



IPART Independent
Pricing and Regulatory
Tribunal | NSW

Review of early childhood
education and care

Issues Paper

April 2023



Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Tribunal Members

The Tribunal members for this review are:

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Monday, 22 May 2023

We prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

Review of early childhood education and care
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

If you require assistance to make a submission (for example, if you would like to make a verbal submission) please contact one of the staff members listed above.

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

We may decide not to publish a submission, for example, if we consider it contains offensive or potentially defamatory information. We generally do not publish sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please let us know when you make the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's [submission policy](#) is available on our website.

The Independent Pricing and Regulatory Tribunal

IPART's independence is underpinned by an Act of Parliament. Further information on IPART can be obtained from [IPART's website](#).

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1 We want to work with you to recommend improvements

IPART helps you get safe and reliable services at a fair price. We are a NSW Government agency, that investigates and gives independent advice on services, prices and other issues across a range of sectors.

The NSW Department of Education is funding new programs to support more children access quality early childhood education and care across the state.^{a, 1, 2} To ensure the increased investment results in improved outcomes for children and families, IPART has been asked to review the early childhood education and care sector in NSW. Our review will improve understanding of the sector today, including barriers to accessibility, choice, affordability and supply of quality early childhood services, and ways to improve these across the sector.

1.1 We will review access, choice and affordability

We have been asked to:

 <p>Review the market Report on factors driving affordability, accessibility, consumer choice and supply of services</p>	 <p>Collect cost and revenue data On current fees, household out-of-pocket costs, and provider revenue and costs</p>	 <p>Estimate benchmark prices That reflect the costs of providing quality services and to compare service fees</p>	 <p>Recommend ways to improve affordability, accessibility and consumer choice</p>
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In doing this, we must consider the diverse needs of families and children and varied services in the sector, including across

- different children and family groups, including those experiencing vulnerability and/or with disability
- geographies (for example, metropolitan, regional and rural areas)
- different types of services and providers
- other issues set out in the Terms of Reference for the review.^b

^a This follows from a key recommendation of the Expert Reference Panel of the NSW Women's Economic Opportunities Review (2022). The Expert Reference Panel considered that the benefits of an increased investment in early childhood education and care would include increased workforce participation for women, more careers in early childhood education and care, and developmental and education benefits for children.

^b See **Appendix A**.

We have not been asked to develop, investigate or recommend price regulation or price setting mechanisms as part of our review.

1.2 We will look at different service types



Our review focuses on services for children aged 0 to 12 years, including:

- long day care, family day care and occasional care (for children aged 0-5 years)
- NSW Department of Education preschool, community and mobile preschool (for children aged 3-5 years, focusing on the year before school)
- out of school hours care (before and after school care and vacation care) (OSHC) (for school children up to 12 years of age).

These services are provided by for-profit companies, not-for-profit organisations, local councils and the state government. They are funded by a mix of fees, Commonwealth Government subsidies, and state and local government subsidies through a variety of programs. More background information about the early childhood education and care sector can be found in Chapter 2.

1.3 Our review focuses on NSW

There are also currently 2 Commonwealth Government national inquiries of the sector under way:

- The Australian Competition and Consumer Commission (ACCC) is conducting an [inquiry](#) into the market for the supply of childcare services, examining costs and prices.
- The Productivity Commission (PC) is conducting an [inquiry](#) into the early childhood education and care sector, considering cost and availability barriers that affect access to services, and ways to support better outcomes for children and families.

While our review will focus on similar areas to the ACCC and PC inquiries, our review will specifically focus on affordability, accessibility and consumer choice in NSW, and make recommendations to improve these for children and families in NSW.

We are also aware of other recent work examining issues and initiatives in the sector. For example, the National Quality Framework, which provides a national approach to the regulation of the quality of early childhood services across Australia, was recently reviewed, with changes to improve it due to be brought into effect in 2023.³

New programs, including expanded preschool fee-relief for families, have been implemented to help continue to improve the quality of services and provide universal access to quality early childhood education and care for children, particularly in the year before school.⁴

Quality is an important element to consider in our review. We will consider accessibility, consumer choice, affordability and service supply with regard to quality, as well as the impacts of any recommendations we make on the quality of services.

1.4 We want to hear from you

We are keen to hear your feedback in response to our Issues Paper. In particular, we want to hear from families, providers and workers in the early childhood education and care sector through our [NSW Have Your Say \(HYS\) webpage](#), [survey](#) and/or [submissions](#). We are seeking feedback on our Issues Paper until 22 May 2023.

We are keen to hear from families who use or plan to use early childhood services, or have in the past, as well as families that don't currently use these services, especially those who don't use them (or use them as much as they want to) because of issues with access to, affordability and choice of services.

Whether you are a family, provider or worker, we want to hear any concerns you have about the accessibility, affordability and/or level of choice in the sector that you think we should also be looking at, and how these areas could be improved. We also ask specific questions in this paper that we are keen to hear from you and get more information about, on:

- access to and choice of services and how they can be improved (see Chapter 3)
- service affordability and how it can be improved (see Chapter 4)
- service supply and how it can be improved (see Chapter 5)
- provider costs and revenue in delivering services (see Chapter 6).

A complete list of questions is also available at the end of this chapter.

Chapter 2 of this Issues Paper also provides some high-level information on the early childhood education and care sector, including about the types of services in the sector, how many people use these services and how many people work in the sector.

You don't have to respond to all the questions, you can just respond to those that are important to you. For example, families may be more interested in access to and choice of services (Chapter 3) and service affordability (Chapter 4), whereas providers and workers may be more interested in service supply (Chapter 5) and provider costs and revenue in delivering services (Chapter 6).

We also invite you to provide any other feedback about accessibility, affordability, choice, supply and/or provider costs and revenue in the sector.

1.4.1 We will consider feedback to inform our Interim Report

We will consider all feedback received in response to our Issues Paper to inform the next stages of our review and our Interim Report, including our draft findings and recommendations, which we will publish in August 2023. The timeline for our review is presented in Figure 1.1.

We are keen to continue engaging with the sector as the review progresses. We will also hold online public hearings on Monday 15 and Tuesday 16 May 2023. We will also consider all feedback we receive at the public hearings in preparing our Interim Report.

Figure 1.1 Timeline for our review



Our review process will involve ongoing engagement with the community and sector, including opportunities to provide feedback on our Interim Report, and at a second public hearing, before we make our final recommendations in December 2023, in our Final Report.

We also plan to consult directly with the sector and specific family and community groups through meetings and focus groups as part of our review.

Have your say

Your input is critical to our review process.

You can get involved by taking our survey or providing feedback by 22 May 2023 and/or attending an online public hearing on 15 or 16 May 2023.

[Take our survey »](#)

[Make a submission »](#)

[Register for public hearing »](#)

Tell us what you think

Access to and choice of services

1. What has been your experience finding early childhood services at the times and places that you need them? How could this be improved? 11
2. What has been your experience of getting information to make decisions about early childhood services? What could be improved? 12
3. What has been your experience with inclusivity at early childhood services? How could this be improved? 13
4. What has been your experience of discrimination in early childhood services? How could this be improved? 14
5. What has been your experience of choice in early childhood services? How could this be improved? 15

Affordability of services

6. What does affordable and value-for-money early childhood education and care mean to you and what would make it more affordable for families? 17
7. Besides regular service fees, what other out-of-pocket costs do families have to pay for early childhood services? 17
8. How do the costs of early childhood education and care affect your family's decisions about working (for example, when to return to work after having a baby, and/or how many hours to work)? 18
9. What factors are important to families when comparing early childhood service prices and thinking about whether they offer value for money? 19

Supply of services

10. How do you think we should measure whether the supply of early childhood services in an area is adequate? 21
11. Are there particular parts of NSW where you consider there is a shortage of early childhood education and care places? Where are they? 21
12. What factors other than cost, demand and workforce, can impact a provider's decision to establish or expand an early childhood service? 22
13. How do costs of providing early childhood education and care impact decisions about establishing or expanding early childhood services? 22
14. How do service providers predict or gauge demand for a new or expanded early childhood service? 23
15. How have workforce issues affected early childhood service providers and/or workers and what could be done to help this? 24

Provider costs and revenue in delivering services

16. What types of costs are incurred in providing early childhood services and how do they vary? 26

17.	What types of costs or circumstances are most challenging for providers in delivering quality early childhood services?	27
18.	What costs do providers usually incur to improve early childhood service quality? How have these costs changed since the introduction of the National Quality Framework?	27
19.	How do profit margins and cost recovery impact providers' decisions about costs and revenue?	28
20.	What factors do you think IPART should consider when using cost information to estimate price benchmarks?	29

2 Overview of the sector in NSW

The NSW Department of Education monitors, supports and regulates more than 5,800 early childhood services across NSW.⁵

2.1 Over 303,000 families use services across NSW

The sector provides services to over 303,000 families and 473,000 children in NSW across several different service types,^{6, 7} including:

- long day care, family day care and occasional care (for children aged 0-5 years)
- NSW Department of Education preschool, community and mobile preschool (for children aged 3-5 years, focusing on the year before school)
- out of school hours care (OSHC) services (for school children up to 12 years of age).



Source: Australian Children's Education & Care Quality Authority, *NQF Snapshots*, accessed 16 March 2023, and IPART analysis.

Figure 2.1 provides an overview of the sector by service type, including the number of children attending, hours of operation and how many services there are in NSW.

The amount families pay out-of-pocket for services^c can vary greatly by:

- the level of fees charged by providers
- service type, type of provider (for example, not-for-profit or for-profit), location
- what additional costs they have to pay (for example, for nappies, excursions)
- how many of their children use services and the number of hours they attend
- whether they receive the Commonwealth Government Child Care Subsidy (CCS) or NSW Department of Education preschool fee-relief.

^c The out-of-pocket costs to families of using services include the costs of fees charged by providers and any additional costs (such as, for nappies, excursions), less any subsidies and/or fee-relief that families receive.

Families who access long day care, family day care or OSHC may be eligible to receive the CCS. The amount of CCS support a family receives varies depending on:

- family income
- number of children in care
- hours spent doing a 'recognised' activity (including paid work, voluntary work, study and job searching)
- the type of service accessed.

Families experiencing financial hardship or barriers to accessing childcare may also receive the Additional Child Care Subsidy (ACCS).

The NSW Government currently provides fee-relief for families with children in preschool programs across the state. The amount of fee-relief a family receives depends on the hours of preschool enrolment per year. The NSW Government also offers fee-relief to families who have children aged 4-5 attending preschool programs at a long day care service. This fee-relief can be received in addition to the CCS.

2.2 Over 79,000 people are employed in the sector

In NSW, there are over 79,000 people who work across the early childhood education and care sector.⁸ The majority (62%) of workers are employed in centre-based day care services or long day care, with 23% employed in OSHC services (including vacation care), 5% in family day care services, and 10% in preschools.⁹








In Australia, the industry award for most people employed in the sector is the *Children's Services Award [MA000120]*.¹⁰ The award does not include qualified preschool and early childhood teachers who are covered by the *Educational Services (Teachers) Award [MA000077]*¹¹ and carers in family day care services who are covered by the *Miscellaneous Award [MA000104]*.¹²

The early childhood education and care National Workforce Census found that about:

- 58% of workers are paid at the award rate
- 21% of workers are paid up to 10% above the award rate
- 7% of workers are paid more than 10% above the award rate.^{d, 13}

^d These percentages do not include the preschool workforce and do not add to 100% as some workers reported that they did not know how their wages compared to the award wage.

Figure 2.1 Overview of early childhood education and care sector in NSW

	NSW Department of Education preschool	Community and mobile preschool	Long/Centre based day care	Family day care	Out of school hours care (OSHC)
 Age range (years)	3-5	3-5	0-5	0-12	5-12
 CCS eligible	No	No	Yes	Yes	Yes
 Numbers attending	~4,141 3,441 YBS children (3.5% of YBS children)	~39,000 20,735 YBS children (21% of YBS children)	~249,000 61,584 YBS children (63% of YBS children)	~30,000	~151,600
 Operation hours	6	7.5	10-11	Varied	Varied
 Services	101	~738	~3,300	~140	~1,500 (+300 long day cares provide OSHC)
 Provider type	NSW Government run and managed (school based)	92% private NFP 5% government managed 3% independent	75% private FP 17% private NFP 6% government managed 2% independent	54% private FP 22% private NFP 24% government managed	47% private FP 42% private NFP 6% government managed 5% independent schools
 Policy framework	Early Years Learning Framework	Early Years Learning Framework	Early Years Learning Framework	Early Years Learning Framework	My Time, Our Place Learning Framework

Notes: "YBS" means "year before school", "FP" means "for profit" and "NFP" means "not for profit". Does not include occasional care.

Source: NSW Department of Education, *Early Years Commitment - Transforming early childhood education and development for NSW families*, June 2022, pp 22-23.

3 Access to and choice of services

Accessibility is about several complex and overlapping factors:



Time and place

- Is enough care available?
- Do the times and days available suit families' needs?
- Are early childhood services in locations which suit families' needs?



Information

- Do families have sufficient information to make informed decisions?



Affordability

- Can families afford available services?



Inclusion

- Are there services that reflect the family's culture, values and aspirations?
- Do services cater for the physical or other needs of a child or family?



Non-discrimination

- Are families being excluded from services because of race, disability or additional needs, gender, sexuality?

Consumer choice is also closely related to accessibility. It is about making sure that families have a meaningful choice about early childhood services. This includes making sure:

- there are a variety of providers and service types to choose from
- the services available provide high quality care.

We are interested in hearing about whether:

- services are accessible
- families have adequate choice about which services their children attend.

The sections below provide more detail on the elements of accessibility and consumer choice for early childhood services. We consider affordability of services separately in Chapter 4.

3.1 Are services available at times and places families need them?

Some families may be unable to find a suitable service at the times and places they are needed.¹⁴ If this is the case:

- parents may delay returning to work or work less than they would otherwise
- families may rely on unpaid care from other family members, such as grandparents
- preschool aged children may miss out on an important stage of play-based learning
- primary school aged children who cannot access out of school hours care may be left alone at home sooner than parents are comfortable to do so.

Other families may make significant changes to their work arrangements, schedules and transport to access services.¹⁵ They may also have to choose a form of care for their children that fits with their work arrangements, rather than the care that they would prefer.

These difficulties impact certain communities and worker groups more than others, including rural and remote communities, areas with poor public transport networks and shift workers.¹⁶

Ways to improve families' access to services at the times and places they are needed, may include:

- increasing the overall supply of services, particularly in regional, rural and remote areas^{e 17}
- removing restrictions on operating hours¹⁸
- increasing the availability of occasional care to provide flexibility for families¹⁹
- improving public transport networks²⁰
- increasing the availability of employer provided services²¹
- ensuring flexibility in workplaces to help parents manage carer responsibilities.²²

We want to know about your experiences accessing early childhood services, whether you can find them at the times and place you need them and how this could be improved.

Tell us what you think



1. What has been your experience finding early childhood services at the times and places that you need them? How could this be improved?

^e Service providers require suitably qualified staff to operate early childhood services. Therefore, to be able to increase the supply of services where they needed, service providers may require more qualified workers. We discuss workforce supply issues in Chapter 5.

3.2 Do families have enough information to make decisions?

Families need sufficient information to be able to make informed decisions about the service that may suit their child and their family circumstances. This may include information about:

- location of early childhood services, hours of operation and availability of care
- service types and the differences between them (see Chapter 2 for more information on different service types)
- the level of fees and what those fees cover
- the quality of care a service provides
- the extent of support for children with disability or additional needs
- how inclusive a service is for First Nations families and families from diverse cultural and language backgrounds
- processes around enrolment and waiting lists
- the benefits of quality early childhood education and care for children, particularly in the year before school.

Families may also need this information translated into other languages.

The administrative complexity of the system itself can make accessing early childhood services challenging and overwhelming for parents.²³ Parents may not be given the information they need about early childhood education and care options, the advantages and disadvantages of different service types, how to identify and evaluate quality service, how to navigate the system and enrolment and waiting list processes.²⁴

There are a range of online resources that provide information about early childhood services for families, including:

- government-run resources, such as [Starting Blocks](#) and [Service NSW](#)
- commercial search and compare sites, such as [Care For Kids](#), [KindiCare](#) and [Toddle](#)
- resources specific to individual service types, such as [NSW Family Day Care Association Inc.](#), [Family Day Care Australia](#), [Australian Home Childcare Association](#)
- company-specific resources, such as [Community Kids](#), [Goodstart Early Learning](#), [G8 Education](#)
- local or regional resources, such as council websites (for example, [Central Coast Council](#)), [Local Child Care](#), [ChildCareDirectory.net.au](#), [The Australian Child Care Index](#).

We want to know about experiences of accessing information about early childhood services, including where people look for information, whether it was useful and what could be improved to help make decisions about services.

Tell us what you think



2. What has been your experience of getting information to make decisions about early childhood services? What could be improved?

3.3 Are services inclusive?

Inclusive services allow every child to participate meaningfully in activities, receive adequate care and enjoy the benefits of early childhood education and care alongside their peers. All children have the right to inclusive early childhood education and care.²⁵

Participation in early childhood education and care may help to address social exclusion and the needs of children facing disadvantage, particularly education disadvantage.²⁶

Unfortunately, not all early childhood services are inclusive for all children. This is especially so for children with disabilities and additional needs²⁷. It may also affect children from First Nations backgrounds, children from diverse cultural and language backgrounds, or any child who might experience barriers to equal participation.

A service might not be inclusive for some children if it, for example:

- does not have the expertise, resources, or equipment to properly support and include all children, including identifying and raising health and developmental concerns
- does not respect the culture and values of each child's family
- does not incorporate local Aboriginal culture and language into its curriculum
- does not make efforts to communicate in ways that suit children and parents from language backgrounds other than English
- lacks connections with early intervention, health, and family support services.²⁸

Ways to make services more inclusive may include:

- improving cultural competency among staff
- providing staff with professional development opportunities
- embedding integrated early intervention, health, and family support services with early childhood education and care.²⁹

We want to know about the inclusivity of early childhood services, including positive and negative experiences when accessing or attending a service, and how services could be made more inclusive.

Tell us what you think



3. What has been your experience with inclusivity at early childhood services? How could this be improved?

3.4 Do families experience discrimination?

Most early childhood services are committed to the inclusion of all children.³⁰ Despite this, some children and their families have had trouble accessing services due to discrimination or exclusionary practices.³¹

Discrimination may occur towards a person based on many factors, including disability status, ethnicity, religion, sexual orientation, and gender identity.³²

Discrimination is not always easy to identify. It may be an unintended consequence when services or staff refuse an enrolment application because they feel that they do not have the capability to care for a certain child.³³

Because of this, children with disabilities and additional needs are much more likely than other children to be turned away, excluded, or asked to leave by a service.³⁴ In particular, providers may turn away children with behavioural issues or severe medical conditions if they do not feel able to accommodate their needs.³⁵

We want to know about discrimination in the early childhood education and care sector, and how it could be reduced or prevented.

Tell us what you think



4. What has been your experience of discrimination in early childhood services? How could this be improved?

3.5 Do families have meaningful choice about services?

Many families feel that they do not have much of a choice when it comes to decisions about early childhood services.³⁶ This may be because there are limited options for:

- the types of services that are available (that is, long day care, family day care, out of school hours care (OSHC), occasional care and preschool)
- the variety of providers in their area (that is, which companies or organisations operate locally)
- services which provide a high quality of care.

Parents with little choice may have to use early childhood services which aren't a good fit for their children's care needs, culture and values or work schedules. Some parents may decide not to return to work or rely on unpaid care from family and friends instead of using one of their local services. This can be a stressful and disappointing experience for families.

Families living in remote areas are especially impacted by these issues and may have little choice about early childhood education and care. There generally tend to be fewer services in remote areas, and they may be less likely to offer high quality care.³⁷

We want to know about choice in the early childhood education and care sector, including how the options available impact experiences of accessing early childhood services.

Tell us what you think



5. What has been your experience of choice in early childhood services? How could this be improved?

4 Affordability of services

What is and isn't considered affordable early childhood education and care will be different across families in NSW. Even families who are in similar financial situations may have different ideas about what they consider to be affordable.

As part of our review, we will look at affordability in terms of:



Cost compared to household income

We will compare the cost of using services to a family's household income. If families are spending more of their income on services over time, it means services are becoming less affordable.



Cost compared to additional income gained

We will look at the cost of services compared with the potential increase in family income if a parent (who wants to) is able to return to work, or work more hours, by having their children in an early childhood service.



Parent perceptions of affordability

We will look at the financial and non-financial factors parents consider when making decisions about whether or not they will return to work and/or use early childhood services.

We want to know how families judge whether a service is affordable, how the costs of using early childhood services affect families and what would make using these services more affordable.

We are interested in hearing about:

- what is 'affordable' early childhood education and care to you and how services can be made more affordable for more families
- how much families are spending out-of-pocket (that is, after any subsidies or rebates) on early childhood services
- if the costs of using early childhood services have affected parents' decisions about working
- what factors are important when comparing prices for early childhood services.

We will also estimate 'benchmark' (or standard) prices that can be used to measure and compare early childhood service fees in NSW.

4.1 What does 'affordable' mean to families?

One benchmark for early childhood education and care affordability used in the USA is that no more than 7% of household after-tax income is spent on early childhood education and care.³⁸ Using this benchmark, early childhood education and care is 'unaffordable' for about 39% of Australian families³⁹.

The average Australian family spends 16% of their household income on early childhood education and care compared to the Organisation for Economic Co-operation and Development (OECD) average of 9%, suggesting that early childhood education and care affordability in Australia is low by international standards.^{f 40}

We want to know how the costs of using early childhood services affect families and what would make using these services more affordable for families.

Tell us what you think



6. What does affordable and value-for-money early childhood education and care mean to you and what would make it more affordable for families?

4.2 How much do families in NSW spend on services?

As well as regular service fees, some parents face additional out-of-pocket costs of using early childhood services, such as supplying food or nappies for their children to use at the service. Providers may also charge additional fees, including for educational excursions, extracurricular activities and building fund contributions.

We will analyse available data on services' fees and subsidies as part of our review, but we also want to hear about what families are paying for early childhood services, including other out-of-pocket costs.

Tell us what you think



7. Besides regular service fees, what other out-of-pocket costs do families have to pay for early childhood services?

^f Based on a couple earning the average Australian household income with 2 children using centre-based care after subsidies have been applied.

4.3 How do costs to families affect decisions about working?

Making quality early childhood education and care more affordable can support parents, particularly women, who want to return to work after having a baby or work more hours. The out-of-pocket costs of early childhood education and care can make it difficult for some parents to return to work or work more hours.⁴¹ About 78% of Australian parents surveyed say high early childhood education and care costs discourage parents from returning to work after having a baby,⁴² and 77% say they prevent parents from working as much as they want to.⁴³

It is important that parents, particularly women, are supported to return to work or work more hours, if they want to. Tackling barriers that prevent this would improve Australia's economic outcomes, boost family incomes, and reduce the lifetime pay gap between men and women.⁴⁴

We want to know how the affordability of early childhood services affects when and how women return to work after having a baby, how many hours parents work per week and whether families would use these services more often if they were more affordable.

Tell us what you think



8. How do the costs of early childhood education and care affect your family's decisions about working (for example, when to return to work after having a baby, and/or how many hours to work)?

4.4 What factors are important to families when comparing prices?

As part of our review, we will use the data we collect about service fees and out-of-pocket costs to estimate 'benchmark' (or standard) prices that can be used to measure and compare early childhood service fees in NSW. In doing this, we will aim to reflect the costs of providing quality services which meet the needs of different children and families.

We will also compare the costs of operating early childhood services with the prices for using these services. We want to make sure the benchmarks consider costs for families, but do not make it difficult for providers to offer good quality services.

Some factors we will consider when we estimate benchmark prices include:



Types of services



Quality of services



Location of services



Age groups of children who attend services



Needs of children and family groups who attend services

We want to know what factors are important to families when they compare prices of early childhood services and think about whether they get value for money for the fees and costs (passed on by providers) paid for services.

Tell us what you think



9. What factors are important to families when comparing early childhood service prices and thinking about whether they offer value for money?

5 Supply of services

The decision to establish or expand an early childhood service is affected by factors including:



Cost



Demand



Workforce

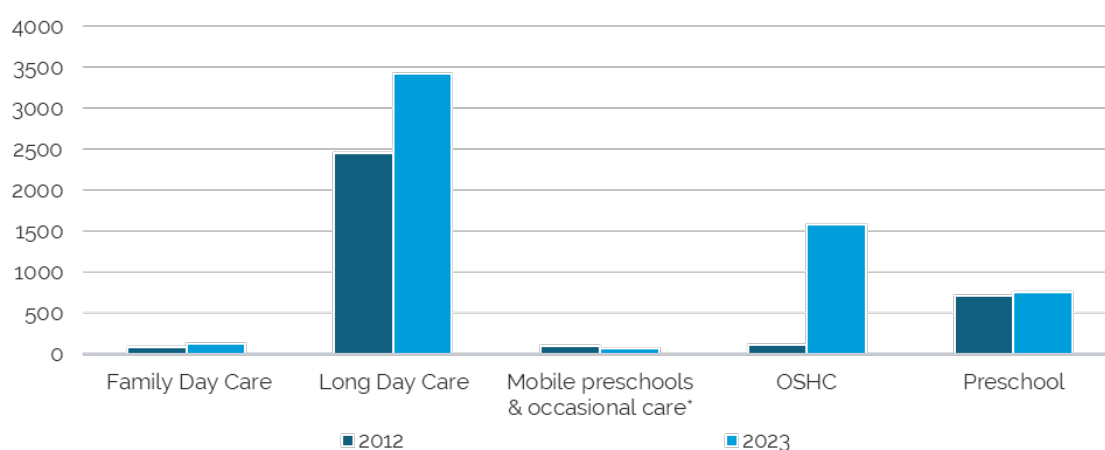
We are interested in hearing about:

- how the supply of early childhood services can be measured and tracked, including areas where there is an existing or potential supply shortage
- the drivers of, and barriers to, the supply of services
- ways in which supply can be enhanced to improve affordability, accessibility and consumer choice.

5.1 How should the supply of services be measured?

Since December 2012, the number of early childhood services approved to operate in NSW has increased by 72%,⁴⁵ with most of the growth in the long day care and outside school hours care sectors.

Figure 5.1 Growth of services in NSW

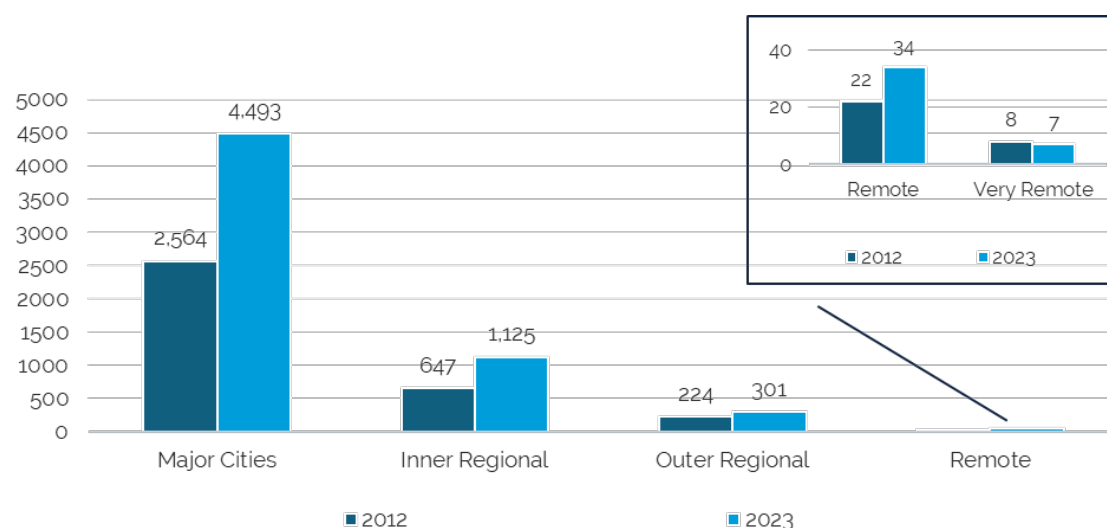


Note: "Mobile preschools & occasional care" refers to services regulated under the *Children (Education and Care Services) Supplementary Provisions Act 2011*, namely mobile preschools and occasional care services

Source: Department of Education NQAITS 01 February 2023, and IPART analysis.

However, the supply of early childhood services is not evenly distributed across the state. The majority of services in NSW are located in major cities. The situation in inner regional, outer regional, remote and very remote areas is vastly different⁴⁶ – there are currently relatively more areas of substantial undersupply of services. In its 2022 report on the accessibility of early childhood services, the Mitchell Institute defined a 'childcare desert' as an area where there are more than 3 children per early childhood education and care place.⁴⁷

Figure 5.2 Location of services in NSW



Note: There are also 7 services, not included, that do not have a remoteness classification.

Source: Department of Education (NSW) *NQAITS* 01 February 2023, and IPART analysis.

As part of our review, we will investigate specific areas in NSW where the supply of early childhood services is either currently falling short, or may do so in future, to better understand the causes and make recommendations to improve the situation. We want to know:

- whether you think the measure of 'more than 3 children per place' is an appropriate way to define an inadequate supply of early childhood places
- over what geographic area you think the measure should apply, for example, local government area, suburb, or statistical area as defined by the Australian Bureau of Statistics.

Tell us what you think

10. How do you think we should measure whether the supply of early childhood services in an area is adequate?
11. Are there particular parts of NSW where you consider there is a shortage of early childhood education and care places? Where are they?

5.2 What drives the supply of services?

Cost, demand and workforce availability are 3 key drivers of supply of early childhood services.

Drivers of, and barriers to, supply may differ between service types, for example between a centre-based service and a family day care service. The drivers may also differ depending on the type of service provider, for example whether the provider is government-run, for-profit, or not-for-profit.

We want to know about the possible drivers of supply of early childhood services, including whether there are other factors, such as regulatory burden, that may impact a provider's decision to establish or expand a service.

Tell us what you think



12. What factors other than cost, demand and workforce, can impact a provider's decision to establish or expand an early childhood service?

5.3 How do costs of providing services impact decisions?

The cost of establishing a service may differ according to the type of service. For example, the cost of establishing a long day care service, preschool or out of school hours care (OSHC) service may differ significantly to the cost of an individual family day care educator setting up in their own home. Most services in NSW are operated by 'for-profit' or commercial providers.⁴⁸ This makes any return on investment a significant factor in establishing an early childhood service.

Also, while the costs to establish a new service may be significant, it could be less expensive to create additional places at an existing service.

We go into more detail about the categories of costs incurred by early childhood service providers in Chapter 6.

With respect to supply of services, we want to know about the significance of costs on decisions to establish or expand an early childhood service.

Tell us what you think



13. How do costs of providing early childhood education and care impact decisions about establishing or expanding early childhood services?

5.4 How do providers consider and respond to demand for services?

Another key driver of the supply of early childhood services is the demand (or need) for these services. Understanding the demand for services helps providers match it with the supply of these services. However, demand may, in some cases, be difficult to predict or gauge, particularly in rural and regional areas or places where there are currently few services. It can also be difficult to account for families placing their child on multiple waiting lists for services.

Also, unlike schools, where there is a legal requirement for children to attend school once they reach a certain age, there is no requirement for early childhood education and care.

The demand for early childhood education and care is dependent on several factors,⁴⁹ including:

- the need for care to enable parents to work/study
- location and convenience of the service, hours of operation and places available
- the level of fees and what those fees cover, as well as other out-of-pocket costs
- the quality of care provided by a service
- the age of the child
- family circumstances, including the availability of family members to care for the child
- cultural factors and attitudes towards early childhood education and care.

We want to know how services predict or gauge demand for new or expanded early childhood services and what factors are taken in account in making the decision to establish or expand services (for example, waiting lists, parent/family feedback and/or demographic information).

Tell us what you think



14. How do service providers predict or gauge demand for a new or expanded early childhood service?

5.5 How have workforce issues affected providers and workers?

It has been widely reported that acute workforce shortages are currently having an impact on the supply of early childhood services.⁵⁰

The National Quality Framework sets staffing ratios that services must adhere to for safety and quality reasons. Staffing ratios, and educator and teacher qualifications, are key factors of quality in early childhood education and care. Professional and highly qualified educators, and positive social interactions between a child and educator, are very important to learning outcomes.

Current workforce shortages affecting the sector mean that services may have to restrict the number of children that they enrol or care for at any one time to meet ratios. They can also place stress and additional responsibility on workers in early childhood services. This may lead to more workers leaving the sector, further impacting the supply of services.

All States and Territories and the Commonwealth Government have agreed to a 10-year workforce strategy for the early childhood education and care sector.⁵¹ The NSW Government has also committed to an increased investment in attracting and retaining the early childhood education and care workforce.⁵²

While we are not reviewing the staffing ratios set out under the National Quality Framework, we want to know:

- how workforce issues have affected the ability to expand early childhood services to care for more children
- if in the last 2 years services have had to restrict care to children due to staffing issues
- what might help attract and retain early childhood workers.

Tell us what you think



15. How have workforce issues affected early childhood service providers and/or workers and what could be done to help this?

6 Provider costs and revenue in delivering services

Providers incur costs to deliver early childhood services and generally set their fees to recover these costs. However, different providers may spend different amounts of money to deliver the same service for many reasons, such as the location or the size of a service.

Common cost categories include:⁵³



Labour costs



Rental costs



Property maintenance and capital investment costs



Administration and compliance costs



Purchases and consumables (such as, educational material, food, nappies, toys, hygiene products)

In most cases, the fees charged to families are partly paid by the families and partly paid through the Commonwealth Government Child Care Subsidy (CCS) and/or NSW Department of Education preschool fee-relief. Early childhood services may also receive direct government funding.

As part of our review, we will collect revenue and cost data directly from providers across different locations, service types and provider types.⁹ However, we also want to know more about provider experiences of costs and revenue.

We are interested in hearing about:

- the types of costs involved in providing services
- which types of costs are most challenging for providers
- how providers manage their costs.

We will also use cost data to estimate benchmark (or standard) prices that can be used to measure and compare early childhood service fees in NSW.

We are interested in hearing views on our proposed approach for estimating benchmark prices.

⁹ We are coordinating with the Australian Competition and Consumer Commission (ACCC), which is currently undertaking an inquiry into the early childhood education and care sector in Australia, to reduce burden on providers associated with our data collection, where possible.

6.1 What types of costs are involved in providing services?

We expect costs to vary across providers of different size, type (for example, not-for-profit and for-profit providers), the age and needs of different groups of children who attend early childhood services, quality rating and location. We are keen to reflect this diversity in the benchmark (or standard) fees that we must estimate as part of our review and want to know if there are other factors we should also consider.

While the main costs to providers are similar across the sector (for example, most providers will have to pay rent and wages to operate their services), how much providers spend on each cost category can vary. Providers may face specific circumstances tied to one type of cost or might use different strategies to manage costs (for example, a provider might be paying very low rent for a centre that is provided by a charitable entity).⁵⁴

We expect labour to be the most significant cost category for most providers. We are also aware of challenges in managing labour costs, for example, due to mandatory staffing requirements and/or current workforce shortages. Some providers may have to offer higher wages to attract workers (for example, in remote areas). Other costs of labour include costs for staff turnover, training, upskilling, and backfilling.

Rent, which can vary substantially by location, is another major cost for providers, especially given recent increases in property prices. The nature of rental contracts can also be a factor, depending on the length and terms of lease agreements.

Providers may also incur additional costs for property maintenance, capital investment (for example, upgrades to a centre), administration, consumables, and compliance with regulation.

We are keen to better understand what costs providers face and how these costs may vary or be impacted by other factors. We want to know:

- how current workforce conditions in the sector have affected labour costs
- how providers manage workers to meet staffing ratios and other regulatory requirements
- how the provision of early childhood services for different children age and needs groups affect labour costs
- what other costs are incurred by providers in addition to rent and labour.

Tell us what you think



16. What types of costs are incurred in providing early childhood services and how do they vary?

6.2 What types of costs are most challenging for providers?

The data we collect will give us a better understanding of what the costs of providing services are and how they are distributed. However, we are also keen to understand the experience of providers when it comes to managing these costs. Some costs, while high, might be easier to predict, defer, or reduce, while others can be unexpected or urgent, or represent challenges that are specific to some types of providers or exceptional circumstances.

We want to know:

- what types of costs or circumstances are hardest for providers to manage and/or are most concerning in delivering quality early childhood services
- how providers prioritise cost categories
- the ongoing effects of the COVID-19 pandemic on costs of delivering services
- what costs are incurred by providers to manage risks related to climate change.^h

Tell us what you think



17. What types of costs or circumstances are most challenging for providers in delivering quality early childhood services?

6.3 What are the costs of improving quality of services?

Children can benefit more from early childhood services if they are of high quality. Government policy recognises this, for example by regulating high quality standards through the National Quality Framework. Providers pay the costs of improving the quality of their services to meet standards under the framework. Providers may also pay higher costs to increase quality above the standards, if they think they can recover those costs from families who are prepared to pay for additional inclusions or higher quality.

While we will not be reviewing quality standards as part of our review, we want to know more about providers' expenditure to improve the quality of their services.

Tell us what you think



18. What costs do providers usually incur to improve early childhood service quality? How have these costs changed since the introduction of the National Quality Framework?

^h For example, costs to improve access to water, shade, and air conditioning, or costs to train staff on safety during floods or droughts.

6.4 How do service providers manage revenue?

Providers' funds for the delivery of early childhood services come from the fees they charge families, the subsidies or other support they receive from government, and any profit they might already have available. We want to know more about these components of provider revenue.

We will look at the costs providers pay to deliver services compared to the revenue providers receive. The decisions of providers can influence the gap between these (that is, the profit) in many ways, for example, some providers can reduce their costs by improving efficiency. In deciding how much to charge families, for-profit providers are also likely to consider the level of cost recovery, profit targets, and the level of competition in the market.

Providers may also have different motivations other than profit margins and strategies to manage them. For example, a not-for-profit provider could deliver services to achieve a social outcome for a community, irrespective of financial gain and might choose to deliver a service even if it's not profitable. Both for-profit and not-for-profit providers may avoid raising their fees too much to keep services affordable for families. Providers owning multiple childcare services might run unprofitable or less profitable services by using funds from profitable ones.⁵⁵

We want to know how profit margins and cost recovery impact providers' decisions about costs and revenue, including when and how providers deliver services that are unprofitable or at a loss.

Tell us what you think



19. How do profit margins and cost recovery impact providers' decisions about costs and revenue?

6.5 What factors are important when comparing costs?

As part of our review, we will estimate benchmark (or standard) prices that reflect the costs of providing services in the early childhood education and care sector. Government agencies use benchmarks in other sectors (like healthcare and infrastructure) to estimate the efficient cost of providing a service and identify how and why actual costs may differ.

Benchmarks can also be used as a starting point to assess the impact of new policies and funding, and as a yardstick to identify trends and areas of improvement.

Estimating benchmarks in a sector as diverse as the early childhood education and care sector is a complex task. There are no 2 providers that are exactly the same, and a variety of factors can influence total costs of service provision. We acknowledge stakeholders' comments on these challenges,⁵⁶ and we will work with the sector to develop benchmark estimates that reflect this diversity.

We will use 2 approaches to estimate benchmark prices using cost information:

- Top-down approach – we plan to estimate the average (or median) costs of providing each early childhood service from available cost data, by cost category and across providers.
- Bottom-up approach – we plan to build up estimates of the cost of providing specific levels of service by adding cost categories using data and insight we collect from providers.

We want to know what factors we should consider and/or other approaches that may be useful when comparing the costs of early childhood services.

Tell us what you think



20. What factors do you think IPART should consider when using cost information to estimate price benchmarks?

Appendices

A Terms of Reference

Terms of Reference for review of NSW early childhood education and care affordability, accessibility and consumer choice

I, Victor Dominello, Minister for Customer Service, under section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*, request the Independent Pricing and Regulatory Tribunal (IPART) to assess affordability, accessibility and consumer choice in the NSW early childhood education and care sector.

Background

Governments in Australia provide financial assistance for early childhood education and care through a mix of payments to families, support for providers and the direct provision of services. The Australian Government's role in early childhood education and care is largely confined to funding. The NSW Government provides funding and support for providers, service regulation and some direct service provision.

NSW early childhood education and care services are delivered in a range of service types. Not-for-profit and for-profit providers provide the majority of early childhood education and care services in NSW, with the NSW Department of Education and local governments providing some services.

In June 2022, the NSW Government announced the Early Years Commitment, a \$15.9 billion investment over 10 years in the NSW early childhood education and care sector. This reform plan will change and deepen the NSW's Government's relationships and responsibilities in the early childhood education and care sector. NSW will grow beyond its responsibilities of preschool funding and early childhood education and care regulation into funding and shaping outcomes across more early childhood education and care service types. The NSW Government wants its investment to improve accessibility, affordability, quality and safety outcomes, not only the sector's commercial performance.

Children who participate in quality early childhood education and care are more likely to succeed at school and have improved lifelong educational, social and economic outcomes.

While the early childhood education and care sector is subsidised and regulated for safety and quality, the NSW Government currently has limited oversight of affordability, accessibility and consumer choice. To ensure the reforms and investment result in improved outcomes for children and families and inform its stewardship of the sector, the NSW Government seeks more information about affordability, accessibility and consumer choice across different children and family groups, geographies, service types and provider types. This includes more information about supply shortages and barriers to affordability and accessibility.

The findings of this report may be used by the person commissioned by the Minister under section (5)(1) of the *Childcare and Economic Opportunity Fund Act 2022* (CEOF Act) to inform the independent market monitoring report.

The task

IPART is requested to:

1. Review the market for early childhood education and care in NSW and report on factors which drive:
 - a. supply of services
 - b. affordability, accessibility and consumer choice

across different children and family groups, geographies, service types and provider types.
2. Collect current fee, household out of pocket costs and provider revenue and cost information consistent with the Australian Competition and Consumer Commission (ACCC) price inquiry approach (where possible to minimise duplication) across different children and family groups, geographies, service types and provider types.
3. Estimate benchmark prices that can be used as a standard to measure and compare early childhood education and care fees. These benchmark prices should reflect the costs of providing quality services for different children and family groups, geographies, service types and provider types.
4. Recommend ways for the NSW Government to improve early childhood education and care affordability, accessibility and consumer choice relevant to the scope of these Terms of Reference.

IPART will not develop, investigate or recommend price regulation or price setting mechanisms.

In conducting the review and developing recommendations, IPART is to have regard to:

1. The diversity of the NSW early childhood education and care sector, including across children and family groups, geographies and local markets, service types and provider types
2. The roles and responsibilities of government (both NSW and Australian Governments), providers and non-government participants
3. Public funding and subsidy arrangements for providers and service provision
4. Competitive neutrality principles
5. The extent of convenience-based, location-based, price-based and quality-based consumer choice for families in different geographies
6. The information that families have access to about the accessibility, affordability, convenience, quality and safety of early childhood education and care services
7. Demand and supply for early childhood education and care, including circumstances where demand and supply is too low to support effective accessibility and consumer choice
8. The objectives and provisions of the CEOF Act
9. The state of the sector, including workforce supply and pay and conditions and service quality standards
10. The ACCC price inquiry of child care and the Productivity Commission inquiry into the sector and any other key reports impacting the sector that may arise during IPART's review
11. The benefits, costs and risks of any recommendations

12. The impacts of any recommendations on:
 - a. accessibility, affordability, convenience, flexibility, quality and safety of early childhood education and care for families, including families facing diverse individual circumstances
 - b. the early childhood education and care workforce
 - c. service provision and operational and financial sustainability of sector participants at a service, provider and sector level
 - d. barriers to entry for sector participants
 - e. NSW and Australian Government legislation and policy and program objectives
 - f. the capacity of the NSW Government to successfully implement them.
13. Any other matters IPART considers relevant.

IPART will consider the early childhood education and care market for children aged 0 to 12 years. The review will include community and mobile preschool, family day care, long day care, NSW Department of Education preschool, occasional care, and out of school hours care (before and after school care and vacation care) service types. Playgroups are excluded.

IPART is required to consult with families and communities (including Aboriginal and Torres Strait Islander communities), NSW early childhood education and care providers and sector, NSW Government agencies, NSW local government, the ACCC regarding its national price inquiry of early childhood education and care competition and pricing, the Australian Government Department of Education, and other interested parties.

Timeframe

IPART is to provide a final report to the Minister for Customer Service and the Minister for Education and Early Learning no later than December 2023. IPART is to provide an interim report on market conditions by August 2023.

IPART should provide regular progress briefings to the NSW Department of Education.

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- ¹⁷ House of Representatives Standing Committee on Employment, Education and Training, *Education in remote and complex environments*, November 2020, pp 14-16.
- ¹⁸ Productivity Commission, *Childcare and Early Childhood Learning Inquiry Report Volume 1*, October 2014, p 9; NSW Treasury, *Women's economic opportunities in the NSW labour market and the impact of early childhood education and care*, 2022, p 46.
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- ²⁰ House of Representatives Standing Committee on Employment, Education and Training, *Education in remote and complex environments*, November 2020, pp 14-16; COAG Education Council, *UANP Review: Final Review Report*, October 2020, p 10.
- ²¹ Kalb et al., *Children, Labour Supply and Childcare: What do we know?*, November 2006, p 15.
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- ²³ Dandolo Partners, *Working through the NSW and Victorian early education reforms Paper 1 – Balancing ambitious growth with equity and quality*, November 2022, p 10.
- ²⁴ The Front Project, *Work and Play, understanding how Australian families experience early childhood education and care*, 2021, pp 8, 30-31, 39, 41-42; Kalb et al., *Children, Labour Supply and Childcare: What do we know?*, November 2006, p 18.
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- ⁵⁰ The Sydney Morning Herald, *Fourteen-month-old Joanna will have to go to three different centres after childcare's abrupt closure*, 22 November 2022.
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- ⁵³ IBISWorld, *Child Care Services in Australia Industry Report*, August 2022, p 23.
- ⁵⁴ Productivity Commission, *Childcare and Early Childhood Learning Inquiry Report Appendix H: The costs and viability of early childhood education and care services*, October 2014, p 963.
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- ⁵⁶ Submissions to Terms of Reference for IPART's Early Childhood Education and Care Review 2023, Early Learning and Care Council of Australia (ELACCA), January 2023, p 2, Futuro Early Learning, January 2023, p 7, and NSW Family Day Care Association, January 2023, p 3.

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