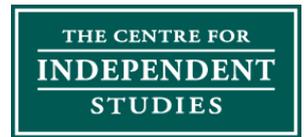




RESEARCH REPORT SNAPSHOT



Why childcare is not affordable

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Childcare in Australia: why does it matter?

More parents in Australia 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.

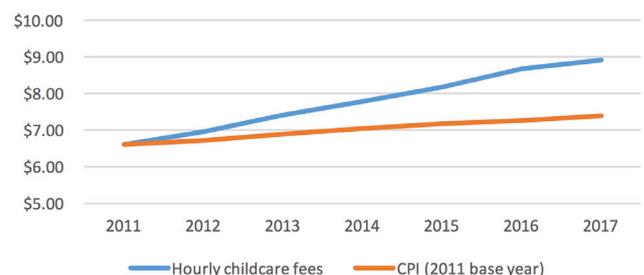
- Australian families have a high dependency on childcare, with around 50% of young children attending some form of childcare. This includes both formal, centre-based childcare and informal childcare such as grandparents or nannies.
- There has been little change in the overall use of childcare in the past 20 years.
- More children are now in formal childcare, but this has been offset by fewer children receiving informal care. Part of this shift is likely due to the availability of price subsidies for formal childcare.
- The shift to formal childcare and the growing cost of subsidies means it is more important than ever for governments to have in place the right policy settings that support affordable childcare.

Childcare prices are continuing to soar despite subsidies

- Taxpayer subsidies for childcare have proven unsuccessful in delivering affordable services and containing price growth.
- Childcare fees in Australia have been growing well above inflation in recent years (Figure 1). Across all childcare service types, hourly fees increased on average by 20.7% in real terms between 2011 and 2017.

- Even after claiming subsidies, parents' out-of-pocket costs have continued to grow each year. From 2011 to 2017, average weekly out-of-pocket costs increased by 48.7% in real terms.

Figure 1: Growth in average hourly childcare fees since 2011 compared to CPI growth



Uneven supply is affecting childcare availability

- The supply of childcare services in Australia is uneven and fragmented. Oversupply of some types of childcare appears to be a problem in some urban areas of Australia, while shortages and waiting lists are occurring in other areas.
- Childcare places for children aged under two, in particular, are reported as undersupplied, with waiting times as high as two years. Outside school hours care also appears to be in short supply in parts of Australia.

Figure 2: The national framework for the regulation of childcare



Source: ACECQA Guide to the NQF

The sector is highly regulated and reliant on government support

- Formal childcare in Australia is a highly regulated sector, although services are largely delivered by private providers on a fee-for-service basis.
- Childcare has been subject to growing and evolving regulation over decades, which has culminated in the introduction of the National Quality Framework (NQF) in 2012, endorsed by the Council of Australian Governments (COAG).
 - The NQF provides a national framework for the regulation and quality assessment of childcare services in Australia (Figure 2).
- The childcare sector is highly reliant on taxpayer-funded subsidies to support consumer demand. The three largest childcare providers were estimated to have received more than \$500 million worth of subsidies in 2011–12.
 - The sector’s reliance on government subsidies is unlikely to dissipate, with the annual cost of childcare subsidies to the Federal Budget expected to reach \$9.5 billion by 2022.
 - In July 2018, the federal government introduced the Child Care Subsidy, which provides a single, means-tested payment which reduces the amount that parents pay for childcare.

Regulation is driving up costs for childcare providers and workers

- A core element of the NQF is the minimum staff-to-child ratios and qualification standards for childcare workers, which have been phased in progressively by the states and territories since 2012.

Table 1: Staff-to-child ratios under the NQF

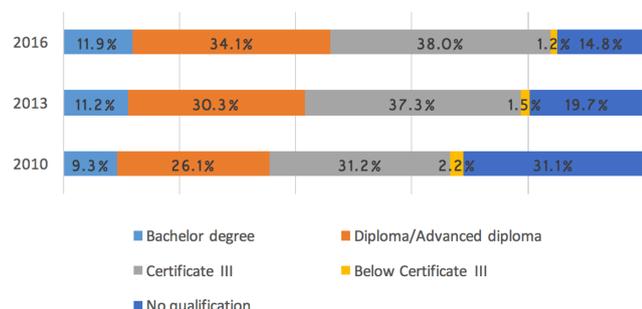
Age of children	Staff to child ratios
Birth to 24 months	1:4
Over 24 months and less than 36 months	1:5
Over 36 months up to and including preschool age	1:11
Over preschool age	1:15

- The impact of these rules has been evident in the rapid growth and professional development of the childcare workforce in recent years:
 - The workforce has grown by 72% since 2010, outpacing the 46% increase in the number of children in child care. For long day care alone, the workforce has increased by nearly 60 per cent.
 - More than four fifths (85.2%) of childcare contact staff now have a relevant qualification, compared to 68.9% in 2010.
 - The number of diploma-qualified staff, alone, has increased by 85% since 2010.
- However, these staff ratios and qualification rules have come at a significant cost to the workforce and service providers.
 - For workers, obtaining qualifications represents a major cost and time commitment with diploma-level qualifications taking up to two years to complete, while the costs can be as high as \$10,000, and the returns on this investment are highly uncertain.

Table 2: Staff qualification rules under the NQF, for centre-based services with children pre-school aged and under

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.
	25 children or more	The service must ensure an early childhood teacher is in attendance for 6 hours per day, or 60% of the time, when operating for less than 50 hours per week. From 2020, additional requirements will apply for centres with 60 children or more.

Figure 3: Qualification level of ECEC workforce



- Childcare providers' wage expenses have increased significantly, and productivity has decreased, as a result of both stricter staff ratios and qualification rules. Providers have had to employ more staff and at higher levels of pay.
 - Estimates suggest that wage costs for the childcare sector in 2016 were around \$200 million more than they otherwise would be, due to the increased proportion of staff with higher level qualifications. However, the impact of the staff-to-child ratios on wage costs is likely to be substantially more.
 - COAG estimated that the staff-to-child ratios and qualification rules, together, 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.

Regulation is reducing affordability and availability for parents

- The regulatory costs of stricter staff ratios and qualification rules are being passed on to parents in the form of higher fees.
- Based on the 10-year estimates of regulatory costs associated with the NQF, it is estimated that average fees for long day care — were 11% higher in 2017, due to the impact of the NQF.

The evidence base for the NQF is weak and the benefits are overstated

- Previous CIS research found there was little conclusive evidence, based on both Australian and international research, that the NQF rules would significantly improve the cognitive, social or behavioural outcomes of children.

National harmonisation under the NQF is largely a myth

- The goal of the NQF was to establish a national, harmonised system for the regulation and licensing of childcare across the states and territories. Yet, the NQF has not achieved this outcome in many respects.
- In some cases, the states and territories have retained their own staff ratios and qualification rules, rather than adopt the national standards.
- A comprehensive inquiry by the Productivity Commission in 2014 recommended a number of changes to simplify, harmonise, or reduce the staff-to-child ratios and qualification rules (Box 1). However, COAG has failed to progress many of these recommendations.

Government policies on childcare are working at cross-purposes

- There is also an inherent tension at work in current government policy: using one hand to reduce childcare costs through price subsidies, while using the other hand to drive up costs through a complex regulatory system.
- The supply-side regulation of childcare through the NQF has cemented childcare as a high-cost and inflexible service, and works at cross-purposes to demand-side subsidies for childcare.

Box 1: What did the Productivity Commission recommend in its inquiry?

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

- Develop a national set of staff ratios (no stricter than 1: 15) and qualifications rules for outside school hours care and vacation care.
- More flexible qualification rules for centre-based services, such as requiring contact staff to hold a minimum of a certificate III qualification only (rather than a diploma).
- Harmonisation of staff ratios and qualification rules across all states and territories.
- Greater flexibility for services to meet staffing requirements, for example, by allowing certificate-qualified staff to replace diploma-qualified staff for short absences.

What has happened since then?

In 2014, a 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, which came into effect from 2017:

- Minor revisions to the National Quality Standard.
- New regulations to increase oversight of family day care services.
- Removal of supervisor certificate requirements for childcare services.
- Introduction of a national staff-to-child ratio of 1:15 for outside school hours care.

A more flexible approach to regulation is needed

- 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.
- Consequently, based on the current trajectory of costly regulation and growing subsidies, governments in Australia face an inevitable trade-off between supporting 'quality' in childcare and affordability.
- Governments at all levels must 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.
- These decisions will require politically difficult judgements, as there are strong public interests lobbying for both objectives.
- As a starting point, COAG should revisit the Productivity Commission's findings and recommendations to simplify, relax or remove some elements of the NQF staffing and qualification rules.
- Regulation should also focus on essential child health and safety standards, while allowing childcare providers to have more autonomy to tailor their services to suit parents' individual preferences.

Author

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