

## 5. Availability of ECEC

### Key points

- ✳ **In 2023, over 18,500 services offered early childhood education and care (ECEC) in Australia.**
  - Nearly half were centre-based day care services (CBDCs), about one quarter provided outside school hours care (OSHC) and about the same proportion were dedicated preschools. Family day care (FDC) and In Home Care services (IHC) accounted for a very small share of the sector.
  - For-profit providers accounted for about half of all services, not-for-profit providers a further 30% and schools or state and territory governments the remainder.
- ✳ **The sector has expanded rapidly over the past decade. Service numbers grew by 25% in the 10 years to Q1 2023 and the number of approved places rose by nearly 50% to over one million.**
  - Faster growth in approved places than service numbers points to services becoming larger.
  - Growth was primarily in CBDC and OSHC; dedicated preschool provision hardly changed and the number of FDC services decreased significantly from 2016 (following a rapid expansion) as the Australian Government addressed integrity issues.
  - Growth was overwhelmingly delivered by the for-profit sector. Large providers (who operate 25 or more services) accounted for a marked share of the growth, particularly in OSHC where small provider numbers (who operate one service) fell.
- ✳ **Despite growth, many have raised issues with the availability of ECEC services.**
  - ECEC availability, especially for CBDC, is variable and tends to be lower in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. To some extent, this may reflect a lack of local demand or inability of an area to support a service, or both. Only 8% of children aged 0–5 live in communities with sufficient CBDC provision to support to access to three days of ECEC a week – were that something that families wanted.
  - Including dedicated preschools improves the picture of availability. However, places in dedicated preschools only increase availability for children aged 3–5, and these services often have more limited days of operation and / or shorter session lengths than CBDCs so are not directly substitutable.
  - Only about half of all primary schools in Australia offer OSHC.
- ✳ **Many regional and remote areas are ‘thin markets’ – relatively low levels of demand mean the costs per child of delivering services are higher than families are willing or able to pay with current subsidy arrangements.**
  - If the activity test were relaxed and affordability improved for lower-income families, demand for ECEC would increase in some areas to the point where services are viable without further government support and supply would expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe) likely have this characteristic.

- In other areas, prospective providers may still be reluctant to invest, perhaps due to higher costs and challenges of hiring and keeping educators and teachers. Supply side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 whose families choose to use ECEC.

Availability of formal early childhood education and care (ECEC) enables families – particularly mothers – to make choices about their participation in work, volunteering, study or training and about their children’s engagement in early learning. The ECEC sector has grown substantially over the past 20 years and continues to do so. However, research by the Mitchell Institute and the Australian Competition and Consumer Commission (ACCC) reported poor availability of ECEC in some places – particularly in regional and remote areas. There are also reports of families having difficulty finding ECEC services in their local area and inquiry participants have relayed that ECEC availability is lacking in regional and remote areas and for children aged 0–2.

Key questions for this inquiry go to:

- the level of availability sufficient to constitute ‘universal access’ and support net community benefits
- how to increase availability in places where the market-based model has resulted, and likely will continue to result, in undersupply.

The paper begins by considering the level of availability sufficient to constitute universal access (section 5.1). It then describes the ECEC sector in Australia, including growth in provision and the roles of for-profit and not-for-profit providers, along with the availability issues that inquiry participants and others have raised (section 5.2). The paper then examines the extent to which ECEC is available in different parts of Australia (section 5.3), and considers why some areas appear to be undersupplied, including reasons why providers are not servicing a particular area (section 5.4). It then turns to the question of how governments might best ensure that all families seeking access to ECEC are reasonably able to do so (section 5.5), and concludes with a brief discussion of four particular availability issues (section 5.6).

This paper focuses on the question of whether services are available in an area and not on how well the characteristics of available services (such as the hours and days offered) meet the needs of families. This latter set of issues is considered in paper 7.

## 5.1 All children should have an ECEC entitlement

The terms of reference for this inquiry direct the Productivity Commission to consider a universal ECEC system, but do not define what that means. Inquiry participants have suggested different ways to think about universality, from ECEC that starts at birth for all children to ‘proportionate’ universality, comprising a baseline level of provision for all but with higher levels of support for some, for example, children from age three or those experiencing disadvantage.

In designing the inquiry’s draft recommendations, the Commission has considered that a universal system is one that focuses on the needs of children, and enables all children access to services that would support their development – while also considering the preferences and needs of their families.

An ECEC system that enables universal access is consistent with the *Draft National Vision for Early Childhood Education and Care*, which includes the outcome that ECEC is an entitlement that ‘all families who choose to use can access’ (DoE 2023d, p. 2). Similarly, outcome 3 in the *National Agreement on Closing the Gap* states that ‘Aboriginal and Torres Strait Islander children are engaged in high quality, culturally appropriate early childhood education in their early years’ (Australian Government 2020, p. 24).

Universal, however, does not mean uniform. In a universal system, some form of ECEC would be available to all children regardless of where they live, but the mode of provision would differ depending on location and the needs of children.

But what level of availability would be consistent with universal access?

There is no clear answer on an 'optimal' rate of attendance or model of ECEC delivery that would ensure children and families get the most benefit out of ECEC (paper 1). Attending ECEC is a family decision, that takes into account many factors, including views on early education and the roles of mothers and fathers, the preferred balance between caring for young children and other activities, the cost of ECEC and how suitable services are to family circumstances.

Many inquiry participants have advocated for an entitlement of up to 30 hours or three days of ECEC a week at no or low cost for all children, with additional days for children experiencing vulnerability and disadvantage. This number of hours aligns with some states' plans for the delivery of preschool to children in the year before they start school. The South Australian *Royal Commission into Early Childhood Education and Care* called for 30 hours of preschool per week to be available in the two years before school to 1,000 children in each year level who are identified as being at greatest risk of developmental vulnerability – with the view to expanding eligibility over time (SA Government 2023b, pp. 20–21).

About two-thirds of children who already attend ECEC services do so for up to three days a week, which mostly likely reflects their parents' working hours (appendix D). Many families also use some informal care (because ECEC is too costly or inflexible or because of the desire for children to be cared for by family), some parents have a preference for part-time work to allow them to also care for their children and others may find that the incentives inherent in the tax and transfer system, alongside ECEC fees, mean that the additional income beyond three working days per week tends to be small for a secondary income earner.

Ensuring that all children aged 0–5 years have access to some form of subsidised ECEC for three days a week (up to 30 hours) would strike a balance between the preferences of families and the incentives they face, and the benefits for children from ECEC participation.

This is not to say that families should not be able to choose the number of days that is most appropriate for their child or their labour force participation choices. Places will need to be available for families who choose to use more than three days, so that they will not have to change current attendance patterns.

But a policy setting of at least three days sets a benchmark that governments can consider as a long-term policy goal for universal access to ECEC – ensuring that each child can access three days of quality, age-appropriate ECEC. The specific services available will take different forms depending on their location. Major urban centres already have many centre-based day care (CBDC) services in operation, but in regional and remote areas an expansion of family day care or mobile services might be more in line with local needs.

Alongside changes to subsidy arrangements to increase affordability (paper 6), and improvements in inclusion and flexibility (paper 7), ensuring sufficient availability for all children aged 0–5 to take up an entitlement of up to three days a week of ECEC if their families chose to use it, would enable universal access to ECEC.



### Draft finding 5.1

**All children aged 0–5 years should be able to attend up to 30 hours or three days of quality ECEC a week for 48 weeks per year**

Up to 30 hours or three days a week of quality ECEC should be available to all children aged 0–5 years whose families choose to use ECEC. Meeting this benchmark, along with improved affordability, inclusion and flexibility, would enable universal access to ECEC.

## 5.2 Characteristics of ECEC markets in Australia

Most ECEC services are delivered through a ‘managed’ market-based model in Australia.<sup>1</sup> While governments subsidise ECEC fees and regulate the quality of services, ECEC is delivered to the community primarily on a fee-for-service basis and mostly by non-government providers<sup>2</sup>. These providers decide when and where to set up their services and what fees to charge. This section describes the ECEC sector in Australia and growth in the sector.

### ECEC is provided through a variety of services and provider types

The formal ECEC sector comprises a number of different service types (figure 5.1).<sup>3</sup> Most are approved to receive the Child Care Subsidy (CCS) on behalf of parents. These include CBDC, family day care (FDC) and In Home Care (IHC) services which primarily cater to children aged 0–5 and outside hours school care (OSHC) services which primarily cater to school aged children.

Preschool differs from other forms of ECEC in that it is an educational program, rather than a service type per se. Programs are delivered in either a dedicated preschool service or a CBDC and funded via a combination of Australian and state and territory government resources (appendix E). In 2022, about 13,000 ECEC services offered preschool programs. One third were dedicated preschools; two-thirds were CBDCs. The CBDC delivery method is most common in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory; provision in dedicated settings is high in Western Australia, Northern Territory and Tasmania.

A range of other, smaller ECEC services are funded through other government initiatives. While these represent a small segment of the sector, they are likely very important to those who use them. For example, mobile care helps to provide preschool and childcare services in rural and remote towns (section 5.5).

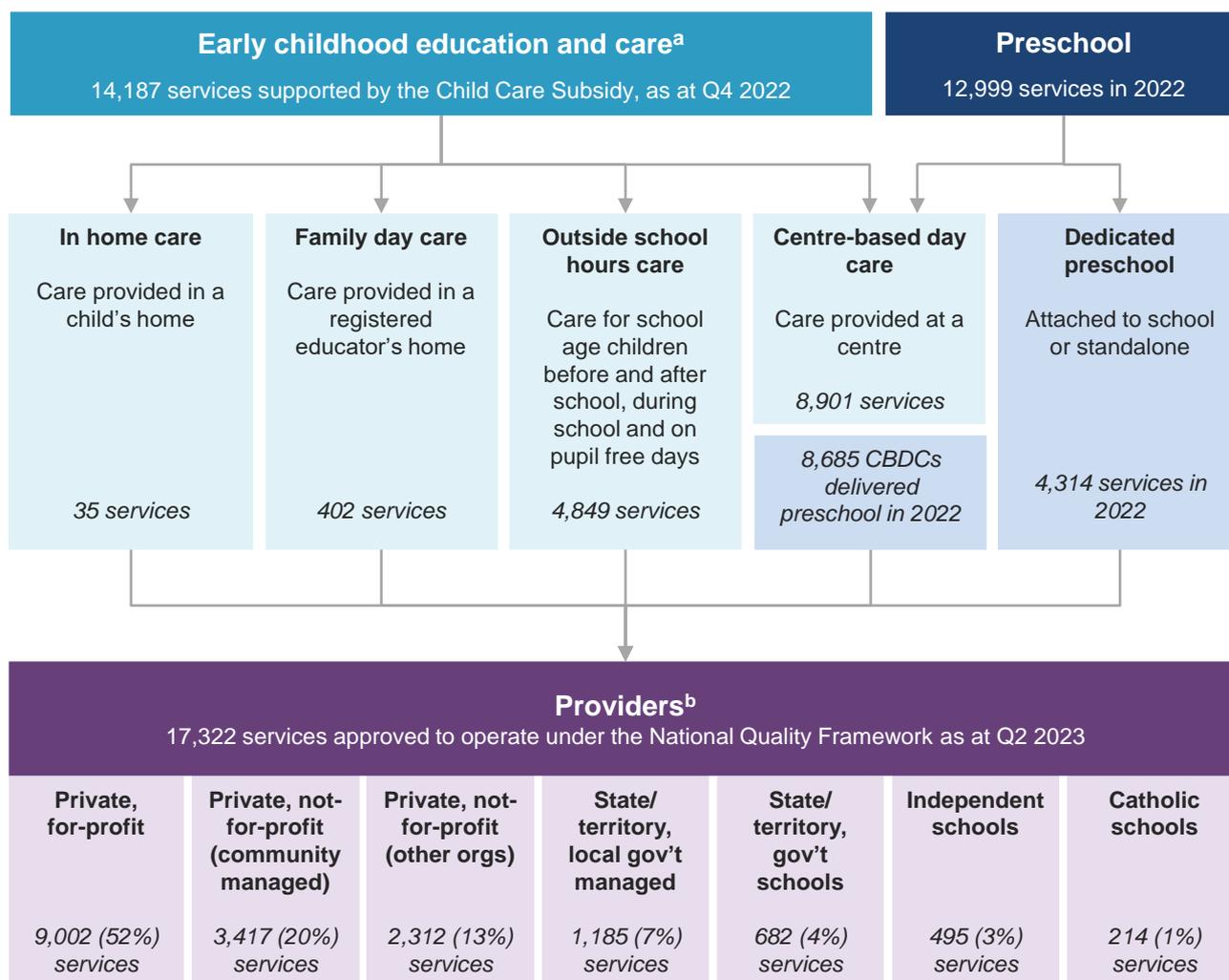
Much of the discussion in this section draws on data collected by the Australian Children’s Education and Care Quality Authority (ACECQA) which covers services regulated under the national quality framework (NQF). Most dedicated preschools in Western Australia, all dedicated preschools in Tasmania and all IHC services, sit outside the NQF and are, therefore, not represented in this section’s analysis.

<sup>1</sup> A large proportion of preschool programs in Tasmania, South Australia and Western Australia are delivered through primary schools and funded by their state governments.

<sup>2</sup> The Australian Government became involved with ECEC provision in 1938 with the establishment of the Lady Gowrie Child Centres in each state (Press and Hayes 2000, p. 17).

<sup>3</sup> ‘Informal ECEC markets include services such as those provided by nannies, babysitters, and play groups. Informal care also includes arrangements with grandparents, relatives, and kinship carers.’ (Australian Government Department of Education, sub. 90, p. 7).

**Figure 5.1 – Structure of the ECEC sector**



a. State and territory funded ECEC services are excluded from the chart (166 services in 2022). b. Operate services. The majority of providers only operate one service. The difference between the 18,501 services enumerated in the top panel and the 17,322 enumerated in the bottom panel is due to the services not captured in the ACECQA data (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). There are also 15 unclassified services in the ACECQA data.

Source: ACECQA (2023b); DoE (2023c); SCRGSP (2023).

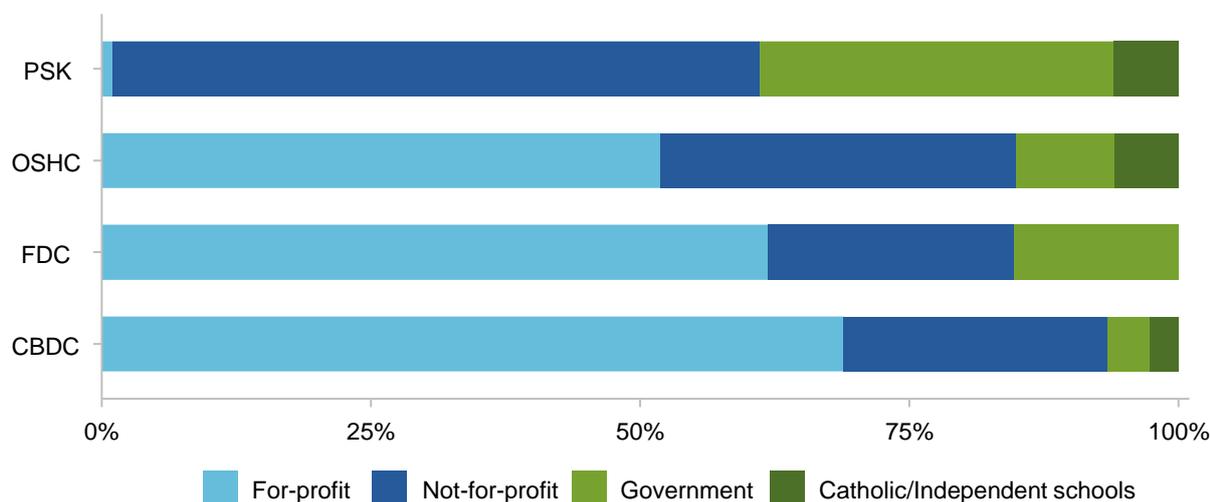
**Over half of ECEC services are delivered by for-profit providers**

Over 50% of ECEC services (excluding dedicated preschools) are delivered by for-profit providers (figure 5.2). Not-for-profit organisations, state and territory governments and catholic and independent schools are responsible for the remainder. Dedicated preschools are mainly delivered by not-for-profit organisations and state and territory governments.<sup>4</sup>

<sup>4</sup> Most dedicated preschools in Western Australia and Tasmania are part of the school system. If those services were captured in the ACECQA data the share of dedicated preschools run by governments and schools would be higher.

**Figure 5.2 – The majority of ECEC services are delivered by for-profit providers, with the exception of dedicated preschools<sup>a,b</sup>**

Share of services by provider type, Q1 2023



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool.

b. ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services).

Source: ACECQA (2023b).

### A small number of providers operate a significant share of ECEC services

Only a handful of providers are classified as large – just 1% operate 25 or more ECEC services (figure 5.3). But these providers account for just over one-third of all services (ACECQA 2023b, p. 9), and some operate multiple types of ECEC services. For example, the Y Australia (sub. 127, p. 7) noted that they operate 430 services across OSHC, CBDC and dedicated preschools.

Concentration in the ECEC sector has increased over the last decade. Between 2013 and Q1 2023 the share of large providers did not change (it remained at about 1%) but the share of services operated by those providers increased from 28% to 35% (ACECQA 2013, p. 8, 2023b, p. 8). Larger firms may find it easier to raise or obtain funds to expand or have greater capability in opening and operating new services.

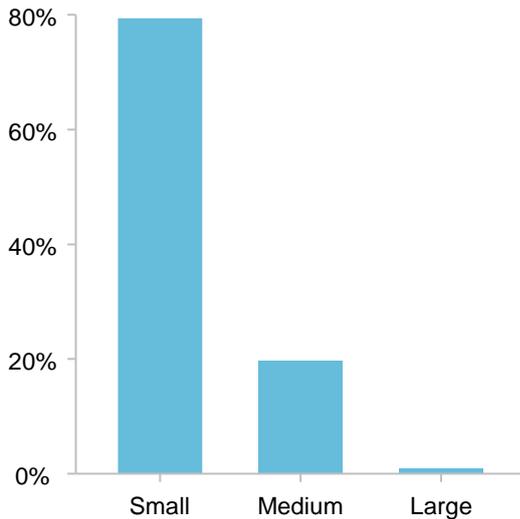
### ECEC markets are highly localised

Location is an important consideration in families' choice of a centre – families tend to prefer an ECEC service close to their home (figure 5.4; ACCC 2023a, p. 10). The ACCC (2023a, p. 54) found that the median distance families travel to a CBDC service in major cities is around 2 km, with families in inner and outer regional areas travelling slightly further (between 3.25 and 3.5 km). Families in remote and very remote Australia travel very short distances (between 1 and 2.25 km) reflecting that towns are geographically small, so families attend if there is a service in town near their residence but otherwise do not (ACCC 2023a, p. 54). The ACCC also found that most families were unwilling to travel for more than 15 minutes to access a service (ACCC 2023a, p. 9).

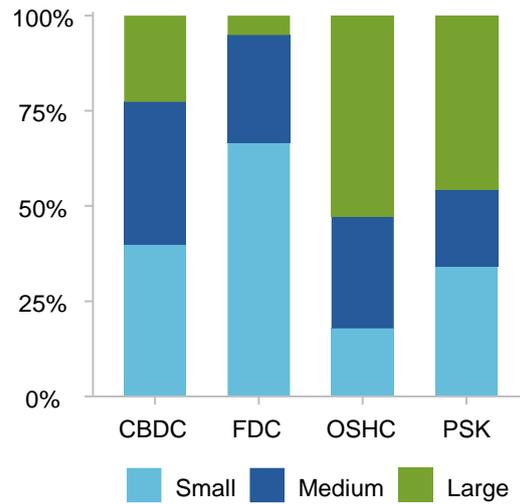
The fact that most families use ECEC services that are relatively close to home – or en route to another destination – suggests that ECEC markets are highly localised and that availability of ECEC must be considered at a local level.

**Figure 5.3 – 1% of providers operate 25 or more services, but they account for significant shares of all services<sup>a,b,c</sup>**

**a) Per cent of providers by provider size, Q1 2023**



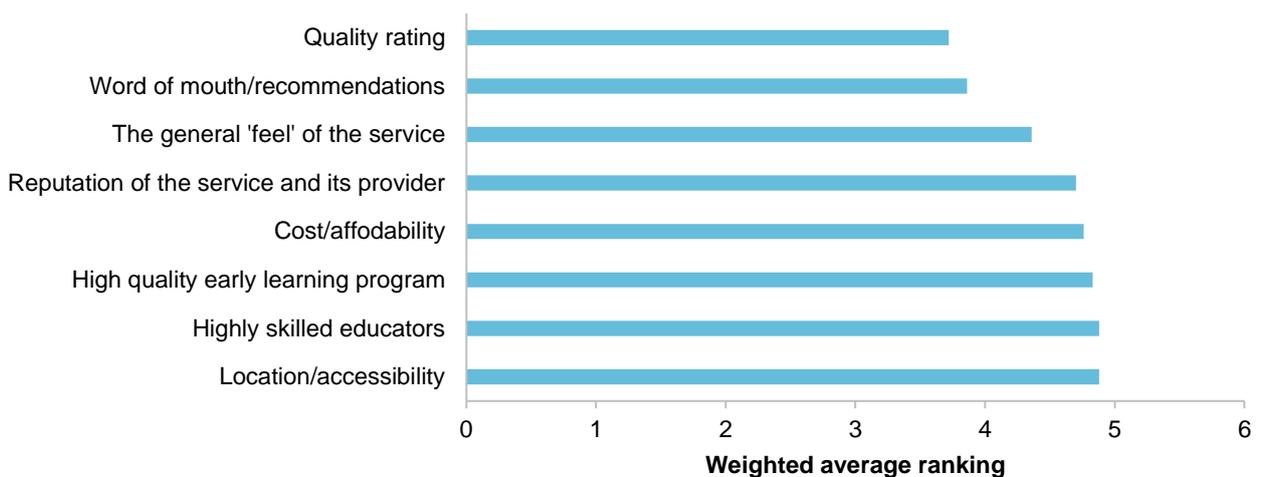
**b) Per cent of services by type and provider size, Q1 2023**



**a.** CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool. **b.** A small provider is defined as operating one service, a medium-sized provider operates between 2 and 24 services, and a large provider operates 25 or more services. **c.** ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services).

Source: ACECQA (2023b).

**Figure 5.4 – Location is an important factor in families’ choice of an ECEC service<sup>a</sup>**  
**Rankings of the importance of factors that influence choice of service, 2021**



**a.** There were 4,026 survey respondents who were asked to rank in order of importance to them a range of factors when choosing an education and care service for their child. Higher scores indicate higher relative importance.

Source: ACECQA (2022, p. 49).

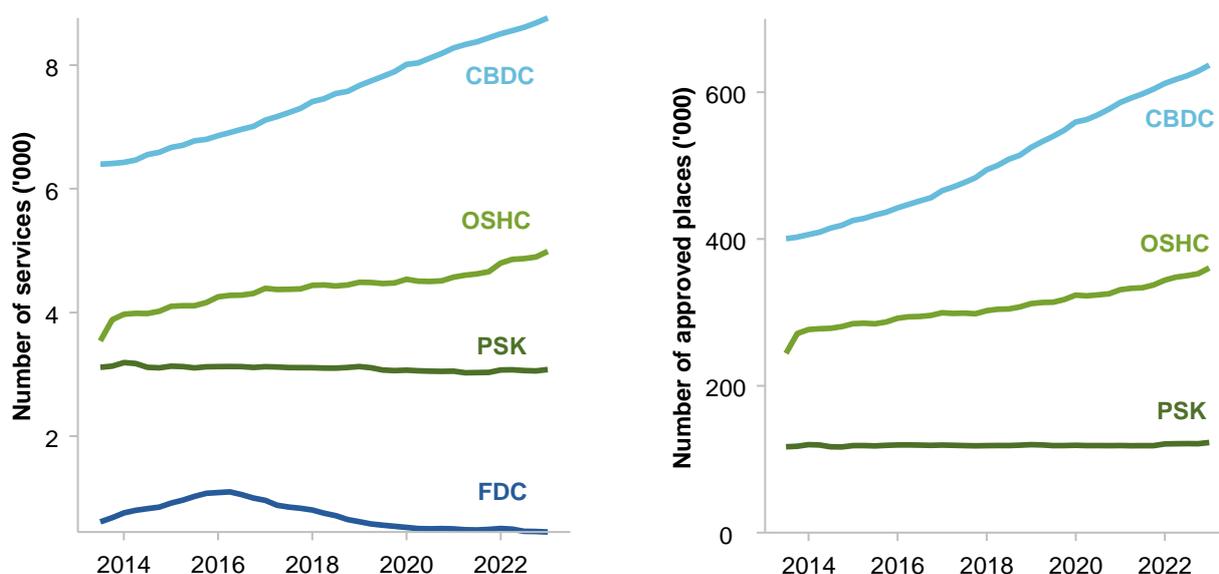
## The supply of ECEC has increased significantly over time

The number of ECEC services has grown considerably over the past two decades. Service numbers rose by nearly 60% between 2002-03 and 2012-13 (PC 2014, p. 349). While growth slowed over the following decade, the total number of ECEC services (enumerated in ACECQA data) increased by about 25% to over 17,300 in Q1 2023. The rate of growth varied markedly by service type (figure 5.5). Service numbers in both CBDC and OSHC expanded, the number of dedicated preschool services did not change and the number of FDC services decreased post 2016 following a rapid expansion. Further, more OSHC services are offering vacation care than previously – in 2013, 63% of OSHC services offered vacation care, this increased to 74% by Q1 2023 (Productivity Commission estimates based on ACECQA data).

The total number of approved places (excluding places within FDC due to a lack of data) outstripped growth in the number of services over the decade to Q1 2023, rising from about 760,000 in 2013 to 1.1 million – an increase of nearly 50%. Mirroring changes in service numbers, this growth occurred in CBDC (59% increase) and OSHC (48% increase). Faster growth in approved places than services is consistent with CBDC and OSHC services becoming larger and offering more places on average.

**Figure 5.5 – The ECEC sector has grown significantly<sup>a,b,c</sup>**

**Number of services and approved places by service type, Q3 2013–Q1 2023**



a. CBDC=centre-based day care, FDC=family day care, OSHC=outside school hours care, PSK=dedicated preschool (standalone or in a school). b. ACECQA data excludes services that do not fall under the NQF (including most WA dedicated preschools, all Tasmanian dedicated preschools and all IHC services). c. The ACECQA data does not provide the number of approved places for FDC. The ratio in family day care is one educator for a maximum of seven children, and there can be no more than four children who are preschool age or under (per educator) (Boyd 2020).

Source: ACECQA (2023b).

### For-profit providers accounted for most of the increase in CBDC and OSHC; smaller providers played only a small role

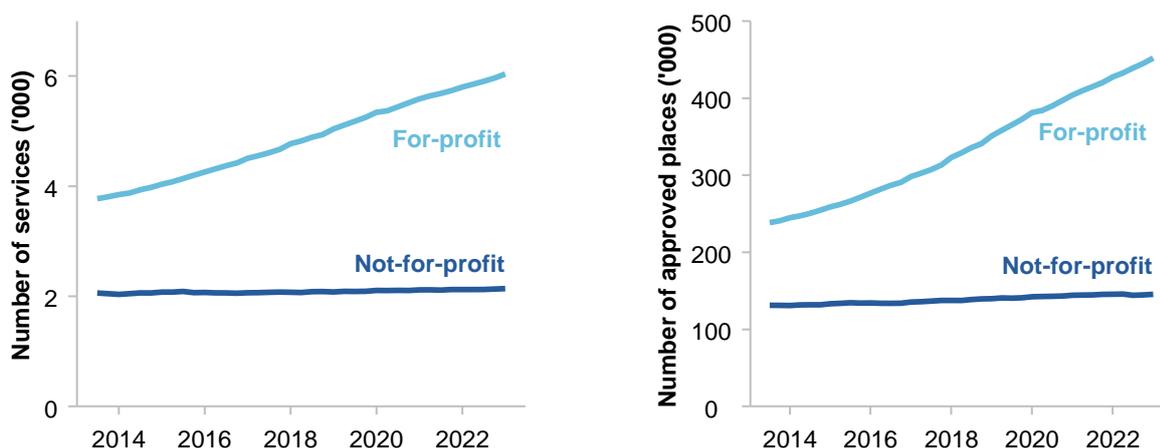
Growth in for-profit provision outstripped growth in not-for-profit provision by a considerable margin over the decade to Q1 2023 (figure 5.6). In the CBDC sector, the number of for-profit services increased by 60%; the number of not-for-profit services increased by only 4%. For-profits also accounted for the bulk of the increase in the number of approved CBDC places. The difference in growth of approved places between for-profits

and not-for-profits is less pronounced in OSHC. The fact that the number of not-for-profit OSHC services has not increased much but the number of approved places has, suggests that each not-for-profit service is now larger on average and that services are potentially responding to demand by supporting more children.

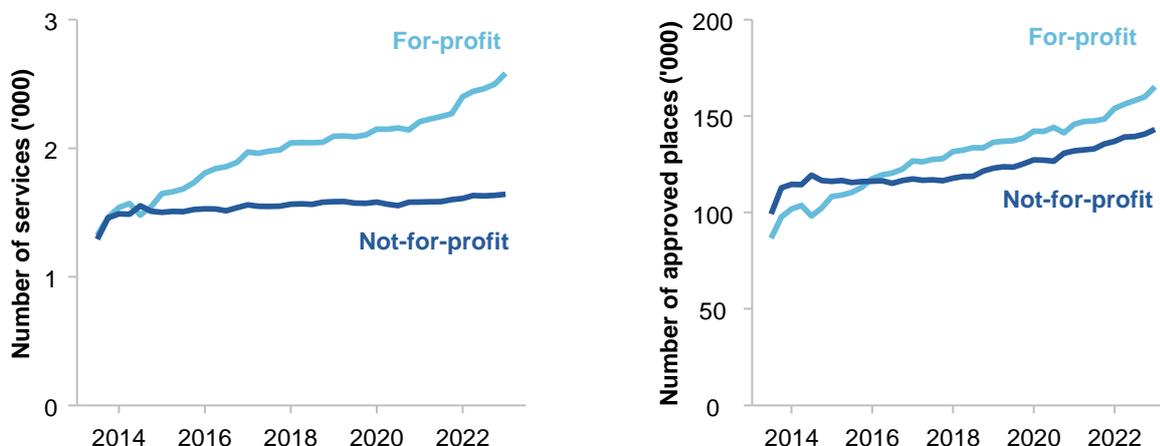
Medium and large providers have dominated the growth in CBDC and OSHC (figure 5.7). Some schools that had small OSHC providers (such as those run by school governing councils) made the switch to contracting with large providers, such as Camp Australia. Between 2013 and Q1 2023, about 421 schools (12% of schools with OSHC in 2013) changed their provider from a small one to a medium/large one – or an average of 9 schools switched in each quarter over the period (Productivity Commission estimates based on ACECQA data). This switching helps to explain the decrease in the number of small OSHC providers. About 230 schools kept the same provider but the provider grew from a small to medium/large one over the period.

**Figure 5.6 – Supply of CBDC and OSHC has grown through for-profit provision<sup>a,b</sup>**  
**Number of services and approved places by provider type, Q3 2013–Q1 2023**

**a) CBDC**



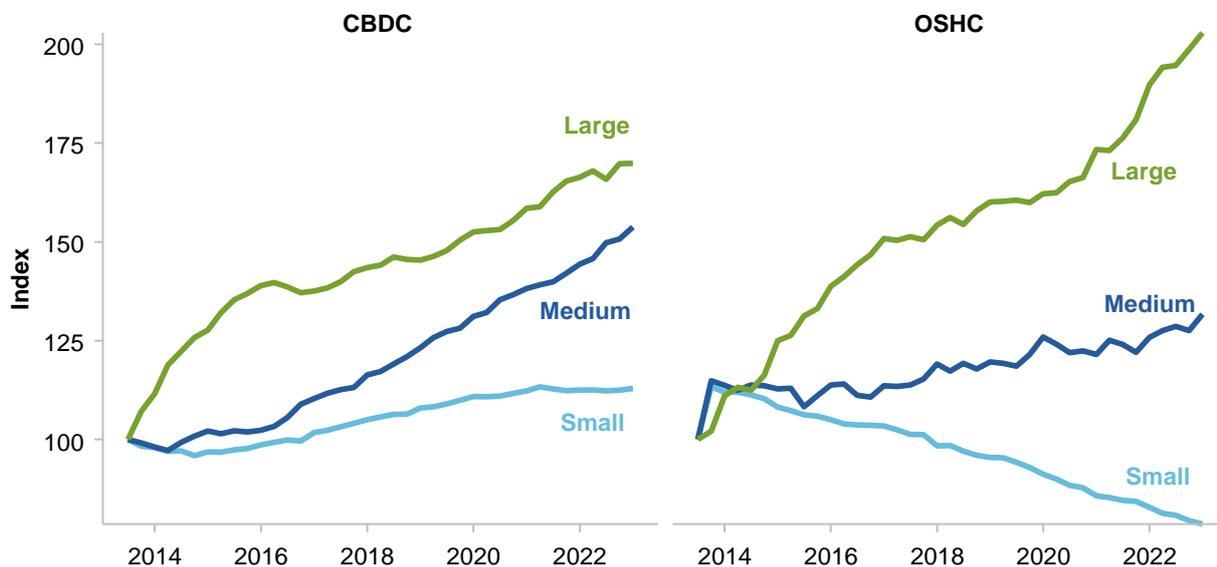
**b) OSHC**



a. Government, catholic and independent schools, and other unclassified provider types are excluded as they have very small shares of the sector and are therefore only small contributors to any growth.

Source: ACECQA (2023b).

**Figure 5.7 – Smaller providers accounted for little of the increase in supply<sup>a,b</sup>**  
**Index for the number of services by provider size, Q3 2013=100 (base), Q3 2013–Q1 2023**



**a.** A small provider is defined as operating one service, a medium sized provider operates 2 to 24 services, and a large provider operates 25 or more services. **b.** The index can be interpreted as the percentage change in the number of services since the base year (2013). For example, large providers of CBDC have increased the number of services they provide by about 75% between 2013 and 2023.

Source: ACECQA (2023b).

### Why have not-for-profit providers contributed so little to the growth in CBDC and OSHC?

A number of reasons potentially explain why not-for-profit provision has not grown despite at least some providers having advantages over for-profits in the form of support from charities or local governments – for example, a higher proportion of not-for-profits owned (12%) or had a donated site (1.4%) (ACCC 2023b, p. 62), and most receive some tax advantages.

Not-for-profit providers vary from ‘very large social enterprises to local governments and small community-based organisations’ (Bray et al. 2021, p. 16).

At least some not-for-profit providers channel surpluses into service delivery, for example, via over-award payments to staff or higher staff to child ratios (ACCC 2023b, p. 53; Press, sub. 135, p. 4; SA Government 2023a), with the aim of offering higher quality care. This use of surplus funds aligns with the ethos of these providers, but likely means that expansion may be harder and might only be possible for large not-for-profits such as Goodstart Early Learning.

Other, smaller, community-based centres focus on serving their local community, potentially meaning that they might not wish to expand into other communities.

The Commission has also heard that not-for-profit providers can struggle to access the capital necessary to expand (Early Learning Association Australia, sub. 48, p. 24). The South Australian *Royal Commission into Early Childhood Education and Care* presented a similar view:

not-for-profit standalone community run services, which comprise about a quarter of the long day care system, will not have the ability to access capital funding for expansion. Many of these operate in older facilities on a peppercorn lease arrangement (having benefited in earlier

generations from State and Commonwealth government investment in this kind of social infrastructure). They have volunteer management committees that may find the prospect of capital raising or debt financing daunting. (SA Government 2023b, p. 104)

Nevertheless, not-for-profits, like for-profits, receive the Child Care Subsidy via the families that use their services and could lease a new ECEC premises; they would not need to build a new centre.

The importance of each these factors, and whether other considerations play a role, is unclear. The Commission invites not-for-profit providers to provide information about the factors affecting their ability to grow (information request 5.1).



### Draft finding 5.2

#### Expansion of for-profit providers has been the main contributor to increased supply of ECEC

ECEC provision grew by 50% to 1.1 million places over the decade to March 2023, with much of the growth accounted for by for-profit centre-based day care.



### Information request 5.1

The Commission is seeking information about possible reasons why not-for-profit providers have not expanded to meet the growing demand for ECEC. What, if any, barriers and limitations do they face?

## Integrity concerns, not a lack of demand, explain the decline in family day care service numbers

FDC service numbers peaked at 1,100 in 2016 and have since fallen to 402. An evaluation of the 2018 Child Care Package noted that the then Department of Education, Skills and Employment was actively addressing compliance issues, particularly in FDC (Bray et al. 2021, p. 303). This caused a 'marked decline in Family Day Care, with 79.6 per cent of exits in this sector being associated with government compliance activity' (Bray et al. 2021, p. vii). The Australian Government Department of Education (sub. 90, p. 14) similarly noted that the integrity measures 'aimed at addressing fraud and non-compliance in the FDC sector ... have resulted in the cancellation of more than 200 FDC services'.

The Department of Education remains concerned about integrity risks in FDC provision. During the 2022-23 financial year, the Department received 35 applications to approve new FDC services for receipt of CCS, of which 4 were approved and 31 were refused. The Department is working on ways to address these concerns (Department of Education, pers. comm., 27 October 2023). They are also receiving funding from the Australian Government to perform activities to help safeguard the CCS program from fraud and non-compliance (Australian Government 2023, p. 98).

Inquiry participants noted that FDC demand remains strong. For example, the NSW Family Day Care Association (NSWFDCA, sub. 89, p. 6) submitted that 'demand for Family Day Care from families has not contracted' and that their 'members report extensive waiting lists'.

## Growth in supply overall has been a response to increasing demand

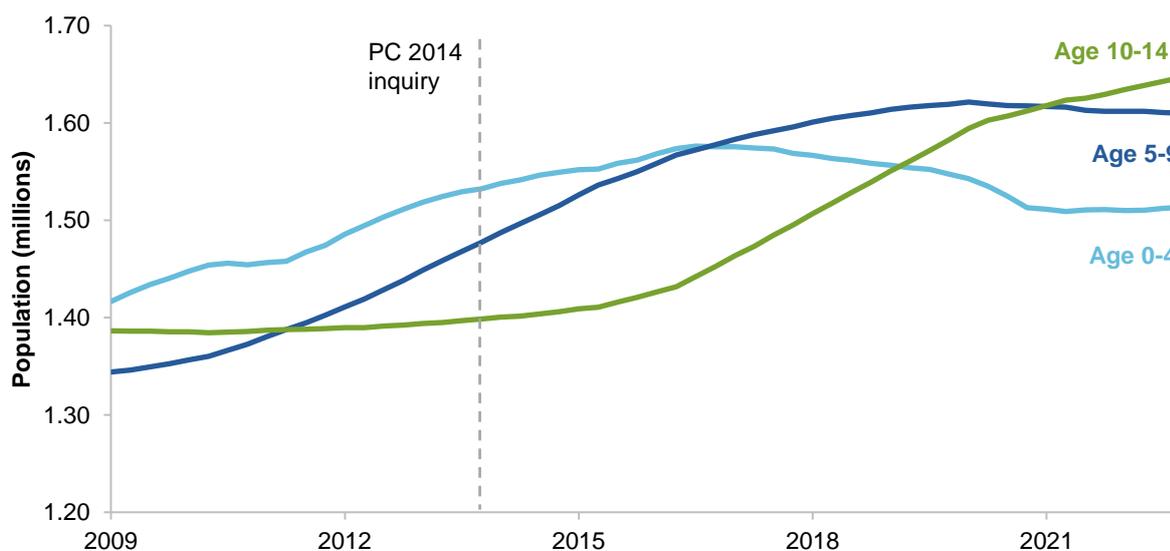
Growth in supply over the last decade reflects provider responses to increases in demand in part supported by subsidies.

At least two factors have contributed to that increase – changes in maternal labour force participation and population growth. As illustrated in paper 4, participation rates among mothers whose youngest child was aged 0–4 rose by over 10 percentage points (to 68%) in the decade to 2021. A rise, albeit smaller, was also recorded for mothers whose youngest child was aged 5–9. And the population of 0–4-year-olds grew steadily from 2009 to about 2016 then fell markedly and growth has levelled off in recent years (figure 5.8). Trends in the population of children aged 5–9 and 10–14 mimic the trends for children aged 0–4, delayed by a few years.

In the short-run, providers have limited options to increase supply. Once a service is at capacity, planning, building and staffing a new service can take a number of years (PC 2014, p. 352). Supply therefore tends to respond to changes in demand with a lag.

**Figure 5.8 – Population of children aged 0–4 has recently decreased after strong growth between 2009 and 2016**

**Population by age group, Q1 2009–Q4 2022**



Source: ABS (2023b).

## ECEC availability is a concern for many

Despite substantial growth in the sector, many parties have raised issues relating to the availability of ECEC, including a lack of supply in rural and remote areas and extensive waiting lists in many places. These issues suggest a lack of physical services or capacity to meet current demand (that is, at the current price and quality supplied) in some parts of the country. As supply takes time to expand, any additional increases to demand (such as from an increase in subsidies) could worsen availability issues.

The Mitchell Institute for Education and Health Policy at Victoria University (The Mitchell Institute) authored a report in 2022 that analysed the availability of CBDC in Australia. The work measured the supply of CBDC (the number of approved places in each service) and the potential demand for CBDC (the number of children aged 0–4 in a neighbourhood) to determine where ‘childcare deserts’ and ‘oases’ were located. The Mitchell Institute found that 568,700 children aged 0–4 years (or 36.5% of children in this age group) live in

neighbourhoods classified as ‘childcare deserts’ (Hurley et al. 2022, p. 25). Many inquiry participants cited this analysis and the report is discussed further in section 5.3.

Further, case studies have highlighted limited CBDC availability in some regional areas. The Regional Australia Institute, for example, compared the availability of ECEC in Maranoa and Western Downs in Queensland. CBDC services in Maranoa would only be able to accommodate 39% of children aged 0–4 and those in Western Downs, 23% of children aged 0–4, if children in that age cohort attended full time (Regional Australia Institute 2023, p. 3). The study also found that among childcare users accessing care in Maranoa, the largest proportion had waited between 4–6 months for a place, while in the Western Downs the wait was 12 months or more (Regional Australia Institute 2023, p. 3).

Similar reports and observations have been presented to the Commission (box 5.1). Many inquiry participants reported problems with the availability of childcare in regional and remote areas. This is likely due to the lower demand spread across a large geographic area causing ‘thin markets’<sup>5</sup> (discussed in section 5.4). Some families also spend long periods of time on waiting lists.

### **Box 5.1 – Inquiry participants have raised concerns about the availability of CBDC**

#### **A lack of availability in regional and remote areas**

The Victorian Government Department of Education (sub. 146, p. 7) submitted that:

in the Loddon Elmore region, north of Bendigo, there were 34 children under 4 for every childcare place.

Regional Development Australia Loddon Mallee (sub. 15, p. 1) submitted that:

over 19,000 children under the age of 4 live in rural areas in Victoria’s Loddon Mallee Region ... there are approximately 100 children per childcare service.

The Pathways in Place Research Program (sub. 130, pp. 53–54) submitted that, while ECEC is currently sufficient to meet demand in Logan, QLD:

the predicted increase of children living in the Jimboomba SA3 suggests that the current ratio of childcare places is likely insufficient in the future.

Many other inquiry participants also noted ECEC availability issues in regional and remote areas (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 2; WA Government, sub. 162, p. 4).

#### **A lack of services and capacity at existing services, contributing to long waiting lists**

Many inquiry participants have pointed to a lack of services and capped capacity at existing services leading to long waiting lists.

For example, Lady Gowrie Child Centre Inc (sub. 25, p. 10) noted that:

high-quality [not-for-profit] ECEC services can have extensive waiting lists – the waiting list at Gowrie SA is 370 families with an average 2-year wait.

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<sup>5</sup> Thin markets exist where demand for ECEC is too small or inconsistent to support the competitive provision of services.

### Box 5.1 – Inquiry participants have raised concerns about the availability of CBDC

Regional Development Australia Kimberley (sub. 1, p. 1) submitted:

Currently there is no access to any childcare service in the Kimberley region, despite only one centre operating at their licenced capacity. Kimberley childcare centres have capped numbers, closed rooms and services, with a minimum 18-24 months waiting period for all centres.

BHP (sub. 136, p. 3) noted similar concerns in the Pilbara:

data collected in 2021 and 2022 confirmed waitlists of approximately 200 children in Newman and 600 in Port Hedland, with the wait for a childcare place averaging between six months and two years.

And in regional NSW one participant commented that:

‘Waitlisted friends have waited on several lists for 12-18 months.’ (Brief comment 45)

Many other participants raised similar issues (BBY, sub. 85, p. 7; BHP, sub. 136, pp. 2–3; Costin, sub. 26, p. 1; Gowrie Australia, sub. 79, p. 12; Tessier, sub. 17, p. 1; Lawson Grains and Rural Regional Remote Women’s Network, sub. 134, p. 2; NSWFDCA, sub. 89, p. 6; Phillip Island Early Learning Centre, sub. 5, p. 1; RDA BSW, sub. 112, p. 6; WA Government, sub. 162, p. 14).

### There are also supply issues for OSHC

Not all primary schools have an OSHC service on site or close by – only 53% have an OSHC service within 500 m (Productivity Commission estimates based on published latitude and longitude of school and OSHC service addresses). Some families also face problems with accessing OSHC where services have insufficient places to fulfill demand and waiting lists prevail.

The provision of OSHC differs by the state and territory (table 5.1). For example, for the 116 primary schools in the ACT there are 104 OSHC services – almost 90% of schools have an OSHC – while in Tasmania this rate is much lower at 40%.

**Table 5.1 – Rates of OSHC provision vary markedly between states and territories<sup>a</sup>**

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
<b>Number of schools</b>	2,788	2,233	1,592	672	1073	234	175	116
<b>Number of OSHC</b>	1,578	1,490	790	387	490	91	54	104
<b>Per cent with OSHC</b>	56.6%	66.7%	49.6%	57.6%	45.7%	38.9%	30.9%	89.7%

a. Analysis is restricted to primary, combined and special schools – secondary schools are excluded. The percentage of schools with an OSHC is calculated as the number of OSHC services divided by the number of schools.

Source: ACARA (2023); ACECQA (2023b).

There are concerns for OSHC availability in regional and remote areas. For example, the Victorian Government (sub. 146, p. 7) submitted that a ‘shortfall of available childcare in regional Victoria ... affects children of school age. In 2021, only 30% of schools in regional Victoria had an onsite OSHC service, compared to 77% of schools in metropolitan Melbourne’. And the South Australian Government (2023a,

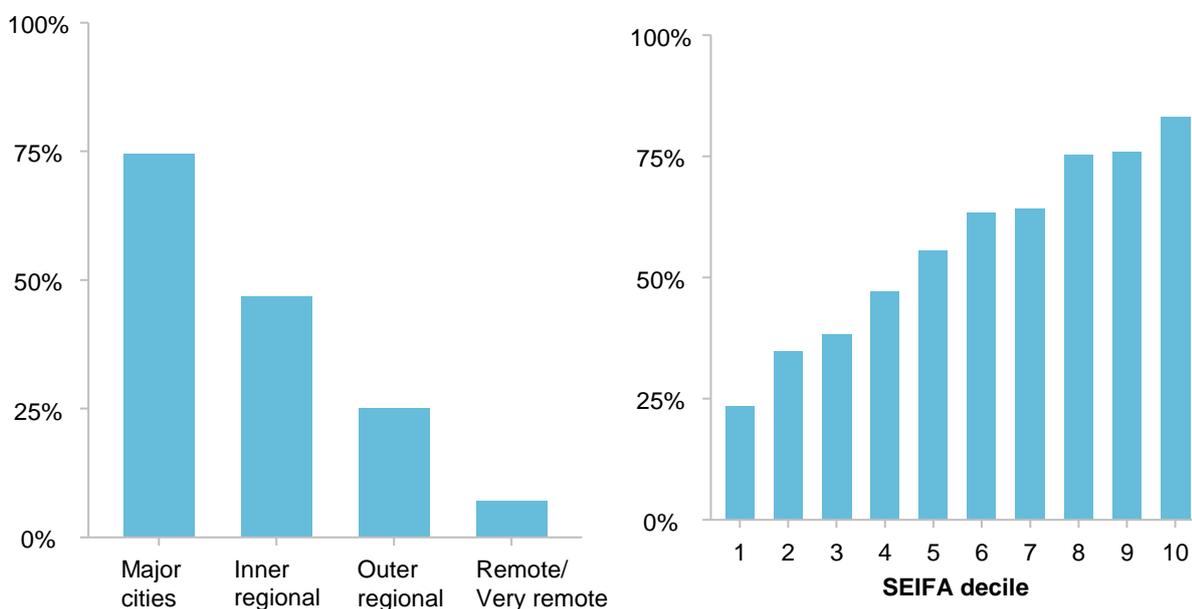
p. 179) has noted that because schools are smaller and people are spread across long distances it can be hard to establish a financially viable service.

OSHC provision is indeed more common in urban areas; it is also more common in high socio-economic areas (figure 5.9). The likelihood of OSHC provision decreases as:

- the remoteness of the school’s location increases
- the level of disadvantage of the school’s location increases.

**Figure 5.9 – OSHC is more likely to be provided at schools located in major cities or high-socio-economic areas<sup>a,b,c</sup>**

**Proportion of schools for which there is an OSHC service by remoteness and SEIFA, 2023**



**a.** Schools are not directly linked to an OSHC service, as linkage keys in each dataset are not provided. Supplementary analysis, using reported latitude and longitude of schools and OSHC services to try and match schools to OSHC services, found about 13% of OSHC services do not have a school site within 500 meters of its geolocation. **b.** Analysis is restricted to primary, combined and special – secondary schools are excluded. **c.** Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged and 10 being the most advantaged).

Sources: ACARA (2023); ACECQA (2023b).

Issues were also raised with the availability of vacation care. The Shop, Distributive and Allied Employees Association (sub. 72, p. 14) submitted that some services ‘will only accept children for vacation care if they also attend before and after school care’. A lack of vacation care is a significant barrier to families who require care during school holidays.

### 5.3 ECEC is not readily available in all parts of Australia

As noted above, the Commission has made a draft finding that governments work towards ensuring that sufficient ECEC is available such that every child has access to 30 hours or three days a week of ECEC, where that fits with families’ preferences and needs.

This section considers the extent to which families across Australia might face a barrier to accessing ECEC due to a lack of availability.

The analysis considers the potential supply of, and potential demand for, ECEC in local areas to determine the extent to which places are available for children aged 0–5. While this is useful for determining local areas that *may* have issues with ECEC availability – and the characteristics of those areas – it does not reveal imbalances in *actual* supply and demand. As such, results should not be interpreted as revealing areas where demand outweighs supply, or where families are competing for too few ECEC places.<sup>6</sup>

## An overview of the Commission’s approach

The Commission’s analysis is similar to work undertaken by the Mitchell Institute (Hurley et al. 2022) (described above), but with different assumptions and methodologies – key differences are outlined in box 5.2.

### Box 5.2 – Differences between the Commission’s work and the Mitchell Institute’s analysis of ‘deserts’ and ‘oases’

In contrast with the Mitchell Institute study (Hurley et al. 2022, pp. 15–16) the Commission has:

1. included family day care (FDC) and dedicated preschools as forms of ECEC supply alongside CBDC. The Mitchell Institute did not include FDC and adjusted potential demand to reflect time spent in preschool rather than explicitly including preschool as a form of supply. They did so because they did not have location data on FDC services and dedicated preschools
2. included 5-year-olds in the analysis who had not yet started formal schooling because these children may still require ECEC, whereas the Mitchell Institute only included children aged 0–4
3. analysed markets using standard geographic areas (produced by the ABS), whereas the Mitchell Institute used a method that captured travel times from neighbourhoods to ECEC services.

These differences make direct comparisons of the results difficult, and as such only broad comparisons are drawn where possible.

Details of the Commission’s method, data sources and key definitions are summarised in box 5.3. Key caveats that mean availability might be poorer than the results suggest are discussed after the results.

In the presentation of results, availability of CBDC places is considered in isolation and in combination with places in FDC and dedicated preschools because of differences between the two larger service types.<sup>7</sup> CBDC services cater to all children aged 0–5.<sup>8</sup> In contrast, places in dedicated preschools primarily support children aged 4–5 and sometimes 3-year-olds. Furthermore, CBDC services typically offer places five days a week and operate for at least 10 hours a day. In contrast, about 30% of dedicated preschools captured in the ACECQA data run programs on fewer than five days a week, many run programs for different cohorts of children over a subset of days in a week and most operate for fewer than 10 hours a day (ACECQA 2023a).

<sup>6</sup> This section does not consider a range of other issues that may affect demand for ECEC, such as preferences on whether to use ECEC, out-of-pocket expenses that are higher than families are willing to pay, families having difficulties securing a place at their preferred centre, or lack of information for families to help them find available places. These barriers to using ECEC are discussed elsewhere in the report.

<sup>7</sup> FDC accounts for a relatively small number of places (about 35,000 in contrast with 150,000 in dedicated preschools and 630,000 in CBDC).

<sup>8</sup> In 2021, 22% of all CBDC places offered were for children aged 0–1, 25% for children aged 2, 50% for children aged 3–5, and 3% for children aged 6 and over (Commission estimates using the National Workforce Census, 2021).

As a consequence, about 15% of children attend both a dedicated preschool and CBDC in their year before full-time school (ABS 2023c). Places in dedicated preschools are not, therefore, equivalent to those in CBDC (or FDC). Nonetheless, those places add to ECEC supply.

Effectively, results for CBDC alone represent a lower bound on the quantum of formal ECEC available in an area; the combination of CBDC, FDC and dedicated preschool places can be thought of as an upper bound.

### **A ratio measure is used to summarise availability**

The ratio of approved places per child in an area is calculated to provide a measure of how well potential ECEC supply is meeting potential demand. For example, area with 100 approved ECEC places and 200 children aged 0–5 would have a ratio of 0.5, representing 0.5 approved places per child. In other words, there are enough places for each child to attend for half the week.

The ratio gives a broad number that can be easily compared to a benchmark. For example, if the goal were to enable every child to access three days of ECEC per week, every local area would require a ratio of 0.6.

The ratio does not, however, account for practicalities such as whether a family can access the particular days or hours they need, the types of ECEC they need or variation in availability for different age groups.

The ratio adds to the evidence on ‘deserts’ or ‘oases’ – a concept used by the Mitchell Institute. In the literature, an area is considered a:

- ‘desert’ if there are fewer than 0.333 places per child
- ‘oasis’ if there are more than 0.6 places per child (Centre for Policy Development 2021, p. 1; Hurley et al. 2022, p. 18).

These benchmarks can be useful but considering the distribution of the ratio – rather than whether it is above or below certain benchmarks – provides more information about the distribution of ECEC availability across areas. For example, a ratio enables identification of areas that appear relatively underserved compared to others without having to make a judgment about the benchmark that indicates that an area is ‘sufficiently’ supplied. Using a ratio of 0.333 to select ‘deserts’ misses other relatively poorly serviced areas that have a ratio just above this threshold.

### Box 5.3 – Data sources and key definitions used in the Commission’s analysis

#### Data sources

Information on:

- local population and demographic characteristics was sourced from the ABS Census
- approved places in CBDC and dedicated preschool covered under the National Quality Framework (NQF) was sourced from ACECQA
- dedicated preschools in Western Australia and Tasmania was sourced from the relevant departments of education
- FDC supply was sourced from the Department of Education administrative data.

#### Key definitions

**Local markets** are approximated by Statistical Area 2 (SA2) and Statistical Area 3 (SA3) areas.<sup>a</sup> In dense urban areas, families might reasonably travel beyond their SA2 to access ECEC. SA3s are therefore used to represent local markets in major cities, and SA2s are used for regional and remote areas. This measure does not account for families who use an ECEC service in a neighbouring SA2 or SA3, nor those who use services closer to a parent’s workplace or along their journey to work. Using a locally defined market captures the *majority* of the users but may miss families who travel from other areas for ECEC services. By this method, there are 1091 local markets in Australia.

**Potential demand** is captured by the population of children aged 0–5 within each local market. A proportion of children aged five are excluded as it is assumed that they have started primary school and no longer require ECEC services. Given some families do not use ECEC services (paper 4), this measure can be seen as an upper bound on potential demand.

**Potential supply** is calculated as the total number of approved places across CBDC, FDC and dedicated preschool services available for children aged 0–5 in local markets.<sup>b,c</sup>

**a.** Statistical Areas Level 2 (SA2) are medium-sized general-purpose areas designed to represent a community that interacts together socially and economically – they generally have a population range of 3,000 to 25,000 persons. Statistical Areas Level 3 (SA3) are geographical areas that cluster groups of SA2s that have similar regional characteristics and are designed to provide a regional breakdown of Australia. SA3s generally have a population of between 30,000 and 130,000 people (ABS 2023a). **b.** OSHC is excluded as it is not a substitute for CBDC, FDC or preschool for children aged 0–5. IHC services are excluded as they are not included in the ACECQA data and only support a small number of children across Australia – about 2,090 (DoE 2023c). **c.** FDC services can only have up to four children of preschool age or under. The Commission has attributed four approved places to each FDC service which would overestimate the number of approved places if an FDC service used some of those places for children beyond preschool age.

## Availability of ECEC services varies across Australia

The ratio of approved ECEC places per child varies across Australia. ‘Heat maps’ provide a way to view the extent of variation in availability across the country (figure 5.10).

The ratio of approved ECEC places per child ranges from zero to about two, but for presentational purposes the ratio has been capped at one. There are 54 areas (of 1091) that have a ratio greater than one – these areas and the areas that surround them highlight the importance of in-depth analysis of areas. For example, some areas with a high ratio (greater than one) of approved places in CBDC to children aged 0–5 are surrounded by areas with poorer availability (box 5.4).

Variation in ratios between neighbouring areas means that while the Commission’s analysis might indicate problems with supply, it should not be used in isolation to identify areas where a CBDC or other forms of ECEC might be needed. Information on employment hubs, regional traffic flows and ECEC demand, for example, is required to build a more complete understanding and make more informed decisions about whether additional places are needed.

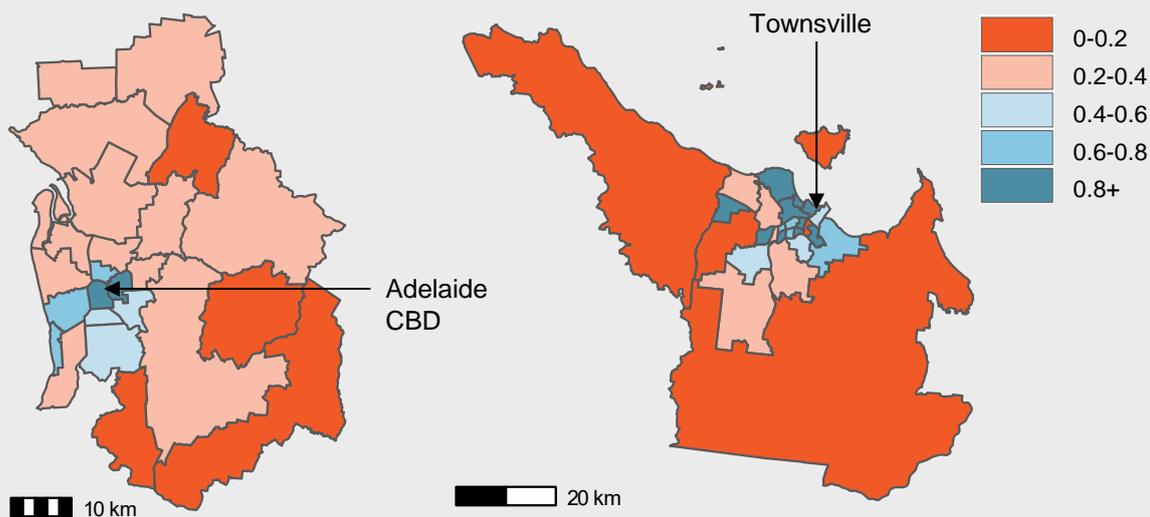
**Box 5.4 – Areas of relatively high availability of CBDC can be adjacent to areas of low availability**

Ratios of approved places per child for geographic areas do not tell the full story. The heat maps below show areas where the ratio of CBDC is relatively high (greater than one) and the surrounding areas have poorer availability. (A ratio greater than one indicates that there is more than one approved place for each child living in an area.) These areas might include employment centres such as universities or airports that have onsite CBDC but have small or no local child populations and areas within city centres and regional cities where many people concentrate for work.

These examples highlight the challenges with defining markets and the importance of investigating geographic areas in more detail. Due to spillovers between local areas, it is difficult to fully capture and define a ‘market’ and therefore while some markets appear ‘undersupplied’ it may be that the adjacent area is considered relatively ‘oversupplied’.

**Examples of ‘high supply’ areas and the areas that surround them<sup>a</sup>**

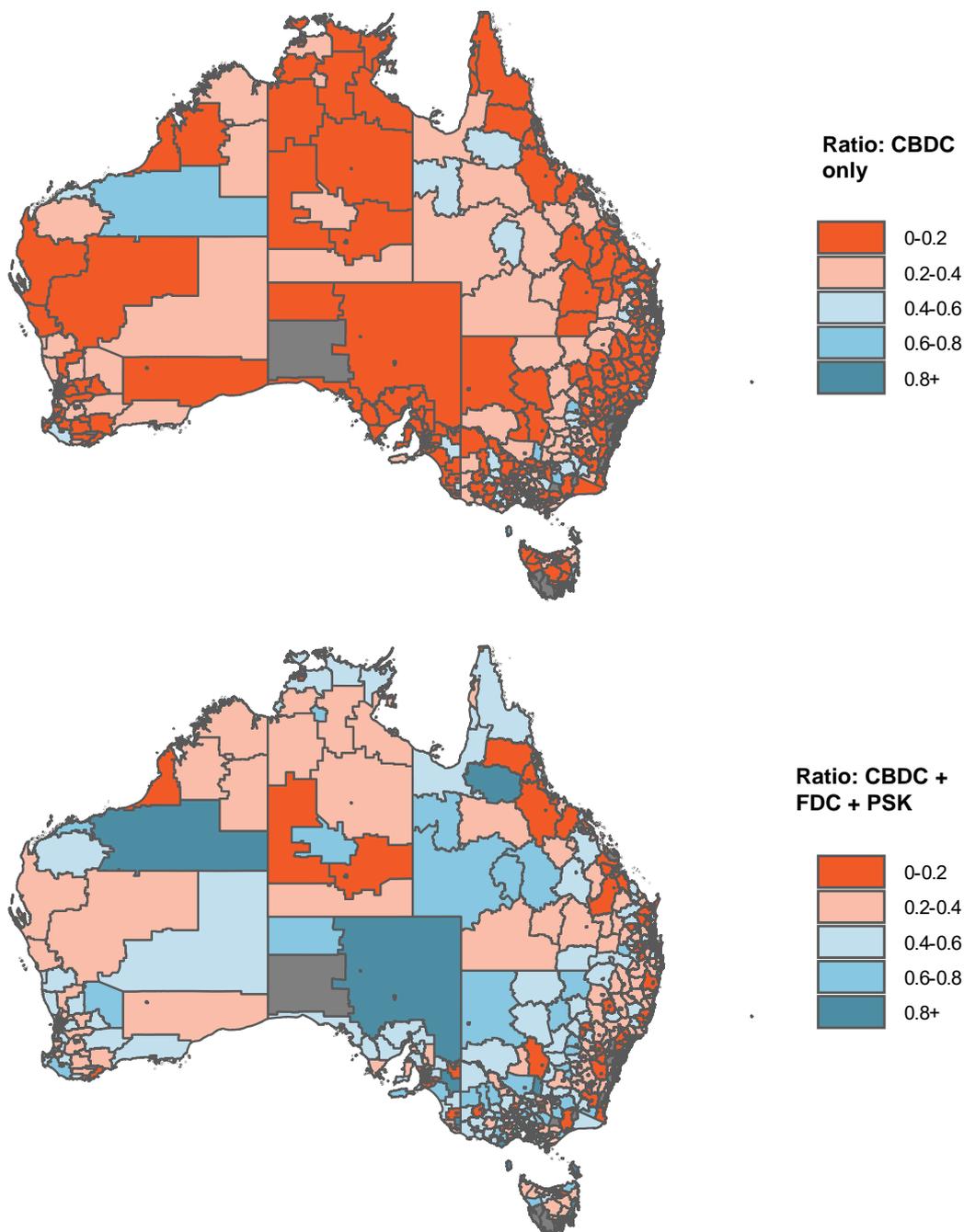
**Ratio of approved CBDC places per child in the Greater Adelaide and Townsville, QLD, and their surrounds**



a. The picture of availability improves when approved places in family day care and dedicated preschools are included in the analysis.

Source: Productivity Commission estimates.

**Figure 5.10 – ECEC availability varies widely across Australia<sup>a</sup>**  
**Ratio of number of approved ECEC places to 0–5 population**



a. Grey areas have no child population. These are typically national parks.

Source: Productivity Commission estimates.

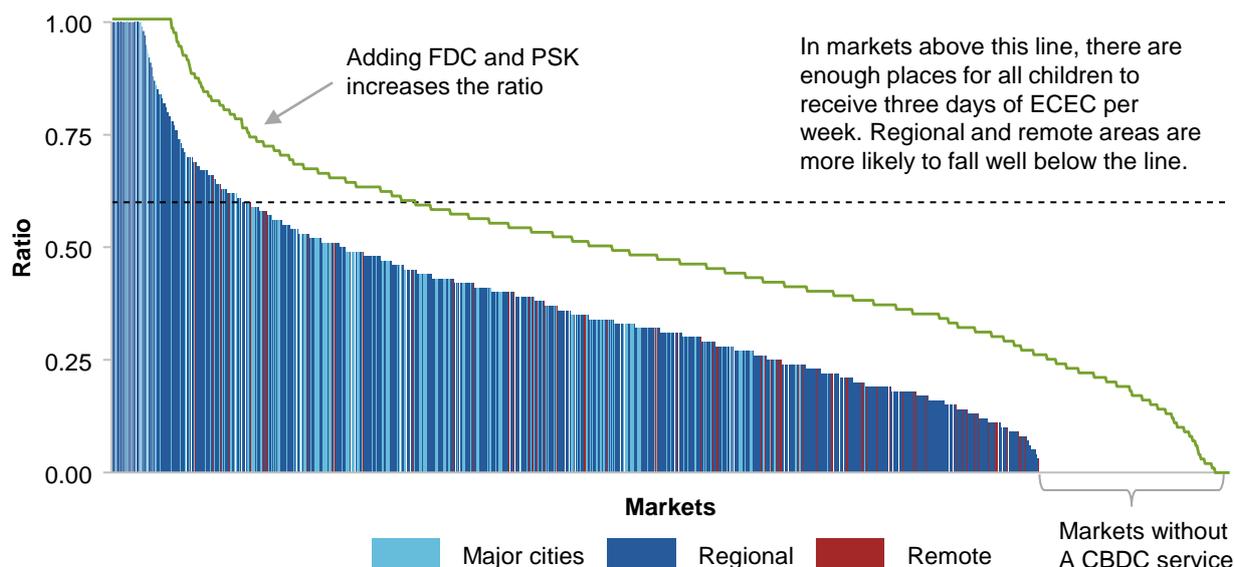
**Availability tends to be lower in regional and remote areas**

Looking only at CBDC, the distribution of ratios reveals considerable variation between local markets across the country (figure 5.11), with lower ratios more likely in regional and remote areas. In fact, 4 in 5 children

living in remote areas are in a market with a ratio less than 0.333 (which indicates there is one CBDC place per three children) (table 5.2). (Reasons why ECEC availability may be poorer in regional and remote areas are discussed in section 5.4.)

**Figure 5.11 – Availability of CBDC varies widely across Australia<sup>a,b</sup>**

**Distribution of the ratio of CBDC places per child by geographic area and remoteness**



**a.** Ratio is calculated as the number of approved places per child aged 0–5 in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. **b.** When adding FDC and dedicated preschools to the ratio the order of the areas changes. The green line depicts the new distribution.

Source: Productivity Commission estimates.

Including FDC and dedicated preschools markedly improves the picture of ECEC availability – particularly in regional and remote areas (figure 5.11, figure 5.12). Reflecting the relatively small number of places in FDC, much of that improvement comes from places offered by dedicated preschools. Early Learning Association Australia (ELAA) (sub. 48, p. 16) made a similar observation about the effect of preschool. After adding dedicated preschools to the Mitchell Institute’s deserts mapping for Victoria, ELAA concluded that ‘[w]hilst not completely remedying the issue of deserts, it shows that the areas of limited availability to ECEC would decrease’.

Reflecting the different approaches to delivery of preschool programs around the country, adding places in dedicated preschools increases the number of places per child by a larger margin in Western Australia, South Australia and Tasmania than in states and territories where program delivery through CBDC is more common.

The slightly larger increases in the ratio observed in regional and remote areas when FDC is added suggests that FDC is *relatively* more important in these areas compared to major cities. And the fact that median ratios are similar across remoteness areas when dedicated preschools are included in the ratio suggests that preschool availability tends to be considerably less of a problem in many communities than CBDC availability.

Of course, dedicated preschools do not address the ECEC needs of families with children aged under three, nor those of parents of older children looking for ECEC outside the hours that preschool programs run.

**Table 5.2 – 4 in 5 children in remote Australia live in areas with fewer than one CBDC place per three children**

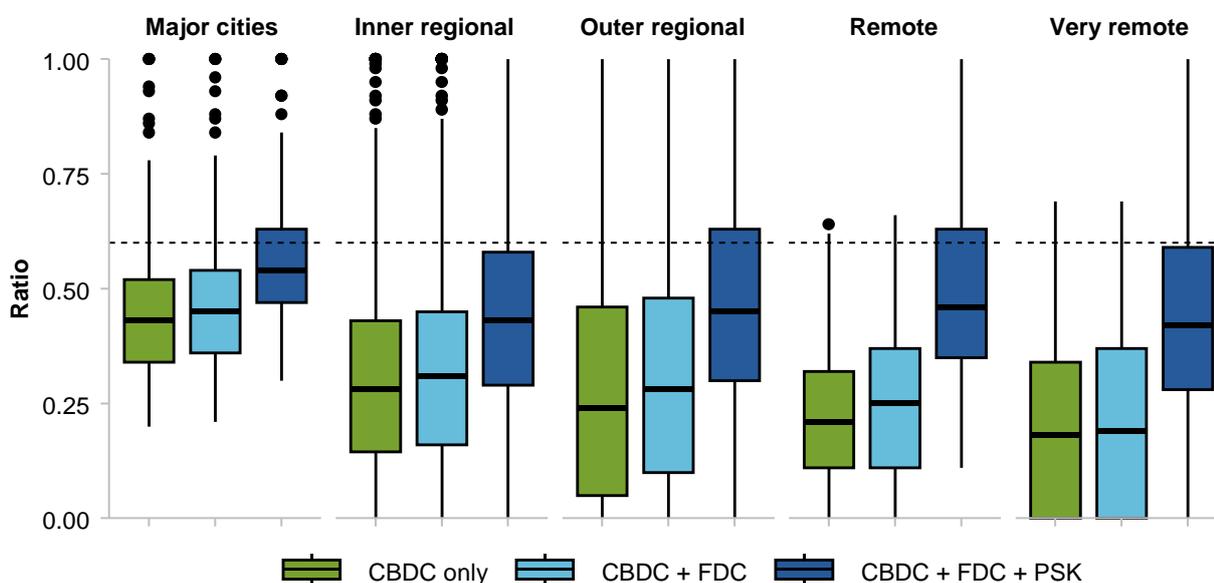
**Number and proportion of children aged 0–5 living in an area with a ratio of places to children of less than 0.333 by remoteness**

	CBDC ratio<0.333		ECEC ratio<0.333	
	Number of children	Per cent of children	Number of children	Per cent of children
Major cities	368,082	31.0	31,682	2.7
Inner regional	137,194	52.9	59,278	22.9
Outer regional	68,219	58.1	36,395	31.0
Remote	15,482	80.7	2,993	15.6
Very remote	10,662	81.3	3,417	26.0
<b>Total</b>	<b>599,639</b>	<b>37.6</b>	<b>133,764</b>	<b>8.4</b>

Source: Productivity Commission estimates.

**Figure 5.12 – Preschool markedly improves availability in regional and remote areas<sup>a,b,c</sup>**

**Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by remoteness**



**a.** Boxes' capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution – ratios fall below this value in 50%. The 'whiskers', or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. **b.** The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week. **c.** The boxes for CBDC only and CBDC + FDC in very remote areas touches the horizontal axis due to a large number of areas with no CBDC or FDC services.

Source: Productivity Commission estimates.

While availability improves with the inclusion of FDC and dedicated preschools, ratios in most communities remain well below a level consistent with all children being able to access three days of ECEC a week – were that something that families were looking for.

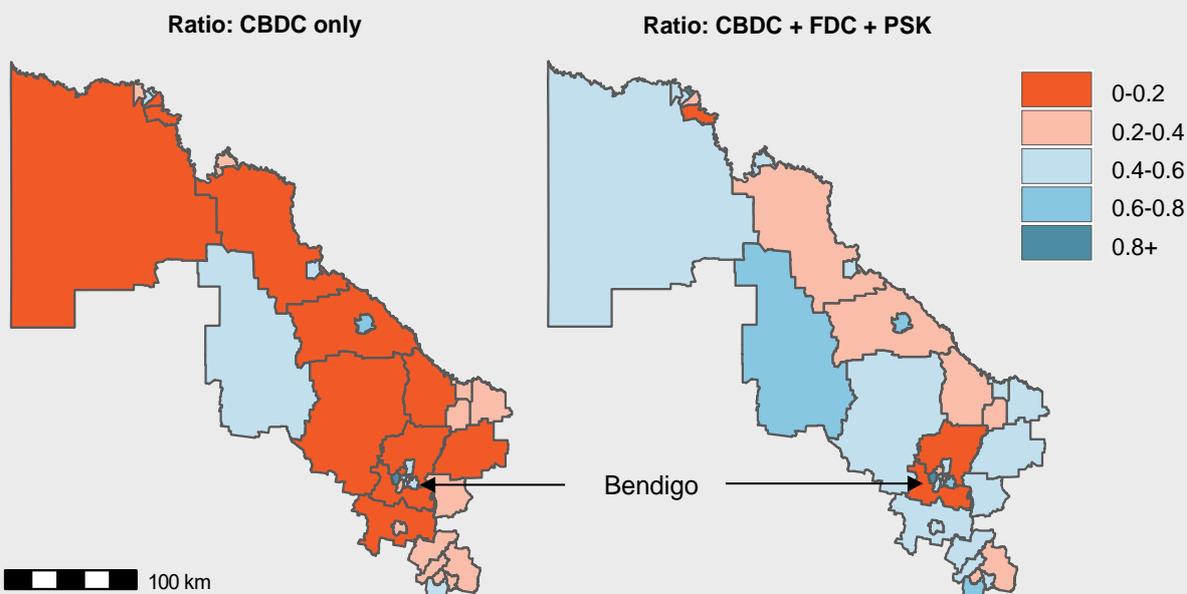
About 8% of children live in areas with a CBDC ratio above 0.6 and 38% of children live in areas that have a CBDC ratio below 0.333 (table 5.2). When approved places in FDC and dedicated preschools are added to the analysis, 21% of children live in areas with a ratio above 0.6 and 8% in an area with a ratio below 0.333. In comparison, the Mitchell Institute found that 13% of children live in oases (ratio above 0.6) and 37% live in deserts (ratio below 0.333) (Hurley et al. 2022, pp. 4, 28). However, as mentioned above, the Mitchell Institute counted children aged 0–4 instead of 0–5, did not include counts of approved places in FDC and dedicated preschools and characterised local markets slightly differently so these figures are not directly comparable.

A case study of the Loddon Mallee area (box 5.5) illustrates the pattern of availability in one group of regional communities for which availability concerns were raised in this inquiry.

**Box 5.5 – Case study of Loddon Mallee**

Inquiry participants noted poor ECEC availability in the Loddon Mallee region (box 5.1). Ratio analysis illustrates the issue. The population aged 0–5 years in the region was about 20,800 at the 2021 Census, and CBDC places numbered 6,654 and total places – including FDC and dedicated preschools – numbered 10,485 at Q4 2022. These data produce a ratio of 0.32 CBDC places per child (or 3 children for every CBDC place), and 0.50 places per child when FDC and dedicated preschools are included (or 2 children for every ECEC place). Availability varies substantially across areas, and is higher in the more densely populated Bendigo area (figure below).

**There are two children for every approved ECEC place in the Loddon Mallee region<sup>a</sup>**  
**Ratio of approved ECEC places per child in the Loddon Mallee region**



a. The Loddon Mallee region is defined as per the approach taken by Regional Development Australia Loddon Mallee area (sub. 15, attachment 1, p. 12).

Source: Productivity Commission estimates.

### Availability also tends to be worse in lower socio-economic areas

Looking at the distribution of ratios by the socio-economic status of communities, lower socio-economic areas fare worse, particularly in terms of CBDC and FDC availability (figure 5.13). For example, about 60 markets (or about 20%) in the bottom quintile do not have a CBDC service compared with only 6 markets (9%) in the top quintile.

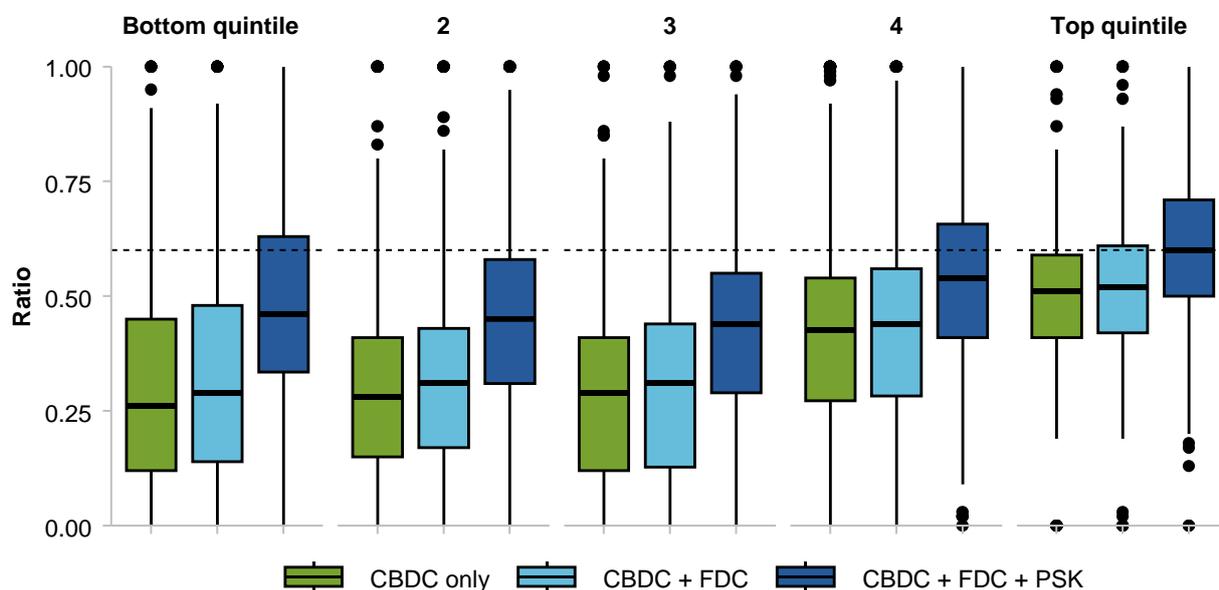
The Commission has also used regression analysis to look at the factors correlated with lower ratios. Other things equal, availability is also more likely to be worse (in the form of lower ratios of approved places to children) in communities with:

- lower labour force participation rates among mothers
- higher labour force participation rates among fathers
- higher rates of part-time work among mothers
- a higher proportion of Aboriginal and Torres Strait Islander people.<sup>9</sup>

Similar findings have been observed in other studies that have focused on characteristics associated with children’s enrolments and attendance in ECEC in the year before school (which could also reflect poor availability and/or a lack of demand) (Restacking the Odds, sub. 149, p. 6).

**Figure 5.13 – Communities in lower socio-economic areas are more likely to have poor availability of CBDC<sup>a,b,c</sup>**

**Distribution of ratios for CBDC (green), CBDC and FDC (light blue) and CBDC, FDC and dedicated preschools (dark blue) by SEIFA**



a. Socio-Economic Indexes for Areas (SEIFA) is a number from 1–10 (1 being the most disadvantaged). The Commission used quintiles rather than deciles for this analysis. b. Boxes’ capture the middle 50% of ratios for communities within a geographic area. The line across a box represents the median ratio in the distribution. The ‘whiskers’, or vertical lines, capture 1.5 times the interquartile range above and below the box. Observations beyond this are outliers represented as dots. c. The horizontal dashed line represents a ratio of 0.6, the benchmark where every child in a local area would have access to three days of ECEC a week.

Source: Productivity Commission estimates.

<sup>9</sup> While these characteristics were associated with poorer availability, not all were found to be statistically significant in the regression analysis.

While it is clear that low socio-economic areas have poorer availability of ECEC services generally, the direction of causality is unclear. For example, poorer availability might reflect a lack of local demand or inability of the market to support an entrant or both. For this reason, the analysis can be used to identify areas where supply may look relatively low, but is not a roadmap for where building new services should necessarily be prioritised – actual local demand needs to be taken into account.



**Draft finding 5.3**  
**ECEC availability varies markedly around the country**

ECEC availability tends to be poorer in regional and remote areas and in communities experiencing higher levels of socio-economic disadvantage. It is unclear whether this reflects a lack of local demand for ECEC, viability concerns that cause providers to decide against establishing services or both.

Only 8% of children aged 0–5 live in communities with sufficient centre-based day care places to support access to 30 hours or three days of ECEC a week.

Provision of preschool places by state and territory governments improves the broader picture for availability. However, these places only increase availability for some children aged three and over, and dedicated preschools often have more limited days of operation and / or shorter session lengths than centre-based day care.

## **Availability in many areas is likely to be lower than the analysis suggests**

### **Some services cap enrolments below their number of approved places**

As noted above, the number of ECEC places included in the analysis represents the maximum number of places a centre is approved to offer to families. In reality, the number of places offered is sometimes lower. Hence, for some areas, the availability of ECEC is likely worse than the Commission's analysis suggests.

In 2021, the number of places offered by almost one quarter of CBDC services was below their approved capacity (Productivity Commission estimates based on National Workforce Census, 2021). While it is unclear whether this reflects vacancies or a capping of enrolments there is evidence that capping is occurring. In South Australia in early 2023, for example, 16% of CBDC services surveyed offered a capped number of places, and some services did so to maintain quality or provide more space for children (Deloitte Access Economics 2023b, p. 15).

Inquiry participants pointed to some services capping enrolments or places offered because of staff shortages and the inability to meet required staff–child ratios (Bermagui Preschool, sub. 49, p. 2; BHP, sub. 136, pp. 2–3; Cr. Graham, Costin, sub. 26, p. 1; RDA BSW, sub. 112, p. 3; Phillip Island Early Learning Centre, sub. 5, p. 1). An Australian Childcare Alliance (sub. 150, p. 38) survey from May 2023 showed that 56% of their member services were capping enrolment numbers due to lack of staff. Similarly, One Tree Community Services (sub. 121, p. 8) submitted that their 'organisation currently operates as low as 64% capacity because [they] cannot meet staffing requirements'.

Staff shortages, and capping of enrolments, are likely more common in regional and remote areas because of greater challenges in attracting and retaining staff (paper 3; WA Government, sub. 162, pp. 14–15). In regional NSW, for example, one participant reported:

a lack of qualified staff for all the current centres ... Most centres are running at below capacity ... because they do not have enough educators to cover ratios for a full centre ... (Brief comment 95)

Regional Development Australia Kimberley (sub. 1, p. 1) also reported that ‘Kimberley childcare centres have capped numbers, closed rooms and services ... predominantly due to workforce shortages and centres unable to meet staff/children ratios’.

### **Availability may be worse for families with children aged 0–2**

Given dedicated preschools are unable to cater for children aged 0–2, ECEC availability may be poorer for children in this age group compared to older children.

Evidence from inquiry participants and others suggests families with younger children might struggle more to find ECEC. For example, in the eastern suburbs of Sydney ‘many under 2s rooms in Centre Based care remain either closed or limited in capacity because of the sector wide staffing crisis’ (Tessier, sub. 17, p. 1). There are also reports of families with a child aged 0–2 having difficulties finding care (Waverley Council, sub. 132, pp. 3, 6). And some survey evidence from 2019 suggests that waiting lists were higher for children aged 0–2 than other age groups at that time, even though the proportion of children aged 0–2 on waitlists had declined over time (Australian Community Children’s Services 2020, p. 42).

Survey evidence is also consistent with some CBDC services preferencing older children. While almost all services offered places for children aged 3–5 in 2021, and 95% offered places for children aged two, only 88% offered places for children aged 0–1 – a slight increase on the proportion in 2016 (85%). For-profit and not-for-profit services were equally likely to offer care to children aged 0–1 in 2021, but for-profits were slightly more likely to offer places for children aged two (Productivity Commission estimates based on the National Workforce Census, 2021 and 2016).

On one hand and to some extent, these numbers could reflect demand for ECEC for young children rather than providers’ decisions about their ECEC offering. Families of children aged under two may have a stronger preference to care for them at home compared with families with older children (and many families also use Paid Parental Leave entitlements). For example, only 6% of all children under one used CCS approved ECEC at the December quarter of 2022 (DoE 2023c).

On the other hand, costs of delivery of care for children aged 0–2 are higher due to the higher ratios required for this group (ACA, sub. 150, p. 37; ACCC 2023a, p. 101; PC 2014, p. 383). And many centres’ uniform pricing practice means that the price charged to families of children aged 0–2 may not fully recover the cost of delivery (PC 2014, p. 383). Some services might choose to reduce, or not offer, places to this age group, or offer fewer places than their local community is looking for, rather than increase fees to reflect the higher costs of providing ECEC for younger children.

### **Every local market has different preferences for ECEC**

Even where two markets have the same ratio, differences in demand can translate into differences in availability. If one market has much higher *actual* demand for ECEC services compared to the other, then availability would likely be poorer in the market with higher demand. The market with higher demand might be characterised by services with longer waiting lists, while services in the market with lower demand might have more vacancies.

Further, preferences for high-quality ECEC services *within* local markets, for example, might mean that some ECEC services are not fully utilised (and have vacancies) while others have extensive waiting lists.

Data on waiting lists and vacancies are limited and pose a range of issues in interpretation. For example, families tend to put their name on multiple waitlists but do not remove it once they find a place. As a result, waiting lists can be overstated and out of date. Similarly, not all services report on their waiting lists or vacancies for children, or do not change their vacancy status once places are filled. While websites like Starting Blocks and Care for Kids<sup>10</sup> can help families in finding ECEC, they provide no indication of waiting lists, and vacancy data, while reported, may be out of date. Nevertheless, the Commission has drawn on a range of sources to provide some insights into these issues.

### **Waiting lists can be a sign of availability issues ...**

Markets where many services have long and extensive waiting lists have poorer availability even if the ratio of approved places per child is relatively high. Many inquiry participants have reported evidence of long waiting lists at ECEC services (box 5.1).

Although there is limited data on waitlists from services, survey evidence from not-for-profit providers in 2019 showed that waiting lists were longer for CBDC than other forms of ECEC and that major cities and inner regional areas tended to have longer wait lists than other regional areas (remote areas were not included), especially for CBDC and preschool (Australian Community Children's Services 2020, p. 42).

ECEC providers benefit by using waiting lists – they have a ready list of self-identified customers to use their services as soon as places become available.

For families, the value of waiting lists is greatest if they are transparent and timely. Information on waiting lists and the realistic prospects of obtaining care can provide a better basis for families to plan their working lives and organise their ECEC requirements. In particular, families would benefit if providers were to publish:

- information on fees charged to families wishing to be added to the waiting list
- information on the number of families on the waiting list, ideally broken down into suitable age categorisations
- the number of places offered to children from their waiting lists. This information should be updated regularly (PC 2014, p. 406).

### **... but the existence of vacancies can signal higher availability**

Advertised vacancies by many centres in a market generally indicate better availability of ECEC, even if the ratio of approved places per child is relatively low. An advertised vacancy implies that a service has the capacity to take on a child if there is a match between the vacancy characteristics and the needs of the family.

Websites such as Starting Blocks and Care for Kids publish information on vacancies by service (and sometimes age, session type, permanency and day of the week) (ACECQA, sub. 6, p. 3). But services do not always update this information regularly (especially once a vacancy is filled) and some services do not report on vacancies at all, as reporting is not a requirement. Therefore, information on vacancies found on these websites may not be very informative for families looking for care.

Nevertheless, the information from these websites suggests that vacancies in ECEC services are reasonably common. For example, for children aged two, about 45% of CBDC services reported a vacancy for a full day and 10% reported a vacancy for a half day in a reference week in November 2022, while one-in-five CBDC

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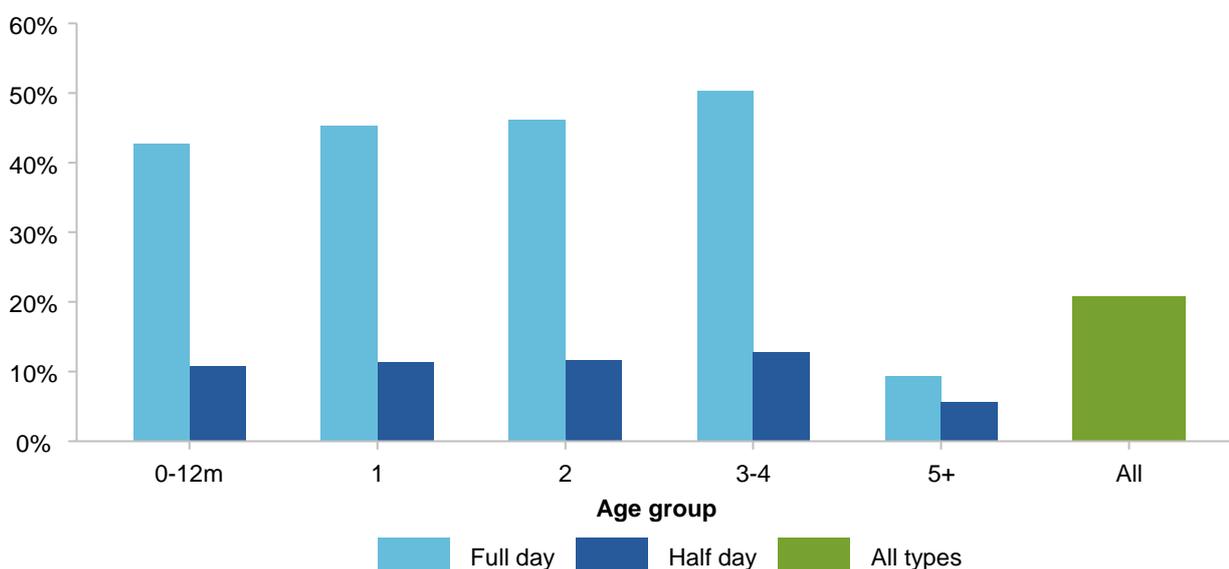
<sup>10</sup> <https://www.startingblocks.gov.au/> and <https://www.careforkids.com.au/>

services nominated having a general vacancy for any age, any session type and that it was on a permanent basis (figure 5.14).

While useful, this vacancy data does not present a granular picture of availability of ECEC places. Families with children of particular ages, or in particular locations, may find it difficult to access ECEC even if vacancies are present. For example, a family with a one-year-old child cannot use a service that has vacancies for children aged 3–4 years. Similarly, vacancies tend to be more common for Mondays and Fridays (Productivity Commission estimates based on DoE Starting Blocks data), so families who require care on Tuesday, Wednesday or Thursday may face more difficulties in accessing ECEC.

**Figure 5.14 – Vacancies are quite common in CBDC services<sup>a,b</sup>**

**Per cent of CBDC services with a vacancy for a weekday by age and session type, 2022**



**a.** Data is for a random week in November 2022. 6,400 CBDC services recorded information on vacancies for the given week, about 70% of all CBDC services. A service is recorded as having a vacancy if they have a vacancy on any weekday that is permanent (not casual). **b.** The category ‘All’ represents CBDC services that nominated that they had a vacancy for any age group and for any session type during the week.

Source: Productivity Commission estimates based on DoE Starting Blocks data (unpublished).

## 5.4 Why do some markets have poorer availability of ECEC?

Well-functioning markets provide services where there is demand for them. The observation of areas with poor availability of ECEC around Australia – and more so in regional and remote areas – suggests two things:

1. there is a lack of sufficient and consistent demand to support ECEC centres at prices that families are willing to pay in some areas (also known as thin markets) and/or
2. there are impediments to supply responding to demand. Such barriers to entry, where they are the result of government regulation, are discussed in papers 3 and 9.

## **ECEC markets can be thin markets ...**

A range of motivations can prompt a provider to establish a service, but that decision is ultimately based on whether the service will be viable. This is not a requirement exclusive to for-profit firms; not-for-profit providers also need to cover their costs.

For the most part, the CCS has enabled significant service expansion in metropolitan areas, with services responding to increasing demand from working parents. In many other areas, however, the story is different, reflecting high costs of provision, low capacity to pay (a consequence of low income and limited access to subsidised care) or a combination of both. These areas are often referred to as thin markets – that is, when there is no commercial incentive to enter because the costs of providing services exceed consumer willingness or capacity to pay. Delivering appropriate services in such markets will generally require additional forms of government support such as subsidised care or direct provision (section 5.5.)

Many regional and remote areas, for example, have poorer availability of ECEC due to the higher cost of delivery. Regional Development Australia Loddon Mallee (sub. 15, attachment 2, p. 4) has outlined the unique barriers to running and accessing ECEC services in rural areas including:

- Demand is spread across wide geographic areas making services unprofitable. Commercial services cannot generate the economies of scale and higher fees that promote business development and investment in urban areas
- There are not enough early educators to keep services open. Victoria has a shortfall of 2,916 early years educators, and workers are hard to attract due to the low pay. Workers in rural areas cannot work across a number of services to increase hours
- Regulatory barriers (arising from the disconnected funding systems across the Commonwealth and State) hinder the development of the novel joint-use solutions<sup>11</sup> required in rural areas
- Families face higher travel costs and the current funding arrangements leave them out of pocket.

In most markets, higher cost of delivery is recovered through higher prices. But the hourly rate cap of the Child Care Subsidy provides a benchmark for prices – prices *can* be higher than the cap but families will not get any subsidy beyond that point. Hence, families in regional and remote areas may not be willing or able to pay the higher out-of-pocket expenses that would induce greater supply in these areas.

## **... but in some areas, low supply may reflect low demand**

In some areas, lower relative ECEC availability might reflect lower demand for ECEC. For example, some areas might have lower maternal labour force participation rates – or indeed higher maternal part-time work rates – due to a lack of jobs, preferences related to cultural beliefs or weaker financial pressures on secondary income earners because of lower costs of living.

The population in a thin market is also important for determining the appropriate solution to addressing poor availability. Very remote areas with low populations that do not currently support a centre would likely never support centre-based care but services could be provide in other ways.

Exploration of community preferences for ECEC, and consideration of place-based needs, should happen as part of any response to low levels of availability (paper 7).

Potential strategies for developing ECEC in different areas are discussed in section 5.5.

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<sup>11</sup> Joint use could include running an ECEC service in underutilised physical space.

## 5.5 What might be done to address availability issues?

This paper has presented evidence of availability issues in some ECEC markets (section 5.3) and discussed possible reasons why these issues might exist and persist (section 5.4). This section explores whether current policy measures would be sufficient to support an expansion of ECEC availability in thin markets. The section focuses on policies associated with physical capacity and operating expenses. Policies related to addressing workforce shortages, also a constraint on provision, are covered in paper 3.

The section only considers ECEC services other than dedicated preschools and OSHC. High levels of preschool enrolments for children in the year before full-time schooling (SCRGSP 2023), and planned growth in provision as state governments work to meet commitments for universal provision under the Preschool Reform Agreement (appendix E), suggest preschool availability does not need further focus. Issues with OSHC availability are addressed in papers 2 and 9.

### Different solutions are required in different communities

In many parts of Australia, the ECEC market offers services that cater for the needs of many children and families. Nonetheless, there are communities where supply of services is far lower than what would be required for all local children to receive three days a week of ECEC and, in some places, no services are available. These communities are generally:

- in regional towns, where demographic and economic fluctuations can make ECEC provision unviable
- in remote communities, where the population is dispersed over a large area and service delivery is challenging
- in Aboriginal and Torres Strait Islander communities, where Aboriginal Community Controlled Organisations may face particular challenges – particularly parental disengagement from the CCS – in delivering services
- on the outskirts of major cities.

Potential solutions for situations where ECEC availability is poor are canvassed below. The section analyses current grant (or block-based) funding arrangements, family day care and In Home Care. The important role of Aboriginal Community Controlled Organisations, programs like the Early Years Education Program and the funding mechanisms that can support them are discussed in papers 2, 7 and 9.

### Support should be focussed on thin markets

Not all areas with poor ECEC availability should be considered for additional support. For example, were the activity test relaxed and subsidies for lower-income families increased as the Commission has recommended (paper 6), demand would be expected to increase in some areas to the point where providers could be viable without further support and the market will take care of expanding supply. Lower socio-economic areas with larger populations, including on the urban fringe, likely have this characteristic.

Any government funding beyond regular supports available to families based on their income should therefore be focused on areas where services would not be otherwise viable.

### Governments run grant funding programs

The Australian Government already has a supply-side funding program to support provision – the Community Child Care Fund (CCCF). The program supports ‘service providers to reduce barriers to accessing child care’ (Australian Government Department of Education, sub. 90, p. 23). The CCCF runs alongside the CCS to support services where the CCS is insufficient to ensure viability or to fund expansion or strategies to address barriers to ECEC participation within a community. Support is provided through a range of grants (box 5.6).

While the CCCF is small, it is a crucial part of the ECEC system. As at February 2023, CCCF open competitive grants supported 1,051 services via \$180 million in funding and restricted grants supported 161 services via \$225 million in funding (Productivity Commission estimates based on DoE administrative data). By comparison, expenditure on the CCS is forecast to be \$55.3 billion between 2023-24 to 2026-27 (Australian Government Department of Education, sub. 90, p. 5).

In the 2022-23 Budget, a small pool of funding (\$18 million) was specifically allocated to support the development of capacity in areas of limited supply.

### **Box 5.6 – What is the CCCF?**

The Community Child Care Fund (CCCF) provides five types of grants: open competitive, restricted, restricted expansion, special circumstances and Connected Beginnings.<sup>a</sup> The CCCF also covers a business support program.

#### **Open competitive grants**

Open competitive grants are available for three types of support: sustainability (keeping a service viable), capital (supporting the building or extending of physical centres), and community (addressing community-level barriers to participation such as disengagement or cultural safety concerns).

To be eligible for open competitive grants a service needs to be a child care subsidy (CCS) approved operator and be either:

- located in, or servicing families from a CCCF priority area or
- servicing regional, remote or very remote areas or
- providing specialised childcare services to a vulnerable or disadvantaged sector of its community.

Three rounds of CCCF open competitive grants have been run. Results from round 1 were announced in April 2018, round 2 in August 2019 and round 3 in July 2021. A further round is anticipated for 2024.

In the 2022-23 October Budget, an additional \$18 million was allocated to support the establishment of up to 20 services in areas of limited supply. This was a projected estimate based on the maximum amount of funding available per service. A service is eligible for a maximum of \$900,000 over two years: \$600,000 for establishment and sustainability support and \$300,000 for capital support. Applicants must make a capital contribution of at least 50% of the total cost of the project.

Grants can be for new centre-based day care or family day care services in areas experiencing disadvantage in regional and remote Australia where there are no or limited services. Grants are for the 2-year period from 2023-24 to 2024-25. Based on the applications received and assessed, total funding of \$16 million was recommended to support the establishment of 47 new services (Department of Education, pers. comm., 27 October 2023).

Priority areas are published for each round, and can change over time. There were 200 priority areas for the 2023 limited supply round. Areas were identified on the basis of Australian Early Development Census data, Socio-Economic Indexes for Areas from the ABS and the ratio of children to approved services in an area.

#### **Restricted grants**

Restricted grants are primarily for former Budget Based Funded (BBF)<sup>b</sup> services and are intended to supplement the fee income of these services to ensure they remain viable. Funding is related to previous

### **Box 5.6 – What is the CCCF?**

service funding levels and is adjusted for expected fee income and subsidies from the CCS. In 2022-23, sustainability grants were projected to be \$35 million compared to \$250,000 for capital grants. The funding is designed to be tapered over time such that services can eventually be entirely supported by CCS and ACCS.

A review of the CCCF restricted program is underway and due to be completed in early 2024.

#### **Restricted expansion**

The CCCF restricted expansion is a \$29.9 million program over four years from 2021 for up to 20 new CCCF restricted services. The expansion is aimed at increasing the participation of Aboriginal and Torres Strait Islander children as part of the Commonwealth's *Closing the Gap Implementation Plan*. The new services will be delivered by Aboriginal Community Controlled Organisations.

#### **Business support**

Within the CCCF, the Department of Education provides advice without charge to grant recipients who need support to improve service viability or sustainability. The Government has allocated \$1.1 million per year from 2022-23 to 2025-26 to deliver business support and has engaged BDO Services Pty Ltd to deliver the support.

**a.** Special circumstances grants are one-off grants following an emergency or natural disaster and are not relevant to supporting ongoing thin markets. Connected Beginnings primarily supports Aboriginal and Torres Strait Islander families' access to health and family support services and is not the focus of this section. **b.** Budget Based Funded services were non-mainstream services – including centre-based day care, outside school hours care and Multifunctional Aboriginal Children's Services – that were block-based (or grant) funded. This program preceded the CCCF.

Source: AIFS (2023, pp. 4–6); Bray et al. (2021, p. 308); Commonwealth of Australia (2023, p. 55); DoE (2022, 2023a, pp. 8–9, 2023e, 2023b; sub. 90, p. 23).

## **State governments are also expanding early learning centres**

A number of state governments have committed to establishing early learning centres. For example, the NSW Government has announced \$20 million for new not-for-profit early childhood education centres to be built in high-growth and regional areas and another \$20 million under the Flexible Initiatives Trial with one aim being supporting FDC provision in regional and remote areas (NSW DoE 2023). The Western Australian Government announced grants of up to \$100,000 to local governments to improve early childhood outcomes (Sabine 2023). Similarly, the Victorian Government has announced that 50 government-owned and operated early learning centres will be established from 2025. And the South Australian *Royal Commission into Early Childhood Education and Care* recommended that the South Australian Government could consider capital funding to support the establishment of new services or the expansion of existing services (SA Government 2023a, p. 12).

The establishment of early learning centres by federal, state and territory governments is not necessarily coordinated. The Commission recommends that federal, state and territory governments' responsibilities should be clarified through a new National Partnership Agreement (paper 9). And that one of the roles the recommended ECEC Commission should be to provide advice to governments on areas where availability gaps are largest.

## **Changes to the CCCF would be needed to support universal availability**

### **Communities have different support needs – the CCCF only partially meets them**

The nature of support needed by communities can vary.

A community might consider it has sufficient demand to support a service and be keen to establish one but be unsure of how to go about it. In cases like this, provision of information through an advisory service may be sufficient.

Another community might have sufficient demand to cover the operating costs of a service (such as wages, rent and other overheads) via CCS and ACCS, but a service is unviable without further support because expected earnings would not cover the capital costs of building or expanding physical facilities. Funding to support the establishment of a service might be a solution.

A smaller number of communities will likely need further intervention because the level of demand is too low to support all of the costs of operating a service or the population has significant cultural barriers to accessing CCS or ACCS. These areas could not recoup operating expenses and would then require funding for capital *and* at least some operating expenses.

Both the capital support element of the general CCCF open competitive grant rounds and the 2023 limited supply round could provide adequate commercial incentive for a provider to enter a persistent thin market. The former might lower the hurdle for entry in communities that only require capital support. The latter addresses situations where demand might be below the level needed to cover the costs of both establishing and operating a service.

But as they currently stand, neither program would adequately address needs in persistently thin markets if the policy goal were to ensure that every child aged 0–5 has access to 30 hours or three days of ECEC a week. This section discusses potential program changes before considering the need for advice in some communities.

### **CCCF open competitive grants would be inadequate if the policy goal were availability of up to 30 hours or three days a week for all children**

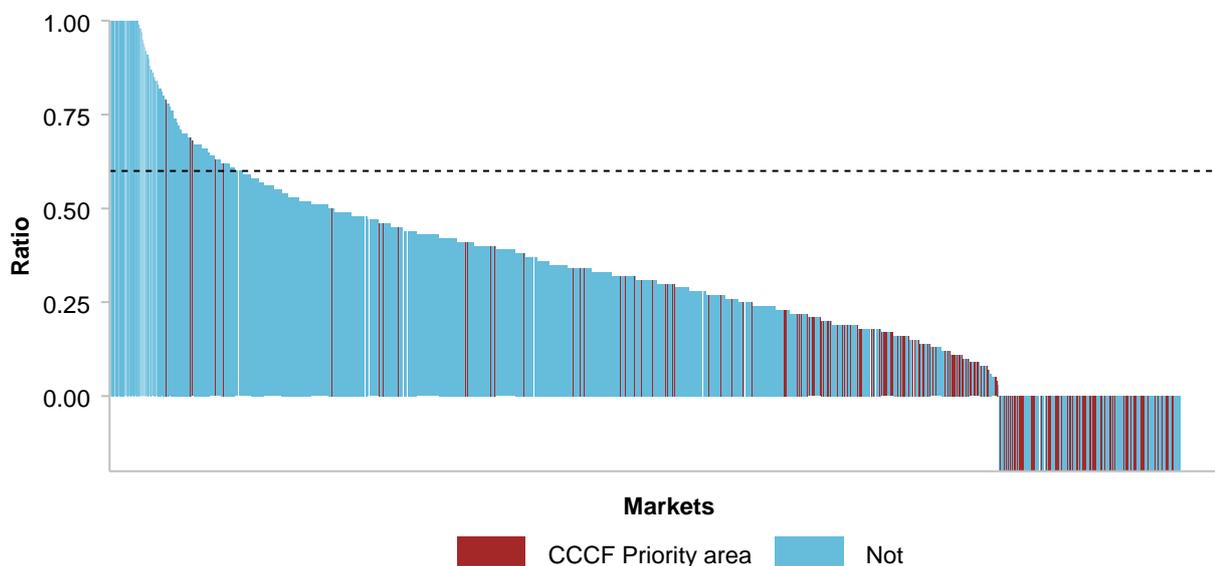
#### **Eligibility criteria do not identify all thin markets**

Inclusion of the ratio of children to approved services in eligibility criteria for the 2023 limited supply round is aligned with the goal of addressing persistently thin markets. By comparison, previous rounds only considered Australian Early Development Census data and Socio-Economic Indexes for Areas from the ABS which are not necessarily proxies for thin markets but instead target disadvantage.

The priority areas identified for the limited supply round tend to be those with particularly low ratios of places to children. The ratios of approved CBDC places per child in areas that are CCCF priority areas tend to be lower than in those that are not (figure 5.15). And taking into account preschool and FDC places, the difference between the current number of approved places and the number that would be required for every local child to access 3 days of ECEC per week is far greater in priority areas. Priority areas have a median deficit of 87 approved places in comparison with a median of 52 places across all regional and remote SA2s.

**Figure 5.15 – Priority areas for the CCCF limited supply grant are generally the areas with the least number of places per child<sup>a,b</sup>**

**Distribution of the ratio of CBDC places per child by CCCF priority area**



a. Ratio is calculated as the number of CBDC approved places per child in a local area. The number of approved places are as at Q4 2022 and population as at the 2021 ABS Census. b. Markets with no approved places (a ratio of zero) are shown as negative values so the CCCF priority areas (red lines) are visible.

Source: DoE (2023e); Productivity Commission estimates.

But there are many areas with low levels of availability that are not on the priority list. Some might become viable locations for non-government providers if demand increased following relaxation of the activity test and a lift in subsidies for lower-income families. Non-government providers would respond just as they have responded to past increases in demand in other areas. Others are likely to remain thin markets that would not be attractive to non-government providers without further support.

If the CCCF open competitive grant program were to be used to lift availability in persistently thin markets, the eligibility criteria should include the ratio of approved places (rather than approved services) per child and be expanded to ensure all persistently thin markets were identified. Assessment of grant applications should look to ensure that funds are only directed to areas in which non-government providers would not be viable without it.

**Funding levels are likely well below what would be needed**

Looking at provision within the priority areas identified for the limited supply round (including preschool places), the Commission estimates that about an extra 20,000 places would be required to ensure sufficient availability to enable every child to attend three days of ECEC per week. If dedicated preschools are not included in the current place count, an additional 30,000 or so places could be needed. Moreover, as noted, there are areas of low availability that are not on the priority list.

It is likely that at least some of these areas would remain thin markets even if the Commission’s recommended policy changes were adopted. And, while not all families in these areas would seek to use three days of ECEC a week, it could be assumed that many would. The estimates suggest that there is likely a sizeable gap between potential demand and available places in many of these areas.

Under Round 3 of the CCCF open competitive program, only 25 applicants received capital support (DoE 2021). (It is unclear whether this is because funding was capped or the terms of the grant mean it was unattractive to providers.) Assuming these services provide 70 places each (the average size of a CBDC service, Productivity Commission estimates of ACECQA data as at Q4 2022), this funding will translate into an additional 1,750 places. As noted above, the CCCF limited supply program was allocated \$18 million in the 2022-23 October Budget for up to 20 centres (Department of Education, pers. comm., 27 October 2023). Assuming these centres provided on average 70 places each, this level of funding would translate into a maximum of 1,400 extra places.<sup>12</sup>

This additional capacity will likely fall well short of what would be needed if the policy goal were to make up to 30 hours or three days a week of ECEC available to all children aged 0–5. While expansion of the CCCF restricted program would also address some of the ‘places gap’, funding for other programs would likely need to be significantly boosted.

### **Grants as they stand are unlikely to attract providers to some thin markets**

CCCF open grants require that both the provider applying for a grant *and* the service for which a grant is sought are approved under Family Assistance Law. Essentially, no new services can receive grants. But persistently thin markets would have very few, if any, incumbent services eligible for grants. This restriction might explain why only 25 applicants received capital funding under Round 3 of the CCCF open.

The 2023 limited supply round goes some way to remedying this as only the *provider* needs to be approved under Family Assistance Law. This approach should be continued for further initiatives targeting persistently thin markets.

As noted in box 5.5, grants in the limited supply round are for two years and providers must contribute at least 50% to the total cost of the project. As Deloitte Access Economics (2023a, p. 52) noted, time-limited CCCF grants can be a large impediment to service providers if grants represents a large part of their funding. Goodstart Early Learning (sub. 125, p. 57) submitted that CCCF grants have been inadequate ‘particularly where funding supports service establishment but there is insufficient demand in the community to rely on a demand-driven subsidy like the CCS for long-term service viability’.

### **An enhanced and expanded funding program should be considered for persistently thin markets**

A program of government funding will be essential to achieving a universal ECEC system. Even if policy changes led to significant increases in demand, thin markets will likely remain across many areas in regional and remote Australia.

While the CCCF as it stands seems appropriate for its other goals such as addressing disadvantage, the solutions to persistently thin markets must acknowledge the unique challenges of delivering services in them. Funding targeted provision in thin markets should generally be ongoing, with periodic review to determine if a service can be self-sustaining with CCS and ACCS.

Changes to the CCCF open grant program might lead to more providers seeking funding to establish provision in thin markets, but it is not clear that this will happen. And while applicants to the program compete for funds, it is unlikely that there is competition to provide ECEC within the same market. Moreover, it is likely that a single provider will be the most cost-effective way of delivering services within a thin market.

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<sup>12</sup> It is also likely that a service with 70 places would be larger than the capacity needed in some areas.

In some cases, community representatives will be able to establish ECEC services that fit local needs and an advisory program could facilitate their access to existing funding programs. Service provision will likely be viable in some of these communities without further government support. In others, grant funding might be needed for the community representatives to establish a service which could then be viable without further support or block-based funding (recurrent lump sums) could be sought if support for both capital and ongoing operating costs was needed.

Some communities will not have local representatives to manage the development of ECEC capacity and will need more support. In these communities, the Australian Government could tender out the building and operation of services, creating competition to provide services in persistently thin markets where providers do not put up competitive grant applications. The Australian Government should retain ownership of these facilities.

### **Some communities' needs for advice are not being met**

As noted above, there is a business support program within the CCCF but it only provides advice to services that have received grants. There is likely an unmet need for advice in communities and for potential providers that have not applied for funding.

An advisory service should be established to support community representatives – local governments, schools or ACCOs for example – in finding and attracting the type of support needed. This could also help a potential service through the steps to become approved under Family Assistance Law.

An effective way to institute the CCCF advisory service would be for the agency tasked with providing the advice to reach out to identified priority areas to assist them first hand. This would target the service to where it is most needed. The service could use information from the proposed ECEC Commission to identify areas in need.

The nature of the advice would go well beyond the current scope of viability and sustainability provided by the business support program – the service should offer in-depth knowledge of the CCCF. As such, this service should be run within the Department of Education.



#### **Draft finding 5.4**

#### **Recent changes to the CCS and ongoing demand from parents will further support increases in supply in some regions; but in other areas, more support will be needed**

Many regional and remote areas are 'thin markets' – where the costs of delivering services are higher than families are able or willing to pay and non-government providers have limited incentive to establish services.

If the activity test were relaxed and affordability improved for lower-income families (draft recommendation 6.2), demand for ECEC will increase in some areas to the point where services are viable without further government support and supply will expand through market dynamics. Lower socio-economic areas with larger populations (including on the urban fringe), likely have this characteristic.

In other markets, prospective providers may still be reluctant to invest, perhaps due to higher costs and the challenges of recruiting and retaining educators and teachers. Supply-side funding programs will be needed to boost provision to achieve an entitlement to up to 30 hours or three days a week of quality ECEC for all children aged 0–5 years whose families choose to use ECEC.



### Draft recommendation 5.1

#### Support universal access in persistently thin markets via supply-side funding

To ensure that up to 30 hours or three days a week of quality ECEC is available for all children aged 0–5 years whose families wish for them to participate, the Australian Government should provide additional support in markets where it is clear that ECEC providers are unlikely to invest, even with the changes recommended in this inquiry.

This support could take the form of:

- grant funding to establish a service in communities that are able to cover the operating costs of a service (such as wages, rent and other overheads) via child care subsidies and families' out-of-pocket gap fees, but expected earnings would not cover the capital costs of building or expanding physical facilities
- block grants to cover capital and operating costs in communities where the level of demand is too low to support all of the costs of operating a service or there are substantial barriers to accessing child care subsidies. Funding in these markets should generally be ongoing, with periodic review to determine if a service can be self-sustaining with child care subsidies
- specific arrangements for Aboriginal Community Controlled Organisations to be co-designed with Aboriginal and Torres Strait Islander communities.

The Australian Government could use a process of competitive tendering to provide services in markets where community representatives do not apply for grants.

Centre-based day care, family day care and mobile care should all be considered for funding to help address the varying needs of thin markets.

An advisory program should be established that works with community representatives and enables them to get the support they need.

## Family day care can be a solution in regional markets

Family day care has lower barriers to entry than CBDC. Set up costs are lower, and the number of children required to make a service financially viable is much smaller. Inquiry participants have suggested that family day care can be part of the solution to ensuring that families have access to ECEC in thin markets where there might be low and variable demand. For example, the Western Australian Government (sub. 162, p. 4) submitted that family day care is important to ECEC availability particularly in regional and remote areas.

Yet, the full potential of family day care is not being realised due to integrity concerns. To address this, the Department of Education noted the following.

The Family Day Care (FDC) model has a number of benefits that are not being fully realised due to systemic financial integrity risks that are particular to the FDC model. This includes the oversight challenges where care is provided from an educator's home; and wide-spread business practices that create further oversight challenges such as educators collecting gap fees as an agent of the approved provider.

The inherent integrity risks and significant fraud on non-compliance in the program have contributed to a decline in educator numbers, meaning the benefits such as FDC's potential to improve ECEC supply in regional areas are not being fully realised.

The department is undertaking a FDC Capability Trial (the Trial) to test approaches to inform potential systemic changes to the current FDC model to improve financial integrity, combined with supports and incentives to attract new educators in regional areas. A key benefit of building capability and strengthening the FDC model is that a quality FDC can be set up with a reduced lag time and without the larger costs associated with establishing the infrastructure needed for centre-based care. Further to this FDC can offer local employment opportunities and non-standard hours of care for shift or seasonal workers.

The Trial will be delivered over three years. If the trial outcomes can achieve systemic integrity improvements that can be adopted in the FDC model, it is anticipated FDC could play a greater role in meeting the need for quality, flexible ECEC in regional areas experiencing limited supply and more broadly across the whole FDC sector. (Department of Education, pers. comm., 27 October 2023)

The Commission's recommended advisory program could assist an expansion of family day care by providing support for potential providers.



#### **Draft finding 5.5**

#### **Family day care can be an effective solution to addressing thin markets**

Family day care can be part of the solution to ensuring that families have access to ECEC in markets where there might be low and / or variable demand. Integrity concerns have been raised in the past and this has limited expansion of family day care in recent years. The Commission notes the Australian Government Department of Education is working to support the use of family day care while satisfying probity and integrity expectations.

## **In Home Care can support families in remote areas – but faces challenges**

The In Home Care (IHC) program provides care in a family's home where standard ECEC services are not suitable or available and it can fill an important gap in areas with low and dispersed populations. To be eligible, families must either be working non-standard or variable hours, geographically isolated or have complex or challenging needs.

In 2023, the program provided for 3,200 places, with a place defined as 35 hours per week. A family is not required to use a full place, and some families may use more than one place for a child.

The program is under-subscribed. During the December 2022 quarter, 2,090 children from 1,140 families used IHC (DoE 2023c). It is unclear what proportion of those families were experiencing geographic isolation. But in Q4 2019 about 400 families were using IHC to address geographic isolation of about 1,100 using the program (Bray et al. 2021, p. 172).

Some inquiry participants advocated for an expansion to the program (Ai Group, sub. 126, p. 2; One Tree Community Services, sub. 121, p. 15, Parents Work Collective, sub. 73, p. 6).

Among inquiry participants who raised IHC, key issues related to:

- access and availability (Regional Education Commissioner, sub. 102, p. 2)
- affordability (Isolated Children's Parents' Association, sub. 58, p. 3)

- educator qualification requirements and restrictions on their role and who they can care for (Isolated Children's Parents' Association, sub. 58, p. 3).

Families using IHC to address geographic isolation might also incur additional costs. For example, the Isolated Children's Parents' Association submitted that geographically isolated families may face additional costs, such as board and lodging (sub. 58, p. 3).

The IHC program has been the focus of review by the Department of Education but, at the time of writing, the final review report had not been released. The ACCC's Childcare inquiry is also looking at the costs of providing IHC services, and will include this analysis in its final report, due with the Treasurer by 31 December 2023. The Commission will draw on this work in further analysis of the IHC program for its final report.

## **5.6 Other factors affecting availability**

### **Changing the hourly rate cap would not be the most effective way to increase supply in thin markets**

Some inquiry participants have supported the idea of a higher hourly rate cap in regional and remote areas (One Tree Community Services, sub. 121, p. 20; Rural and Regional Remote ECEC in Victoria, sub. 88, p. 9; Western Australian Government, sub. 162, p. 5).

It would be difficult to find an hourly price cap that would be high enough to attract supply in all markets without overshooting in other markets.

The Commission's view is that an expanded supply-side funding program – combined with changes to subsidies for lower-income families and the activity test – would be more effective at addressing thin markets than changing the hourly rate cap in regional and remote areas.

### **Cross-subsidisation can be a risk to ECEC availability**

As noted above, fees charged to families do not always reflect the cost of delivery. Many centres charge a fixed fee regardless of the child's age meaning that younger children who require higher staff–child ratios are loss-making for the provider (ACCC 2023b, pp. 172–173). On the other hand, older children with lower staff–child ratios are generally more profitable and cover the loss induced when providing for younger children, a situation known as cross-subsidisation (ELACCA, sub. 135, p. 10). Cross-subsidisation likely occurs because a uniform price is simple for families to understand and lowers the administrative burden for the provider. That said, some providers do charge different rates depending on the age of the child.

Cross-subsidisation could become less viable as government preschool provision expands, posing substantial future risks for the availability of places offered at CBDCs. If providers can only afford to deliver services for the 0–2 age group by cross-subsidising using revenue from children aged 3–4, then the expansion of fee-free preschool in dedicated centres might risk the availability of places for children aged 0–2 (SA Government 2023b, p. 85). The ECEC Commission – recommended in the short report – would be well placed to monitor this risk.

## **There is no case for regulating whether services can enter a profitable market**

Some inquiry participants argue that the clustering of services in areas where provision is more profitable pulls scarce resources – particularly workforce – from other providers and amplifies availability issues in disadvantaged areas. As a consequence, many inquiry participants have called for greater planning around the establishment of ECEC services (Berry Cottage Childcare, sub. 141, p. 4; C&K, sub. 155, p. 8; ELACCA, sub. 153, p. 5; Goodstart Early Learning, sub. 125, pp. 86–87; KU Children’s Services, sub. 83, p. 5; Rebecca Swainson, sub. 114, p. 4; Shirley Cornelius, sub. 75, p. 4). In a similar vein, Berry Cottage Childcare (sub. 141, p. 4) recommended that the number of approved places be capped to address perceived oversupply in some areas.

A central theme of these submissions is that ECEC provision left to the market will undersupply in less profitable areas – regional and remote, low SEIFA – and oversupply in more profitable areas.

While the Commission acknowledges that availability *is* worse in disadvantaged areas (section 5.3), the entry decisions of non-government ECEC providers ultimately rests on service viability. Providers will enter markets where they can generate an operating surplus. Thin markets, however, will not be profitable regardless of whether there is oversupply in advantaged areas and the challenges of providing ECEC in remote or sparsely populated areas will remain.

Capping entry and places in certain markets would risk generating excess demand and upward price pressure, increasing profitability for incumbent services. Parents crowded out from their local market might seek ECEC services in other less convenient areas, use informal care or reduce their working hours.

Moreover, there are several mechanisms at play in the market to contain oversupply. As the ACCC (2023b, p. 18) has pointed out, enrolment levels are critical for centre profitability and viability. Providers will enter a market if they can make a profit or surplus but if entry increases and enrolments per service decline, profitability will also decline, sending a signal to other potential providers that the market is less lucrative to enter. As such, provided a surplus is being made in a market, it is unlikely that services are being overprovided.

## **Planning processes can affect availability**

Providers need approval to set up an ECEC centre. Obtaining approval involves the lodging of an application with the relevant authority (usually a local government), the assessment of this application (often involving a referral to other agencies for consideration and/or a public notification and consultation process), and a decision on whether the development can proceed which may also include conditions on that development. This decision may be able to be appealed (PC 2022, p. 489).

Even when approval is ultimately granted, this process can increase the time it takes before a service is able to start operating and the costs that providers face in setting up a new service, making expansion less likely to be financially viable. Differences in processes between local governments may make applications harder to navigate, particularly for smaller providers.

Local governments can take an active approach in supporting the availability of ECEC (for example, City of Sydney, sub. 65, p. 3; Municipal Association of Victoria, sub. 115, pp. 6–7). But proposals for the construction of ECEC centres may also be denied by local governments. Often, this is due to concerns from some residents over impacts from the construction or operation of the centre, for example on noise or traffic. Some centres have been denied approval after objections including that the presence of an ECEC centre was outside the character of the neighbourhood, that parents may slam car doors while dropping off their

children, or that the number of children the centre could support was excessive (City of Ipswich 2021; Trembath 2017; Western Australia Department of Planning, Lands and Heritage 2023).

There are trade-offs between potential amenity costs for residents of an area and the benefits of ECEC for children and families. But the groups who will be advantaged and disadvantaged by a proposal may not have an equal voice in the approval process. Local governments can face pressure from a vocal minority of opposed residents. Parents of young children, on the other hand, may struggle to find the time to speak in support of a proposed new centre (and, ironically, may not be able to access the ECEC they would need to do so). Some who may need the service in the future but do not yet have children may be unaware that they would benefit from speaking in support of one. And families who are not residents of the area but wish to use the potential service (for example, because they work nearby) may not have their interests represented at all.

State and territory government involvement in planning could facilitate the supply of ECEC if more standardised provisions and processes led to greater consistency, clarity and certainty for providers. State and territory governments may also be better placed to consider all those who may benefit from more accessible ECEC in assessing whether a particular centre would provide net benefits to the Australian community.

There is a range of options for state and territory involvement. For example, the Victoria Planning Provisions set out a template for planning provisions and processes to promote clarity and consistency in local government development assessment processes (Victorian Department of Transport and Planning 2023). Other options could shift responsibility even further – one inquiry participant has suggested that local governments' involvement in approvals process could be removed entirely in response to these issues (Long, sub. 8, p. 13).

The Commission is seeking information on providers' experiences with the development assessment process, the extent to which this may affect the accessibility of ECEC, and how these potential barriers could be addressed.



#### Information request 5.2

The Commission is seeking views on the effects of planning processes on the availability of ECEC.

Are delays, inconsistency or complexity in the development assessment process, or unwarranted rejections of applications for development approval for ECEC centres, posing a barrier to availability? Where are planning systems working well to support the availability of ECEC services, and how could these efforts be built on or expanded?

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