lower rate.[17] However, the overall proportion of children in care has remained largely static, despite a higher proportion of mothers in the workforce.

A government study on childcare participation concluded that maternal employment is not necessarily associated with using formal childcare; with many employed mothers relying on family members to provide childcare.[18] Furthermore, the study found that mothers working part-time were, in fact, less likely to use formal childcare.[19]

In its 2014 report on childcare, the Productivity Commission also noted that some of the spike in demand for formal childcare in Australia has been caused by prices that do not reflect true costs, due to government subsidies and cross-subsidisation of services.[20] Therefore, it is likely that the shift from informal to formal care reflects other factors in addition to mothers re-entering the workforce.

Box 1: A snapshot of childcare in Australia

The childcare sector in Australia has experienced rapid growth in recent years.[21] As of July 2018, there were more than 15,000 approved childcare services in Australia.[22] Use of formal childcare has also increased significantly, with the number of children in approved childcare increasing by around 44% from 2010 to 2017,[23] more than triple the national population growth of 12% over that same period.

The childcare market in Australia is relatively un-concentrated; comprising a number of large-scale corporate and not-for-profit providers (such as Goodstart Early Learning and G8 Education Limited) and numerous small, local providers. Notably, over 80% of approved providers operate a single service.[24]

Private, for-profit providers operate nearly half (47%) of all approved childcare services in Australia, with the remainder comprising various not-for-profit and community-based services.[25] Around 8% of childcare services are also directly managed by state and local governments. In 2017, private, for-profit providers accounted for:

- 64% of long day care services;
- 75% of family day care services; and
- 45% of outside school hours care services.[26]

However, many of these private providers are likely to be small businesses and counted in the majority of all providers which operate a single service.

According to industry estimates, not-for-profit group Goodstart Early Learning held the largest share of the childcare market in 2016 (8.3%), followed by publicly listed G8 Education Limited (6.2%) and Affinity Education Group (2%).[27]

These large-scale providers are increasing their share of the market through a combination of new childcare centres and acquisitions of existing services. Further consolidation of the childcare market is anticipated in the future, as corporate providers seek to acquire existing services.[28]

History of government regulation and funding

All levels of government in Australia — Commonwealth, state and local — have traditionally played a role in the delivery of formal childcare. Despite the fact that many childcare services are delivered by private providers, it would be a serious mistake to characterise the childcare sector as operating as a 'free' market.

Historically, the Commonwealth's main role was funding for childcare places, while state and territory governments acted as service regulators and providers. Local governments also played a role in regulating land use and operating local services.[29]

However, the Commonwealth's involvement in childcare policy has evolved over time to have a greater focus on quality assurance in childcare. With this evolution two primary objectives of Commonwealth policy on childcare have emerged:

- Supporting female workforce participation; and
- Raising the standard of childcare to support early childhood development.

Commonwealth funding for childcare can be traced back to the 1970s, when it first provided direct funding to non-profit childcare operators servicing poor and disadvantaged families.[30] This funding was later extended to all families, as the policy objective shifted towards supporting workforce participation.

Funding for childcare further expanded with the introduction of the Child Care Benefit (CCB) in 2000, followed by the supplementary Child Care Rebate (CCR) in 2004. In 2008, the rate of the CCR was increased from 30% to 50%.[31] These changes were broadly associated with growth in the number of childcare providers and children in formal care.[32]

In 2018, the Commonwealth replaced the CCR and CCB with the Child Care Subsidy, based on a benchmark price model proposed by the Productivity Commission. The Child Care Subsidy offers a broadly similar system of financial assistance, but the subsidy value is capped at an hourly benchmark rate, and access to the subsidy is subject to stricter means-testing.

The Commonwealth's involvement in childcare policy developed further in the 1990s, with the introduction of the Quality Improvement and Accreditation system for long day care centres.[33] These regulations responded to lobbying efforts from childcare and social service peak bodies like the Australian Early Childhood Association and the Australian Council of Social Services.[34] As formal childcare became more prevalent, it was argued that some sort of national accreditation was necessary to guarantee a minimum standard of quality and taxpayer value for money.

The National Quality Framework

In 2009, the Council of Australian Governments (COAG) agreed to the new National Quality Agenda (NQA) for early childhood education and care. Under the NQA, the National Quality Framework (NQF) was introduced in 2012 to harmonise the regulation and licensing of ECEC services across the states and territories.

The stated objective of the NQF is to improve the standard of education and care across long day care, family day care, preschool/kindergarten, and outside school hours care services. The NQF comprises:

- The National Law and National Regulations;
- The National Quality Standard;
- The assessment and quality rating system; and
- National learning frameworks.

The national law sets outs a national standard for childcare services, while the national regulations prescribe in detail the operational requirements for services.

A major operational requirement — and key focus of this report — is the staffing rules, which prescribe minimum staff qualification requirements and staff-to-child ratios. These requirements are outlined in detail in the following sections.

Under the NQF, childcare services are assessed and rated by their state regulatory authority against benchmark standards relating to seven quality areas under the National Quality Standard (Figure 1).

Staff-to-child ratios

A centre-based childcare service must employ a sufficient number of contact staff to comply with the following staff-to-child ratios for each age group:

a. children from birth to 24 months of age: 1:4

b. children over 24 months and less than 36 months of age: 1:5

c. children aged 36 months of age or over (under school age): 1:11

d. children over preschool age: 1:15

Staff qualification requirements

Under the NQF, 50% of staff required to meet the relevant staff-to-child ratios in a centre-based service for children preschool age and under, must have, or be actively working towards, at least an approved diploma level education and care qualification.

All other educators required to meet the relevant ratios at the service must have, or be actively working towards, at least an approved Certificate III level education and care qualification. The national authority, the Australian Children's Education and Care Quality Authority (ACECQA), is required under the law to publish on its website a list of approved qualifications.

In addition, childcare services must employ or have access to a qualified early childhood teacher for a certain number of hours, depending on the number and age of children. Some states also require early childhood teachers to be registered and accredited.[35]

Figure 2: The national framework for the regulation of childcare

Source: ACECQA Guide to the NQF

Table 1: Summary of staff qualification requirements

Diploma qualifications	At least 50% of required educators must have (or be actively working towards) at least a diploma level education and care qualification.	
Certificate III qualifications	All other educators who are required to meet ratio requirements must hold or be actively working towards an approved certificate III level education and care qualification or higher.	
Early childhood teacher requirements	Fewer than 25 children	The service needs to have access to an early childhood teacher for at least 20% of the time the service is operating. This may be achieved through an information communication technology solution
	25 — 59 children	The service must ensure an early childhood teacher is in attendance for: • 6 hours per day, when operating for 50 hours or more per week; or • 60% of the time, when operating for less than 50 hours per week.
	60 — 80 children	The service must meet the above requirements for 25–59 children. From 2020, the service must also ensure a second early childhood teacher is in attendance for: • 3 hours per day, when operating for 50 hours or more per week; or • 30% of the time, when operating for less than 50 hours per week.
	More than 80 children	The service must meet the above requirements for 25–59 children. From 2020, the service must also ensure a second early childhood teacher is in attendance for: • 6 hours per day, when operating for 50 hours or more per week; or • 60% of the time, when operating for less than 50 hours per week.

Source: Australian Children's Education & Care Quality Authority

Recent developments in childcare policy

In 2013, the federal government commissioned the Productivity Commission to undertake a comprehensive inquiry into early childhood education and care. The inquiry examined options for the future regulation and funding of childcare and early childhood education. In its final report, the Productivity Commission recommended a new funding model for childcare and a comprehensive suite of reforms to the NQF, which included changes to the staff and qualification rules (Box 2).

However, since that time, developments in childcare policy have been predominantly on the demand-side, rather than supply-side. The main policy change has been the introduction of the new Child Care Subsidy, based on the Productivity Commission's proposal of a single, means-tested subsidy.

On the supply-side, there appears to have been little progress in adopting the Productivity Commission's recommendations to improve the regulation of childcare. In 2014, a separate review was undertaken to assess the effectiveness of the NQF to date. In response to both the Productivity Commission inquiry and the NQF review, COAG agreed to a number of limited changes to the NQF, namely:

- Minor revisions to the National Quality Standard — clarification of language and overlap between elements.
- New requirements for family day care services, including a minimum coordinator-to-educator ratio and a requirement to obtain service approval in each jurisdiction.
- Removal of supervisor certificate requirements for childcare services.
- Introduction of a national staff-to-child ratio of 1:15 for services catering to school-aged children (as recommended by the Productivity Commission).

However, these changes do not go near to fully addressing the major regulatory issues identified by the Productivity Commission, or appear to fully adopt its recommendations to improve and simplify the staffing and qualification rules (as summarised in Box 2).

Box 2: What did the Productivity Commission recommend in the 2014 childcare inquiry?

Funding model for childcare

The Productivity Commission recommended a single, child-based subsidy that is:

- means- and activity- tested,
- paid directly to the family's choice of approved services,
- for up to 100 hours per fortnight, and
- based on a benchmark price for quality early education and care.

The NQF staff-to-child ratios and qualification rules

The Productivity Commission made a number of recommendations to harmonise, reduce or simplify the staffing and qualification rules under the NQF. These included:

- Develop a nationally consistent set of staff ratios and qualifications for outside school care and vacation care, with:
  - — A staff-to-child ratio no stricter than 1:15.
  - — A maximum of one-third of staff required to have an approved qualification.
- Introduce a less strict minimum staff-to-child ratio (1:5) for home-based care services for children aged 25 months and over.
- More flexible qualification rules for centre-based services:
  - — Require educators working with children aged 0-35 months to hold a certificate III qualification only (rather than a diploma).
  - — Allow services to freely determine the number of diploma qualified staff.
  - — Determine early childhood teacher requirements based on the number of children aged over 35 months (exclude children under this age).
- Harmonisation of different staff ratios and qualification rules across all states and territories.
- Greater flexibility for services to meet staffing requirements:
  - — Provide ACECQA with more flexibility to approve qualifications and recognise international qualifications.
  - — Allow a diploma qualified educator to be replaced by a certificate III qualified educator for short irregular absences.
  - — Allow unqualified staff to be counted in staff ratios for a three-month period before beginning a qualification.
- To retain skills and experience, allow staff with a minimum of five recent years of relevant practical experience, at the time of transitioning to the NQF, to be counted in meeting the qualification rules.

The problems in childcare

Following decades of government intervention, there remains persistent problems with the ability of the childcare market to deliver affordable, flexible and accessible services for Australian families.

In effect, parents act as consumers of childcare; as they are ultimately responsible for selecting and paying for the service. Consequently, one way to measure the performance of the market is to assess:

- its ability to deliver the types of childcare services that parents demand; and
- at prices that parents can afford to pay.

These outcomes are important to parents who need childcare to support their participation in the workforce — which is also the policy objective of government childcare subsidies. However, based on the following analysis, it becomes apparent that the market is not always effective in delivering on either of these outcomes, despite a high level of government support.

Rising prices and out-of-pocket costs

Parents rank affordability among the most important factors in selecting childcare.[36] Yet surveys of families indicate that affordable childcare remains a struggle for many parents. The 2017 HILDA survey showed that the proportion of parents who experience substantial difficulties with the cost of childcare had risen significantly since 2002.[37]

Notably, these affordability pressures exist despite a high dependence on government fee assistance which lowers parents' out-of-pocket costs. More than 90% of families using approved childcare services in 2017 were eligible for Commonwealth childcare subsidies, which reduced their out-of-pocket costs by up to 50%.[38] Without government subsidies, out-of-pocket costs would be as high as 28% of weekly disposable income for families on an annual income of $35,000. With government subsidies, out-of-pocket costs for such families are reduced to 7.6% of weekly disposable income on average.[39]

Parents' concerns about affordability are well-grounded. Childcare fees have grown substantially across all service types in recent years. Hourly fees for long day care — the most common type of care — have been increasing well above inflation, at an average annual rate of 6.5% since 2008.[40]

Growth in childcare fees has been partly absorbed by taxpayers, through increased claims for childcare subsidies. However, even with subsidies, childcare fees are still translating into higher out-of-pocket costs for parents. From 2011 to 2017, the average weekly out-of-pocket cost of formal childcare, after taking account of government fee assistance, increased by 65.9% in nominal terms or 48.7% in inflation-adjusted terms.[41] This amounts to an average real increase in fees of 6.8% annually.

Notably, the average weekly hours of formal childcare, attended by children aged up to 12, remained largely steady between 2011 and 2017, indicating a significant increase in hourly out-of-pocket costs for parents.[42]

Availability and accessibility

Availability and accessibility of childcare are the other key issues for parents. In this context, *availability* refers to vacancies of childcare places, while *accessibility* concerns parents' ability to access childcare services at a suitable location, within reasonable distance of work or home, and at the times and hours needed.

In a recent government survey, parents ranked location and accessibility as the most important factors in selecting childcare — just ahead of affordability and the reputation of the childcare service.[43] Similarly, a 2014 government survey found that parents place a high importance on availability, proximity (location) and opening hours for flexibility.[44]

However, data from the 2017 HILDA survey suggests that finding available and accessible childcare is the most common difficulty experienced by parents who use, or are considering using, childcare.[45] According to the survey, the majority of parents who experienced persistent difficulties in obtaining childcare reported availability as a key concern.

Despite rapid growth in the number of childcare services nationally, it appears that pockets of undersupply exist in some localised areas of Australia, although it is difficult to draw conclusions at a national level.

The majority of childcare services surveyed quarterly by the federal Department of Education and Training report the existence of vacancies.[46] However, the mere existence of vacancies does not indicate whether these vacancies are accessible or suitable for parents in need of childcare. For example, parents with a one-year-old child cannot use a place for school-aged children. In other words, different types of services are not easily substitutable.

The Productivity Commission drew attention to these problems in its 2014 report.[47] However, there are indicators that patchy shortages are still a problem today, with reports of longer waiting lists for childcare places for children aged 0-2,[48] and shortages of outside school hours care in some areas.[49]

Furthermore, it can be difficult to substitute one type of childcare for another (for example, long day care is unlikely to work for parents who need after-school care for their school-aged children); or to switch from one childcare centre to another. Parents generally require services within reasonably close proximity of their home or workplace, which also constrains their options.

To ration the allocation of childcare places, some childcare services will use waiting lists, with parents sometimes paying a non-refundable fee to be added to a waiting list at their preferred childcare service.[50] A survey of community-run childcare services found almost 70% of such services had waiting lists in 2017, compared to 66% of services in 2014. [51] This could suggest that shortages exist in some areas, or there is high demand for community-based childcare.

According to the survey, waiting times for children aged under two averaged around one to two years in 2017, while waiting times for children aged two to three were six to 12 months on average.[52] The average length of time on waiting lists had not changed significantly since 2012.

Questioning the NQF: the benefits of regulation in childcare

Childcare prices and availability are not new issues. For decades, governments have been concerned about access to affordable childcare, insofar that it affects women's ability to participate in the workface. Many studies have established a link between maternal workforce participation and the cost of childcare; although the extent of the relationship is unclear and often reported as small.[53] For many years, federal governments have focused on the use of subsidies to reduce the out-of-pocket costs of childcare and thereby help mothers to return to the workforce.

However, in contrast to public subsidies, government regulation of childcare is focused on policy objectives that are largely separate from issues of affordability and accessibility. The regulation of childcare reflects underlying beliefs about the value of formalised early childhood education (ECE), as well as the benefits of occupational licensing as a form of quality assurance. As such, a key policy objective of federal and state governments is the provision of high-quality ECE through the formal childcare system. However, the value of ECE as a policy objective of childcare should be open to debate (Box 3).

A further question — and explored in more depth in this report — is whether the NQF is an effective framework by which to deliver ECE and to promote improved outcomes in children. In other words, do the perceived benefits of the NQF outweigh the costs?

Box 3: What is the purpose of childcare?

Much of the public debate on childcare in Australia is focused on what governments should do to support families' access to childcare and the quality of childcare. However, the purpose of childcare is a question often ignored. The purpose matters because governments cannot develop effective policies on childcare, without a clear consensus on why childcare is important or how to measure the value or success of childcare policies.

Childcare is commonly thought to have one or both of the following purposes:

- Enable greater workforce participation among parents; and
- Provide early childhood education.

The economic benefit from pursuing the first purpose can be clearly calculated, as can the additional revenue earned by government from encouraging greater workforce participation. This can be offset against the cost of subsidising childcare. However, is the second purpose a legitimate goal of the system — and one that governments should actively support? Fundamentally, this represents a philosophical question about the respective roles of parents and government in educating young children.

While traditionally the objective of childcare in Australia was largely to support parents' workforce participation, the focus in Australia — as in many OECD countries — has increasingly shifted to the provision of early learning services.

Government funding for preschools reflects the increasing importance placed on ECE, with many states providing free or low-cost access to preschool services.[54] The focus on ECE has now extended to formal childcare too, with national rules that require childcare providers to hire qualified teachers and deliver formalised learning curriculums.

However, the question is whether early learning should be the primary responsibility of parents or governments.

The idea of universal access to ECE implies that parents are not capable of supporting their children's early development — or at least, not at the optimal level or quality. Yet research does not support the contention that ECE benefits all children. From a government perspective, parents can also represent the most efficient and low-cost form of ECE.

This is not to overlook the potential benefits of targeted ECE for children from disadvantaged backgrounds. Intervention in the formative pre-school years is considered critical for disadvantaged children.[55] Generally, like the social welfare system in Australia, government intervention is more effective when it is directed at those most in need.

Given this, there is a strong case for parents to retain primary responsibility for their children's early development, rather than ceding this responsibility to governments. Some parents may have a preference for their children to receive formal ECE, but this should be a personal choice. Consequently, there is a case to be made that the cost of formal ECE should not be imposed on all parents who use childcare.

The benefits of quality regulations are unproven and overstated

The NQF is underpinned by assumptions about the relationship between *structural quality* and *process quality*, and between *process quality* and *child outcomes*. In other words, the NQF is based on the belief that certain *inputs* (as defined by structural quality) will lead to desired *outcomes* for children.

More specifically, the NQF reflects the belief that indicators of structural quality in childcare — such as staff qualifications and staff-to-child ratios — will translate into process quality; for example, the depth and warmth of staff-child interactions. In turn, it is believed that indicators of process quality will lead to improved child outcomes, as measured by cognitive, social and behavioural outcomes.

However, these assumptions are contestable and not based on firm evidence. The 2014 CIS research report, *Regulating for Quality in Childcare: The Evidence Base,* examined the evidence base for the national staff-to-child ratios and staff qualification requirements under the NQF. The report found there was little evidence — based on Australian and international research — the NQF staffing rules would improve outcomes for children. In addition, the report concluded the NQF reforms would increase the cost of childcare without measurably improving quality. The report highlighted a range of international and Australian studies that showed mixed findings (at best) about the relationship between measures of childcare quality and child outcomes.

Furthermore, a number of more recent studies published since 2014 have highlighted the lack of sound evidence underpinning qualification and staffing regulations. For example:

- A study by Del Boca, Monfardini and See (2018) found that more than one year of pre-primary education had no significant effect on school outcomes in children. In addition, the study found that low staff-to-child ratios only had significant effects in limited circumstances.[56]
- A study by Lin and Magnuson (2018) found few associations between teacher qualification level and observed classroom quality in childcare.[57] The study also indicated that teacher education had little effect in predicting children's early academic skills.
- A meta-analysis study by Vermeer et al. (2016) reported only mixed evidence of an association between structural quality factors (including staff-to-child ratios) and measures of process quality (experiences of children within the childcare environment, including their interactions with others, materials, and activities).[58]

Box 4: Occupational regulation in childcare

What is occupational regulation?

Occupational regulation is a type of labour market regulation, by which governments use certain rules and criteria to control entry into a professional occupation or trade. The purpose of such regulation is to ensure services meet a minimum standard of quality. Common forms of occupational regulation include *licensing* (where it is unlawful to practice a profession without government approval) and *certification* (where a regulatory authority issues a certificate based on assessment of the education or skills of a person).

How does it apply to childcare?

In effect, the NQF imposes a framework of occupational regulation through both the minimum qualification requirements and staff-to-child ratios. That is, anyone seeking to work with children under school age, at an approved childcare centre, must, at the very least, be working towards professional qualifications in early childhood education and care: a minimum of a Certificate III level or diploma level qualification.

The original Regulation Impact Statement (RIS) for the NQF cited the problem of information asymmetries as a key justification for government intervention in the childcare sector.[59] That is, parents lack the information or ability to accurately assess the quality of a childcare service. Therefore, a system of certification and quality ratings — along with professional qualifications for the workforce — can empower parents, as consumers, to exercise informed choice in childcare.

In the RIS, COAG also noted that the NQF could support increased demand for childcare, as parents could have more confidence about the quality of childcare services. In this way, the traditional justifications for occupational regulation were used to support the introduction of the NQF.

The benefits

Occupational regulation is often justified where the quality of a service is difficult to assess. Therefore, a regulator is responsible for assuring consumers that the provider meets certain minimum requirements. The promotion of public health and safety, for example, is a common objective of occupational regulation.

For many consumers, it is important to have a high level of trust in the quality of certain services, such as medical treatments or vehicle safety checks. Therefore, a licence or certificate can signal to the consumer that the worker has the requisite knowledge or skill to provide that service.

However, evidence of a causal link between occupational regulation and output quality is mixed at best. A number of studies by American economist Morris Kleiner found little evidence of licensing leading to better output quality in the case of mortgage brokers, teachers and dentists.[60] A literature review by the United States government of studies regarding the quality impacts of licensing found only two of the 12 studies reviewed reported that more stringent licensing is associated with quality improvements.[61]

The disadvantages

Occupational regulation is not costless; it can make it unreasonably difficult for workers to enter a profession, create supply shortages, drive up prices, and reduce choice for consumers.

Occupational rules can create barriers to entry for workers, by requiring them to undertake expensive, specialist training and meet subjective requirements — often before they can even apply for a job. The barriers to entry and costs of qualifications can limit the availability of workers, making it difficult and expensive for businesses to recruit and retain qualified staff. This is especially problematic in poorer communities and regional areas.

Businesses will often have to submit to regular government inspection and oversight to ensure compliance with the standards. This imposes costs both on businesses, which are passed on to consumers, and on governments, which must conduct the checks.

By restricting supply and raising the minimum level of 'quality', occupational rules can also allow licensed workers to charge higher prices. This can adversely affect low-income consumers, who may prefer to pay less for lower-quality services.

Consequences for childcare

Based on the above analysis, we would expect occupational rules for childcare to have implications for supply and prices. While the childcare workforce is growing rapidly, it appears that labour and supply shortages remain a problem in some localised areas. For example, there are reported shortages of qualified teachers for childcare services[62] and outside school hours care.[63] Increasing prices and high levels of administrative burden are also apparent in the sector. These consequences are further explored in the following sections.

Questioning the NQF: the costs of regulation in childcare

It is a well-understood principle of responsible government that regulation should be imposed only where it can be demonstrated that the benefits of regulation outweigh the costs. While the benefits of the NQF are contestable, given the lack of tangible evidence supporting them as noted above, too little attention has been given to the potential costs of the NQF. These costs include the effects of occupational regulation in childcare, which can create barriers to entry, restrict supply and raise prices.

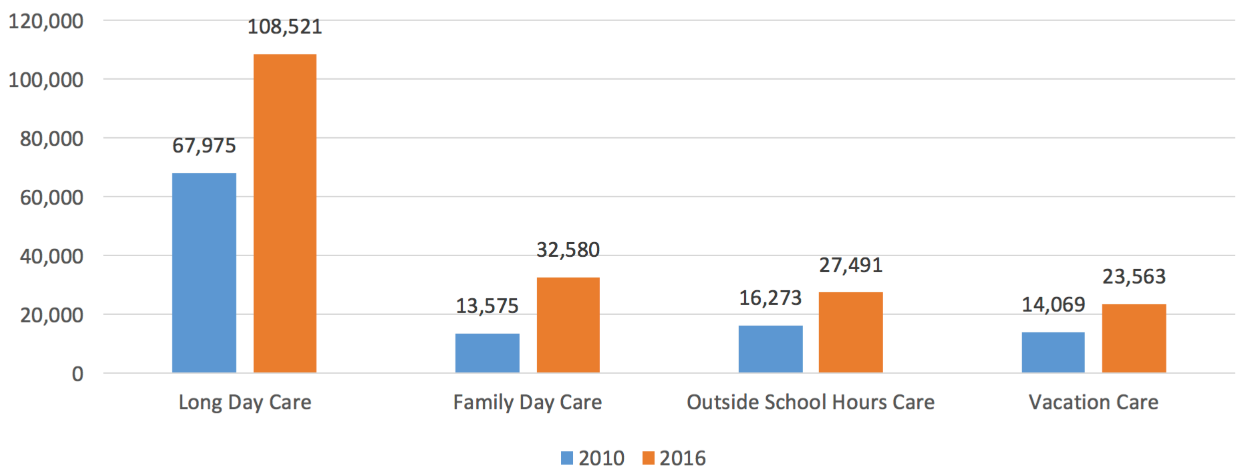
Impact on the workforce

The adoption of minimum staff-to-child ratios and qualification rules under the NQF has contributed to significant growth in the size, qualification levels and upskilling rates of the childcare workforce in recent years. However, the rules have also imposed costs on the workforce which are passed on to providers — through wage costs — and ultimately to consumers through higher fees.

Workforce size

Between 2013 and 2016, the childcare workforce size grew by 54.5%, compared to just 11% in the preceding three years from 2010–2013. From 2010–2016, the workforce size grew in total by around 72%, compared to 46% increase in the number of children in formal care over that period.[64] In other terms, one worker has been added for every additional five children in care. Obviously, some of this growth can be attributed to growing demand for childcare in Australia. However, the fact that workforce growth has outpaced the number of children in care suggests the impact of lower staff-to-child ratios under the NQF.

Figure 3: Workforce size by childcare service type 2010-16



The rapid expansion of the workforce between 2010 and 2016 occurred across all service types:

- Long day care: increase of **59.6%**
- Family day care: increase of **140.0%**
- Outside school hours care: increase of **68.9%**
- Vacation care: increase of **67.5%**

While the largest gains were in the family day care, it should be noted that the family day care workforce is now contracting, according to recent estimates, in the wake of increased compliance activity to address reported cases of fraud within the sector.[65]

Obtaining qualifications

Under the qualification requirements, most workers seeking employment in formal childcare must hold or obtain a minimum of a Certificate III or diploma level qualification. The costs of obtaining qualifications are therefore unavoidable for many childcare workers, even if they already have experience of working in childcare.

An approved qualification involves substantial fees, which are often covered in part by taxpayer-funded loans or grants. Based on the federal Department of Education and Training's list of approved training providers, the average course fee for a certificate III in Early Childhood Education and Care is $3,600, while the average fee for a Diploma of Early Childhood Education and Care is $10,000.[66] To obtain a qualification also represents a major time commitment for workers. A Certificate III can take up to a year to complete, while a diploma can take as long as two years. Qualifications include compulsory workplace experience with a minimum number of placement hours, noting that childcare workers may satisfy this requirement through employment at a childcare service.

Qualifications must also be recognised as an approved course under the NQF. Childcare workers with qualifications obtained overseas or not included in the approved list, must apply to the Australian Children's Education & Care Quality Authority (ACECQA) to have that qualification recognised. ACECQA must assess if the qualifications are equivalent to the approved qualifications under the NQF.

Average qualification levels

As a result of the qualification rules, the average level of qualifications for contact staff (those who work directly with children) in the childcare sector has increased considerably between 2010 and 2016. Overall, more than four fifths (85.2%) of paid contact staff now have an ECEC-related qualification, compared to 68.9% in 2010. The highest growth has been in the number of diploma-qualified staff, which increased by 85% over that period.

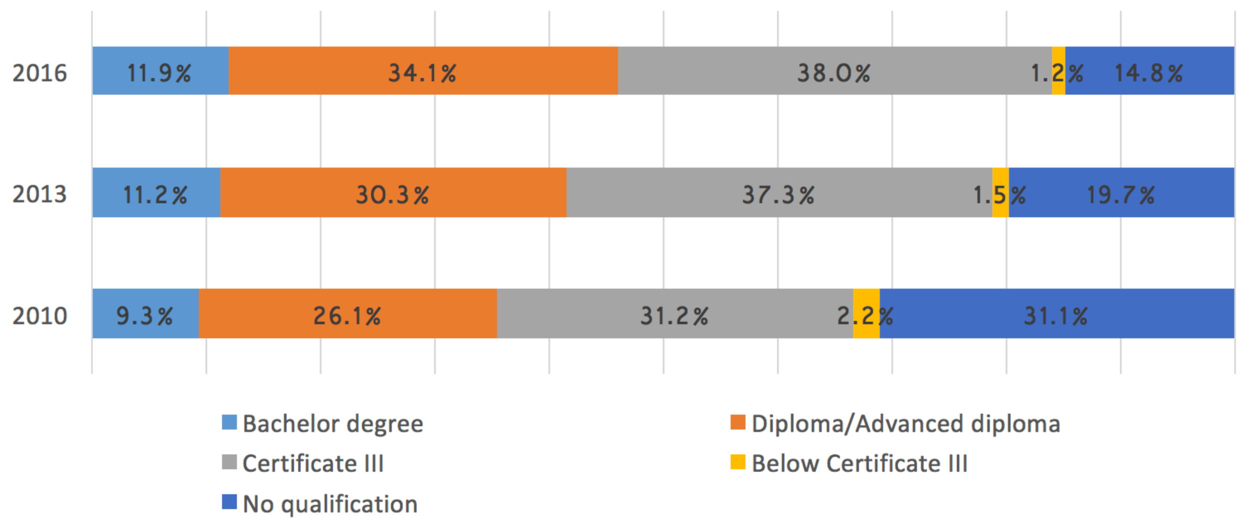
The share of staff qualified at the Advanced Diploma/ Diploma level grew from 26.1% in 2010 to 34.1% in 2016. The share of staff with certificate level qualifications increased from 31.2% to 38%. Again, this can be partly attributed to the phase-in of national qualification requirements.

Upskilling rates

The qualification rules have also contributed to high rates of upskilling among the childcare workforce. In 2016, over a quarter of contact staff qualified at the Certificate III/IV level were studying at a higher level — mostly for a Diploma or Advanced Diploma, while 8.0% of staff were studying for a Bachelor degree or above.[67]

The rate of upskilling among staff has remained fairly constant over the past several years. In 2010, 30.8% of staff were currently studying in an ECEC-related field.

Figure 4: Qualification level of ECEC workforce



This compares to 29.8% in 2013 and over one quarter (27.1 per cent) of all staff in 2016. This sustained rate of upskilling is likely to reflect the effect of the minimum qualification requirements.

It is becoming increasingly uncommon for childcare workers to lack qualifications of any sort; the proportion of staff without a relevant qualification was 14.8% in 2016, down 15.4 percentage points since 2010. These developments are not surprising as the NQF has effectively made childcare a licenced profession. A worker with no relevant qualifications is effectively barred from a long-term career in childcare.

At the same time, the returns to childcare workers from investing in qualifications are uncertain: the questionable quality of training courses,[68] lower average wages compared to other sectors, and limited prospects for long-term career progression[69] could mean the returns for some workers are poor or insufficient.

Staff wages

As previously noted, there are concerns about low wages and poor career prospects for qualified childcare workers, who tend to earn less than workers in other child-centred occupations like primary school teaching and other service sectors, like healthcare.[70] Inevitably, the need to invest in costly qualifications has raised workers' expectations around wages and conditions, with unions representing the workforce advocating for the Fair Work Commission to set higher wages for childcare workers in view of their professional qualifications.[71]

While it appears that pay rates for childcare workers have not been a major driving force behind increasing childcare costs in recent years, there are good reasons to believe this will be a concern in coming years, as the workforce becomes more highly qualified.

Impact on providers

It is evident that the staffing requirements under the NQF have also had a significant effect on childcare providers, by increasing their wage costs, reducing their flexibility and contributing to labour shortages.

Wage costs

Staff costs are the largest component of childcare operating costs, with wage expenses accounting for anywhere between 60% and 80% of provider operating costs.[72] [73] In its 2014 inquiry report, the Productivity Commission noted that the staff-to-child ratios and minimum qualifications would affect labour costs of childcare operators. The original Regulation Impact Statement for the NQF also acknowledged this impact:

> The most significant cost associated with the NQA is the new National Quality Standard and the higher staff-to-child ratios and staff qualifications that it entails. With labour costs representing up to 80% of services' total operating costs, mandating additional and more highly qualified staff will add to the cost of providing ECEC in Australia.[74]

According to industry estimates, total wage costs for the childcare sector have ballooned from around $4 billion in 2010 to more than $7.9 billion in 2016, or by around 98% in nominal terms.[75] This translates to growth of 75% in inflation-adjusted terms. Much of this growth can be attributed to the dramatic increase in the size of the sector and workforce over that period.

Moreover, average wage costs for private providers were estimated to have grown by 8% between 2015 and 2016 alone, which the childcare sector has directly attributed to the impact of the new minimum staff-to-child ratios which took effect on 1 January 2016.[76]

A related factor is the growth in the *proportion* of the workforce with higher qualifications; that is: the proportion with Certificate III, diploma or degree level qualifications. Workers with higher qualifications are generally entitled to a higher rate of pay under the modern award system.

If the childcare workforce in 2016 had retained the *same share of workers at each qualification level* as in 2010, the total wage costs for the sector would have been substantially lower. If we assume for simplicity's sake that all workers were on the minimum pay point of their qualification level, it can be estimated that wage costs in 2016 would have been *around $200 million less or 3% less than otherwise*.

As wages make up the majority of childcare operating costs, this figure — although small as a percentage of total wage expenses — still represents a sizeable additional cost that is likely passed on to parents through higher fees.

However, the bulk of the increase in wage costs, caused by the NQF, is likely to be attributable to the stricter staff-to-child ratios. While the RIS for the NQF did not separately estimate the cost of stricter ratios, it is possible to get a sense of the magnitude of costs involved, by examining the case of NSW. In a regulation impact analysis on reducing the minimum staff-to-child ratio from 1:5 to 1:4 for children aged under two, PwC estimated the likely cost impact for long-day care centres in NSW would be between $8,000 and $12,000 (in 2002 dollars) for small services, and $25,000 and $30,000 for large services.[77]

Service flexibility

In its 2014 inquiry report on childcare, the Productivity Commission drew attention to some of the practical difficulties for childcare providers related to the qualification rules and staff-to-child ratios:

- *The impact of the qualification rules on the costs of servicing children under 36 months*.[78] Despite a lack of evidence around the benefits of qualified staff for children under 36 months, the same qualification rules apply to that age group. This was found to have directly reduced the commercial viability of servicing this age group and contributed to a shortage of childcare places for this age group.
- *Services are required to maintain the staff ratios at all times*, with no specific provisions for allowing

flexibility around staff breaks. This means that services are likely to incur costs in exceeding the minimum ratios, to avoid non-compliance while staff are on breaks.

- *The application of state and territory staff qualification rules to outside school hours care*.[79] Arguably, this type of service should not require many qualified staff, as it caters to children who are already attending school.
- *The process for recognising equivalent qualifications obtained overseas*. Services have experienced difficulties in hiring qualified staff from outside Australia, as their qualifications must be recognised by the national authority, ACECQA.

These are just some of the examples of the inflexibility that the NQF rules have imposed on the childcare sectors. There are many other examples that individual services have identified. However, the general point is clear: regulation has reduced the flexibility of childcare services and increased their operating costs.

Staff shortages

The staffing rules have also contributed to reported shortages in qualified childcare staff, despite rapid growth in the workforce. In its 2014 inquiry, the Productivity Commission noted that:

> *The new staff ratios and qualification requirements in the NQF have made it more difficult for services to attract and retain sufficient staff by substantially increasing the demand for ECEC workers*.[80]

The Productivity Commission also reported that shortages were most apparent in New South Wales, in regional and remote areas, and for diploma-qualified staff.[81] There is also evidence that childcare services struggle to attract qualified teachers, as primary schools and preschools can offer more competitive wages and better career prospects.[82] It is not clear that these shortages have abated since the time of the Commission's report.

The following section explores this issue further in the context of NSW.

Box 5: New South Wales: a case study

Despite the introduction of the NQF, the states and territories have been able to retain their own rules for the childcare sector, as long as they are stricter than the nationally agreed standards.

However, this means some states have chosen to maintain staff-to-child ratios and qualification requirements that go beyond the national standards. An example of this approach can be found in New South Wales, which accounts for the largest share of the childcare market.

The NSW government's Early Childhood Education and Care framework imposes stricter qualification requirements, namely:

- A requirement to employ up to *four degree-qualified early childhood teachers* in NSW, compared to *one qualified teacher* for the same number of children in other states and territories, as prescribed under the NQF.[83]

The peak body for private childcare providers in NSW, the Australian Childcare Alliance NSW, has noted that this lower minimum ratio has contributed to a shortage of qualified teachers for childcare services in NSW.[84] The NSW Education Department reported that 2017 was the third consecutive year of recruitment difficulties for early childhood teachers, following a persistent labour shortage from 2008 to 2014.[85]

The labour shortage is compounded by the fact that childcare services want to hire teachers with relevant experience; yet, many qualified teachers do not have adequate or appropriate experience or skills in childcare and have undertaken teacher qualifications that are not vocationally geared towards early childhood education.[86]

This example of NSW going beyond the NQF requirements is replicated across other states and territories in relation to other rules, such as minimum staff-to-child ratios. If the goal is to reap the benefits of harmonisation, allowing the states to go beyond the prescribed national requirements undermines this aim.

Questioning the NQF: implications for supply, prices and choice

Given the above analysis, what does the current regulation of childcare under the NQF mean for supply, prices and availability? Ultimately, it affects the ability of services to control their operating costs, seek out productivity improvements, and compete with other services on quality and price — all of which eventually affects parents, as end consumers.

As analysis in this report has demonstrated, the staff and qualification rules under the NQF have:

- Made it **more expensive for workers to enter the childcare sector**, through requiring qualifications and training;
- Increased **the wage costs of childcare services** by requiring them to employ qualified and additional staff at higher pay rates, in order to meet the staff-to-child ratios and qualification rules;
- Reduced the **commercial viability of some types of services and childcare places**, particularly places for under 2-year-olds; and
- Created **artificial labour shortages** in childcare services, due to the need to hire staff with teaching degrees.

The NQF distorts supply and competition

In some respects, childcare is a competitive market in Australia. This is not surprising, given the mix of private, public, for-profit and not-for-profit providers in the market. Analysis by the Productivity Commission suggests that childcare fees tend to converge in localised markets, which can indicate the effects of price competition.[87] Rates of business entry and exit in the childcare sector also appear to be broadly comparable to other sectors — another indicator of competition.[88] Moreover, survey data by the sector indicates a majority of childcare services rank competition from new centres as their top concern.[89]

However, market outcomes in childcare are not necessarily what you would expect in a 'normal' competitive market. The effects of regulation and reliance on government subsidies may be affecting the operation of the market in several ways.

Firstly, the total supply of childcare services has been growing rapidly in recent years,[90] but has not prevented prices from rising above inflation. In fact, there are reports of oversupply in some urban areas of Australia, particularly in Sydney. Representatives of the sector have raised concerns that relaxed local planning policies are encouraging corporate entities and private equity firms to invest in new childcare centres where there is already sufficient supply.[91] It also appears that provision of government subsidies is influencing investment decisions to some degree.[92]

Secondly, the rapid expansion of large childcare providers such as G8 Education and Affinity Group may indicate their greater ability to absorb the regulatory costs of the NQF. In general, small providers will have less capacity to absorb regulatory costs and must commit more of their resources to compliance. High regulatory costs can also act as a barrier to entry for small providers, as well as the upfront capital investment needed to establish a childcare centre.

Thirdly, the NQF is likely to dampen the incentives of childcare services to compete on other measures of quality, as the quality rating system forces all services to conform to a strictly defined set of standards. Government survey data show that childcare services perceive the mandatory quality assessments and quality improvement plans as the most burdensome administrative requirements of the NQF.[93] If all services are forced to conform to a defined set of standards (at the cost of significant time and resources), there is less scope and fewer resources to innovate or seek out productivity improvements.

The NQF offsets any benefits from demand-side subsidies

Demand-side subsidies are the main policy lever used by the federal government to promote affordability in childcare. The latest iteration of this policy is the Child Care Subsidy, introduced on 2 July 2018, which offers a subsidy based on a percentage of the hourly fee or the relevant benchmark price. However, a study by the Australian National University found the new subsidy would have an insignificant effect on parents' out-of-pocket costs of childcare.[94]

In many situations, broad-based subsidies may not be effective at reducing prices and can even have an inflationary effect if most consumers use them. Where demand for a service is responsive to prices (that is, demand is price-elastic), subsidies will tend to increase consumer demand, which places upward pressure on prices.

Of course, childcare prices are influenced by a number of demand-side and supply-side factors — including labour costs, lease costs, planning policies, and social trends (for example, female workforce participation). However, the effect of subsidies cannot be ignored. A joint AMP and University of Canberra report on childcare affordability concluded that childcare subsidies are likely to contribute to higher prices,[95] while international studies have found a positive correlation between the level of subsidies and childcare prices.[96]

However, even assuming there is less inflationary effect under the new system,[97] the Child Care Subsidy is unlikely to fully offset the impact of regulatory costs on childcare fees. Based on the 10-year estimates of the regulatory costs of the NQF,[98] it can be estimated that average fees for long day care, for example, were *11% higher in 2017 than they otherwise would have been*. In effect, subsidies have meant the burden of regulatory costs is shared between parents and taxpayers.

Under the new subsidy, the government is hoping an hourly subsidy cap will discourage childcare services from raising prices above the benchmark price, as fees in excess of the cap will not be subsidised. However, this ignores the fact that genuine increases in operating costs will place upward pressure on fees, regardless of the subsidy caps.

As childcare services adapt to stricter staff-to-child ratios and prepare for increased teacher requirements in 2020, it seems likely that childcare prices will continue to increase faster than inflation. Under the new subsidy arrangements, the only difference is that parents could end up bearing more of the price increase than taxpayers.

The trade-offs: affordability vs 'quality'

The preceding analysis illustrates that governments face an unavoidable trade-off between affordability and 'quality' in childcare, as defined by structural indicators like staff-to-child ratios. The two policy objectives currently work at cross-purposes: quality regulations raise costs for parents, while government subsidies attempt to lower costs for parents.

This is not the only conflict in the system. Childcare subsidies, because they are connected to encouraging parents back into the workforce, are activity tested on the basis of parents working. This reduces the cost of the system but makes non-working parents less able to access childcare. However, if the purpose of childcare is early childhood education, there is no justification for arbitrarily restricting access to the system on the basis of parental employment status.

In the coming years, the tension between the two objectives will become ever more apparent, as pursuing both policy objectives will not be fiscally sustainable or efficient. Put simply, something has to give.

As childcare prices start to exceed the hourly subsidy caps, parents will bear more of the burden through higher out-of-pocket costs. In a circular fashion, this is likely to result in public pressure on the government to increase subsidies even more. Even more concerning, future governments are likely to come under pressure to take more radical action, such as direct price controls on childcare. Price controls would undoubtedly worsen the problem, by restricting the supply of childcare, particularly in inner-city locations where operating costs are higher.

Future direction of regulation

It is clear that a radical re-think of childcare regulation and policy is required. Governments — at both federal and state level — must decide on clear and consistent policy objectives that do not work at cross-purposes. They must decide if the key objective is female workforce participation or the early education of children. The scale of this challenge is enormous, as there are strong public interests lobbying for both objectives.

If the primary objective is to support working families, governments should work to reduce the scope and volume of regulations that drive up the costs of delivering childcare services. At the very least, COAG should revisit the Productivity Commission's 2014 report recommendations to simplify, relax or remove some of the more arbitrary elements of the staffing and qualification requirements under the NQF.

Notwithstanding the need for health and safety standards, there is a strong case for governments to allow childcare providers to exercise greater flexibility. Childcare centres should have greater autonomy to tailor their services to parents' individual preferences and differentiate their services in order to compete. Some parents may value a 'top tier' childcare service that provides formal learning curriculums or other services; others may legitimately prefer a 'no-frills' service if it offers other benefits, such as flexible opening times or lower prices. Allowing a wider range of services is critical to improving parents' access to childcare.

Conclusions

Formal childcare services remain unaffordable and difficult to access for many parents in Australia. Despite government subsidies for childcare, fees and out-of-pocket costs continue to grow above inflation. The use of waiting lists for childcare places and patchy shortages of some types of care — like after-school care — also reflect the challenges facing parents in accessing suitable childcare.

It is clear that government policies have contributed to these problems. Namely, the regulation of childcare under the NQF has focused on promoting early childhood education and highly contestable measures of quality in childcare, at the expense of affordability and accessibility. In particular, mandatory staff-to-child ratios and qualification rules have increased operating costs for childcare services, which are passed on to parents through higher fees.

There is also an inherent tension in current government policy: using one hand to reduce childcare costs through taxpayer subsidies, and using the other hand to drive up costs through regulation.

Consequently, governments face an inevitable trade-off between supporting 'quality' in childcare and affordability. If governments want to prioritise affordability in order to support working parents, they will need to make politically difficult judgments to reduce the burden of regulation on the childcare sector. As a starting point, COAG should re-visit some of the recommendations of the Productivity Commission's 2014 inquiry to reduce the staffing and qualification rules — particularly in light of new studies that cast further doubt on the benefits.

Reducing regulation is the only way governments can truly promote affordable and accessible childcare. A major re-think of childcare regulation will only become more urgent with time, as childcare increasingly becomes a household expense that many families can no longer sustain.

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