MANDALA

the FrontProject

Paving the Path

Addressing market imbalances to achieve quality and affordable childcare in more places

OCTOBER 2024

Contents

MANDALA

the FrontProject

This document is intended for general informational purposes only. The analysis in this report was prepared as part of a partnership between The Front Project and Mandala.

The Front Project is an independent, national enterprise addressing disadvantage and improving outcomes for children, families, and society by realising the benefits of quality early learning through the application of a Systems Change approach.

Mandala is an economics research and advisory firm. Mandala specialises in combining cutting-edge data and advanced analytical techniques to generate new insights and fresh perspectives on the challenges facing businesses and governments.

Note: All dollar figures are Australian dollars unless indicated otherwise.

Executive Summary

RISING DEMAND HAS DRIVEN AN INCREASE IN THE SUPPLY OF LONG DAY CARE CENTRES

Increased demand

Increased demand has been driven by female workforce participation, population growth and increased government support

52% are LDC centres

Long Day Care (LDC) centres form the backbone of Australia's childcare system, accounting for over half of all services

69% increase in LDCs

Supply of LDC places has increased 69% since 2013, driven by new services and the expansion of existing services

SUPPLY GROWTH HAS BEEN UNEVEN AND DOMINATED BY FOR-PROFIT PROVIDERS

41% less supply in low SES areas

In low SES areas there are 41% fewer LDC places per 100 children than in high SES areas

10ppt increase in for-profit market share

The share of for-profit LDCs increased from 60% to 70% since 2013

10% decline in NFP spots in gentrifying areas

In gentrifying LGAs, not-for-profit LDC places declined by 10% between 2021-2024, while for-profits grew by 25%

NOT-FOR-PROFITS PROVIDE HIGHER QUALITY AND MORE AFFORDABLE CARE

3 in 10 NFPs are rated above the NQS

28% of not-for-profit LDCs are rated above the National Quality Standard (NQS) compared to 15% of for-profits

1.5x more likely for NFP staff to be paid higher

95% of staff working for large not-for-profits are paid above the award rate wage, compared to 64% of staff in large for-profits

28ppt lower rate of large NFPs charging higher fees

Amongst large not-for-profits only 15% charge a fee above the hourly rate cap, compared to 43% amongst large for-profits

As supply grows policy needs to ensure a balanced market to provide quality and affordable care

There is a need to address market imbalances in metro and gentrifying areas while supporting NFPs. NFPs, on average, offer higher quality care, pay staff more and have lower fees. Policies should support quality and affordable care across all markets. Helping NFPs in larger markets enables them to cross-subsidise services in thinner markets. This ensures NFPs are sustainable across different market types, improving care quality and affordability nationwide.

1 **Rising childcare demand has driven growth in supply of LDC centres in Australia**

2 LDC supply growth is unevenly distributed across provider types and regions

3 On average, not-for-profits deliver better quality services, pay higher wages, and charge lower fees than for-profits

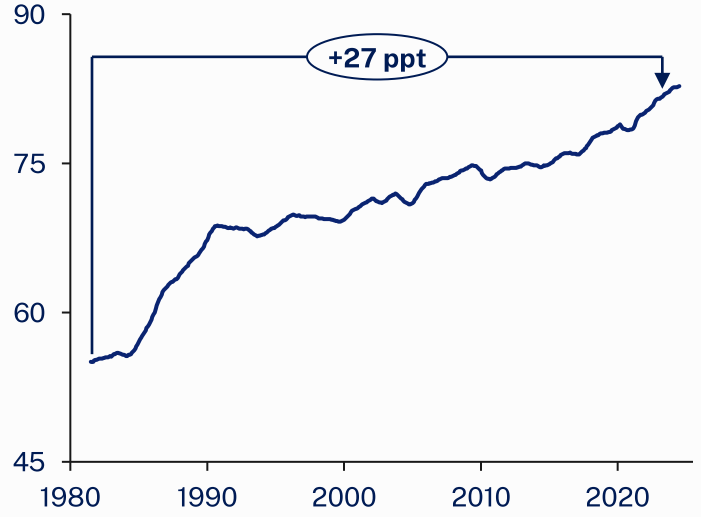
4 As access improves, policy needs to ensure a more balanced LDC market across all regions, to provide quality and affordable care for all

Demand for childcare has grown, driven by higher female workforce participation, a growing child population, and increased government funding

DEMAND FOR CHILDCARE HAS GROWN, WITH INCREASING…

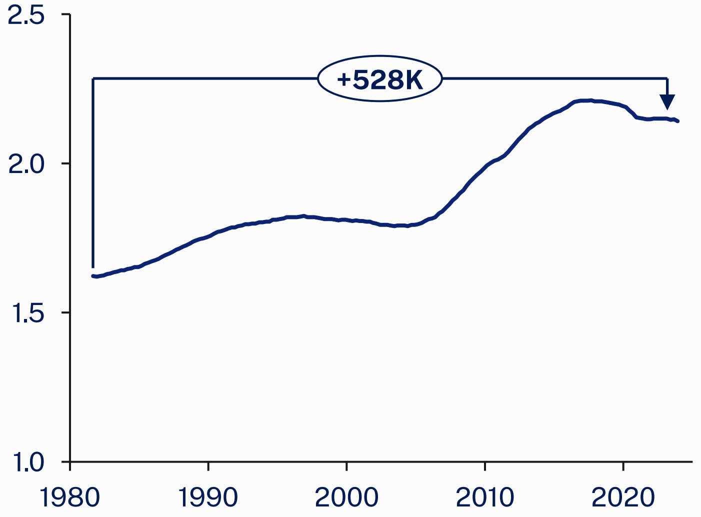
Labour force participation, women 25-44

%, 12-month moving average, 1981-2024, Australia



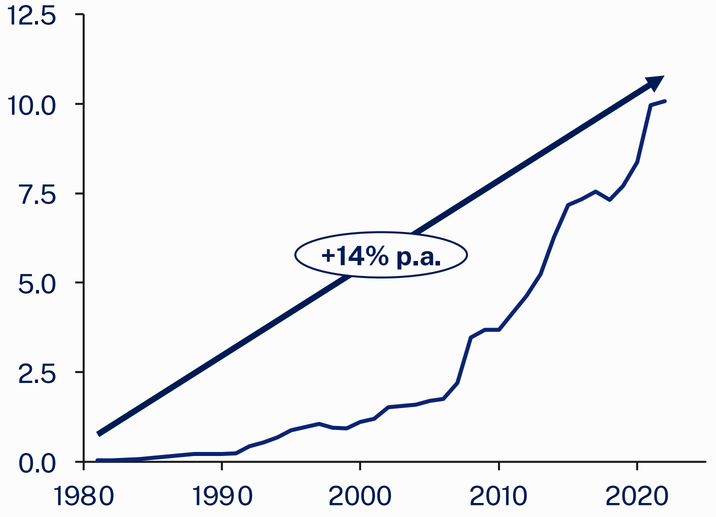
Population aged 0-6 years old

Millions, 1981-2023, Australia



Federal government expenditure on childcare

$ billions, 2022 dollars, 1981-2022, Australia



More mothers now work while raising young children. The workforce participation rate for women aged 25-44 has risen by 27 percentage points since 1981.

Australia's under-7 population has grown by over 500,000 since 1981. This increase has directly boosted demand for childcare services.

Federal childcare funding has risen by 14% per year since 1981. This investment has made childcare more accessible, further increasing demand.

Source: Australian Bureau of Statistics (ABS) (2024a) *Labour Force Survey*; ABS (2024b) *Quarterly Population Estimates (ERP), by State/Territory, Sex and Age*; ANU Centre for Social Research & Methods (2023) *Childcare in Australia: Historical trends in provision and Australian Government funding. A statistical compendium 1969-2022*; Mandala analysis.

Long day care services are integral to the ECEC sector, accounting for 52% of all services

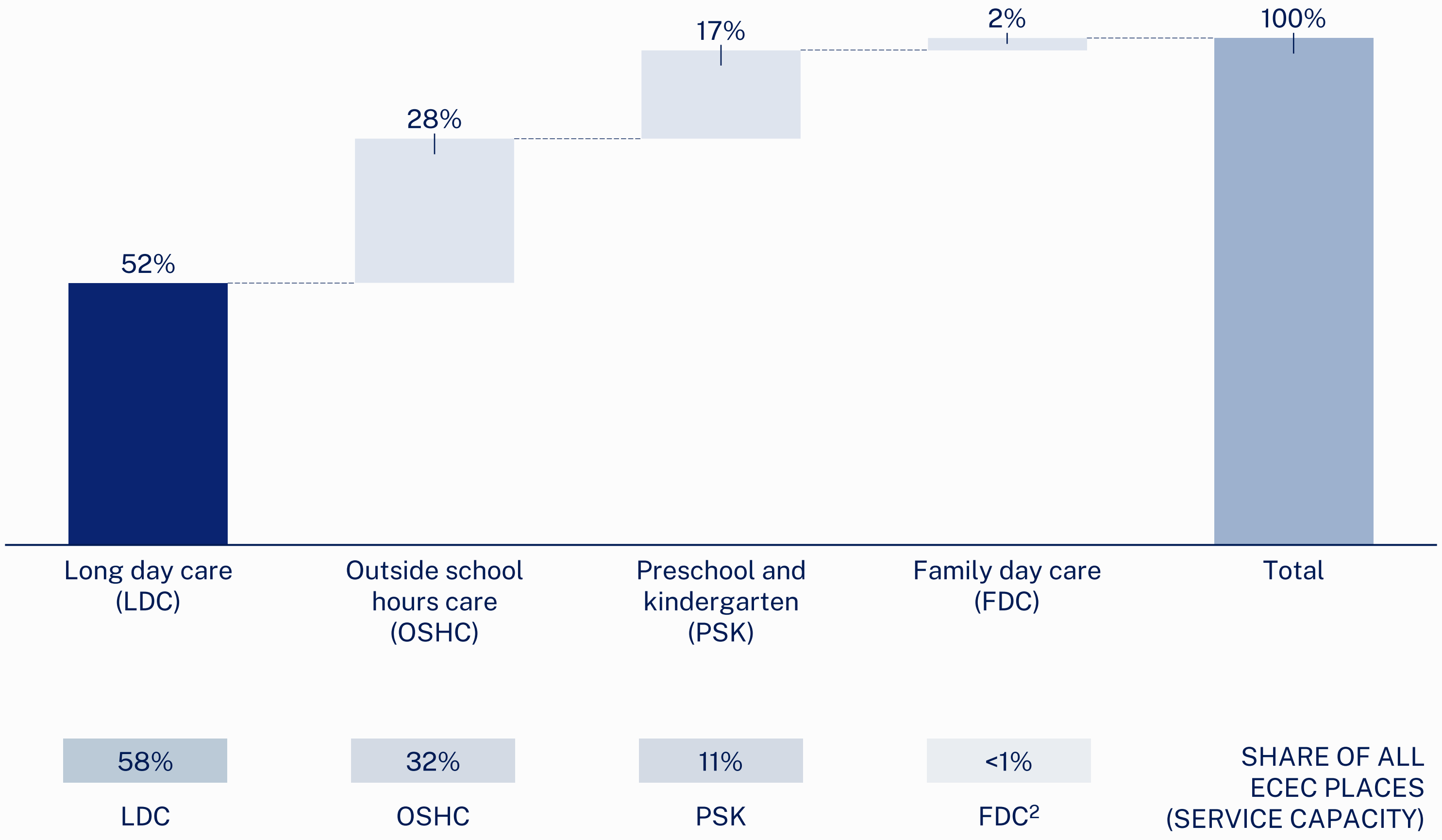
Within the early childhood education and care (ECEC) sector, there are several types of childcare that suit the needs of different children and families. 98 per cent of services are in the form of centre-based day care (CBDC), where care is provided in a building specifically used as a childcare centre. CBDCs also make up more than 99 per cent of maximum total places (the number of children that can be serviced at once). Services that are categorised as a CBDC service include:

- Long day care (LDC) – LDCs account for over half of all ECEC services and places. These centres provide all-day or part-time care for children aged between 0 and 6 years old and operate at least 48 weeks a year.
- Outside school hours care (OSHC) – OSHC services provide care for school-aged children before and after school hours.
- Preschool and kindergarten (PSK) – PSK services provide play-based learning the year or two before commencing full-time schooling.

The other type of childcare is Family day care (FDC). FDC services provide care for children aged between 0 and 6 years old primarily within the educator's home.

Share of early childhood education and care (ECEC) services by type[1]

% of all National Quality Framework-approved services, 2024, Australia



1 Excludes three childcare services categorised as 'Other'. This category may include services such as occasional care services, holiday resort childcare or mobile childcare services.
2 FDC represents 0.004% of all ECEC places.
Source: Australian Children's Education and Care Quality Authority (ACECQA) (2024) *NQF Snapshots*; Mandala analysis.

Supply of LDC places has increased by 69% since 2013, primarily driven by the entry of new services

In response to the increase in demand for LDC services, the sector has seen a rapid increase in capacity over the past decade. Since 2013, there has been a 69 per cent increase in the number of LDC places, from 401,000 places to 675,000 places. This is despite the number of young children remaining relatively constant over the past 10 years.

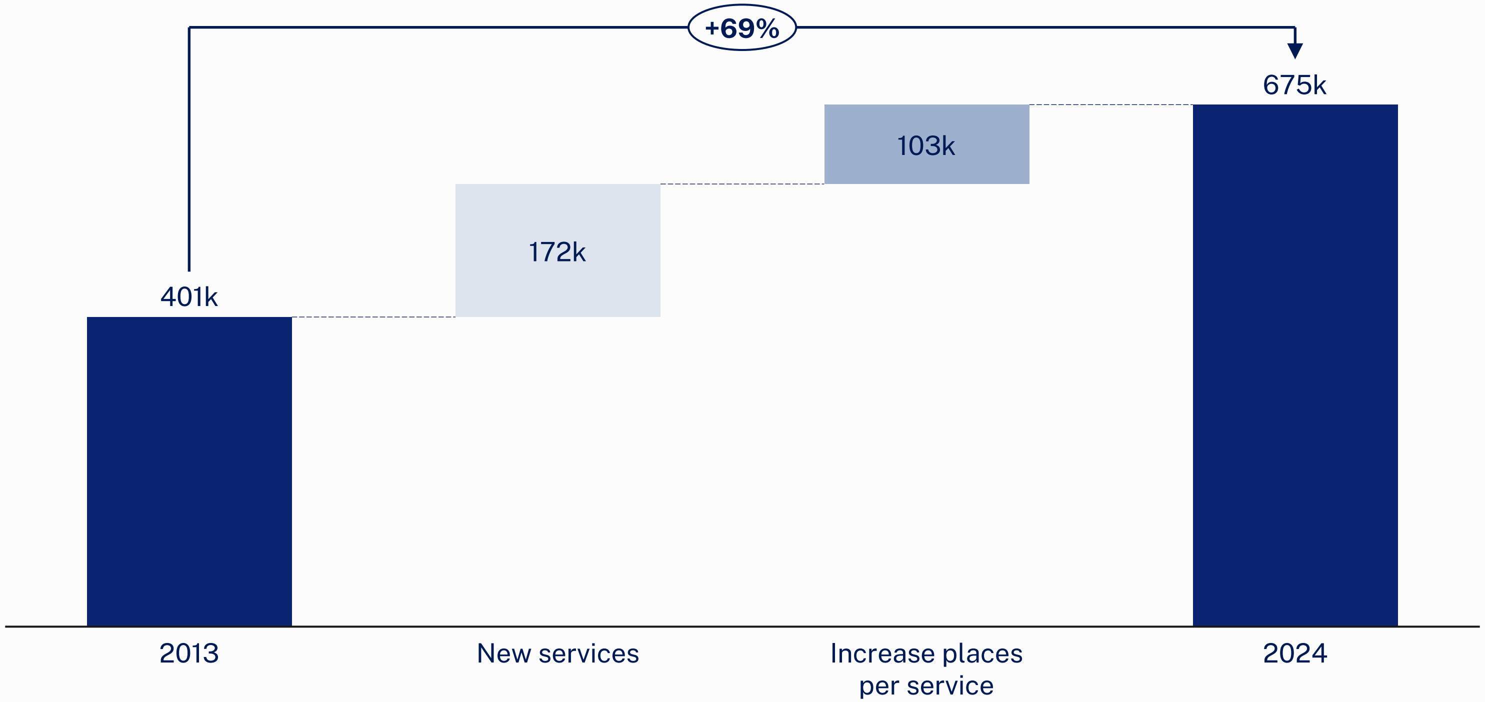
This increase has been partly driven by an increase in the number of services. Since 2013, over 2,700 new centres have begun operation across Australia, a 43 per cent increase since 2013.

The average number of places per LDC service has also increased. The average LDC centre can now care for 74 children, 11 children more than the average centre in 2013.

The rapid increase in maximum places in LDC centres has led to an increase in the number of LDC places available per child. Australia now has around 31 LDC places per 100 children, a 64 per cent increase from 19 LDC places per 100 children in 2013.

Source of increase in number of LDC places between 2013 and 2024

2013-2024, Australia



Australia had 401,000 LDC places in 2013, equivalent to **19 places per 100 children**.

2,700 new centres increased total places by 172,000.

The average number of places per service has increased from 63 to 74, adding 103,000 places.

Australia now has over 675,000 LDC places, equivalent to **31 places per 100 children.**

Source: ACECQA (2024) *NQF Snapshots*; Mandala analysis.

1 Rising childcare demand has driven growth in supply of LDC centres in Australia

2 LDC supply growth is unevenly distributed across provider types and regions

3 On average, not-for-profits deliver better quality services, pay higher wages, and charge lower fees than for-profits

4 As access improves, policy needs to ensure a more balanced LDC market across all regions, to provide quality and affordable care for all

2	**LDC supply growth is unevenly distributed across provider types and regions**
2.1	**Low SES, and regional and remote areas have relatively poor access to LDC services**
2.2	Increasingly, large and for-profit providers are dominating the market, but they are concentrated in metro and gentrifying areas

LDC supply growth has been broad-based across areas with differing population growth rates and socioeconomic status

The growth in the supply of LDC services has occurred across both low and high socioeconomic status (SES) areas, and areas with both declining and increasing child populations.

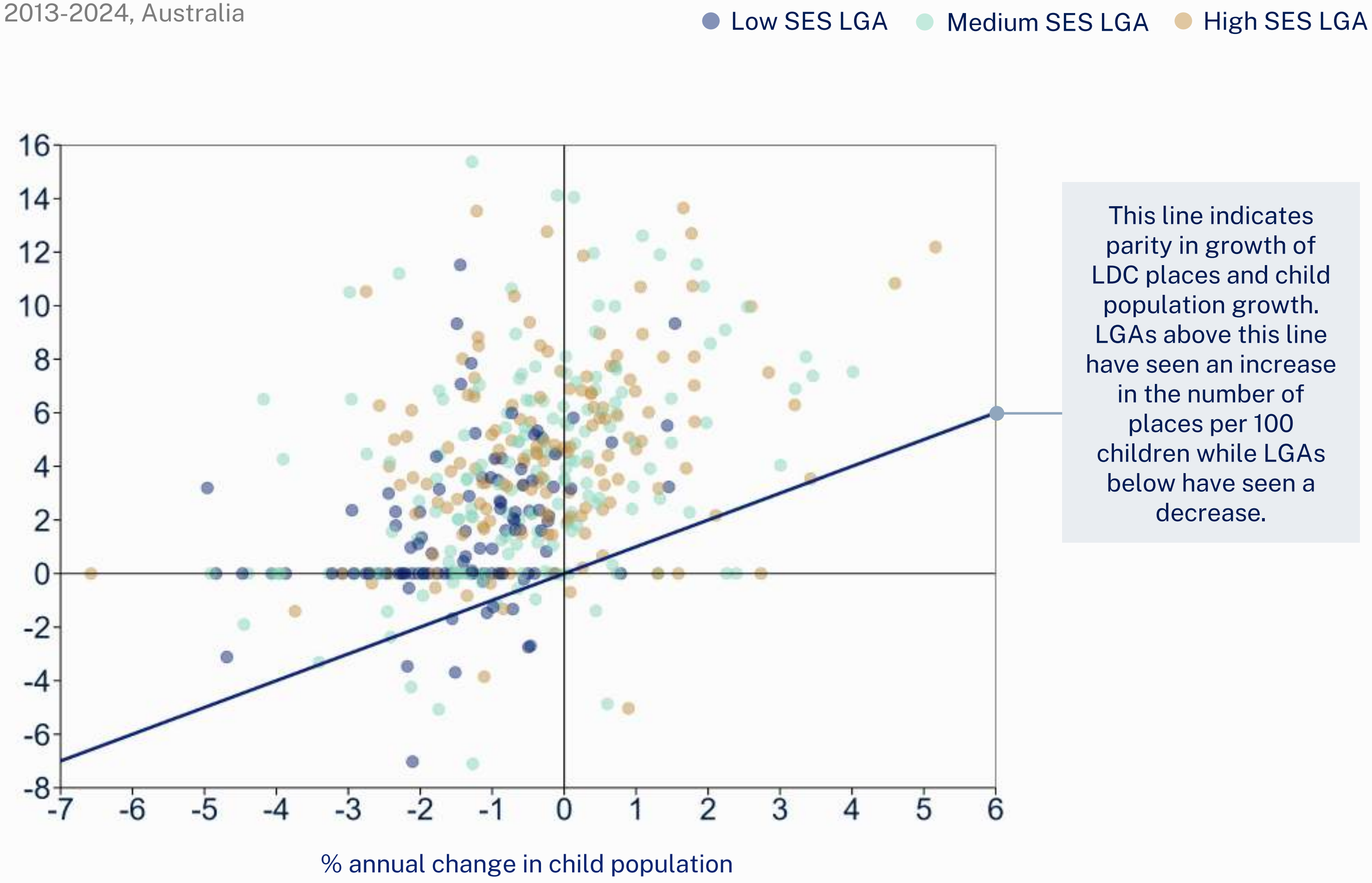
Most Australian Local Government Areas (LGAs) have seen an increase in the available supply of LDC places, even in LGAs that have experienced declining child populations. 64 per cent of LGAs with declining child populations saw an increase in the number of LDC places, and a further 23 per cent saw no change to the number of places. Only 5 LGAs with an increasing child population saw a decline in the number of places.

Growth in supply has also been balanced across LGAs of different SES status. While most low SES areas experienced declining child populations, total supply increased by as much as in high SES areas. As a result, low SES LGAs have a higher number of places per 100 children than medium and high SES LGAs.

Growth in LDC supply was primarily driven by for-profit providers and large providers, irrespective of SES status and population growth rates.

LDC places growth versus population growth in LGAs, by socioeconomic status (SES)[1]

2013-2024, Australia



1 Child population numbers are derived from the 2011 and 2021 Census.
Note: LGAs that experienced a 100% decline in LDC places are excluded from the graph.
Source: ABS (2023) *Socio-Economic Indexes for Areas (SEIFA), Australia;* ACECQA (2024) *NQF Snapshots;* Mandala analysis.

Despite strong supply growth, accessibility is poor in low socioeconomic and remote areas

While growth in LDC services has been broad-based, there is noticeable divergence in the current level of accessibility based on SES status and level of remoteness.

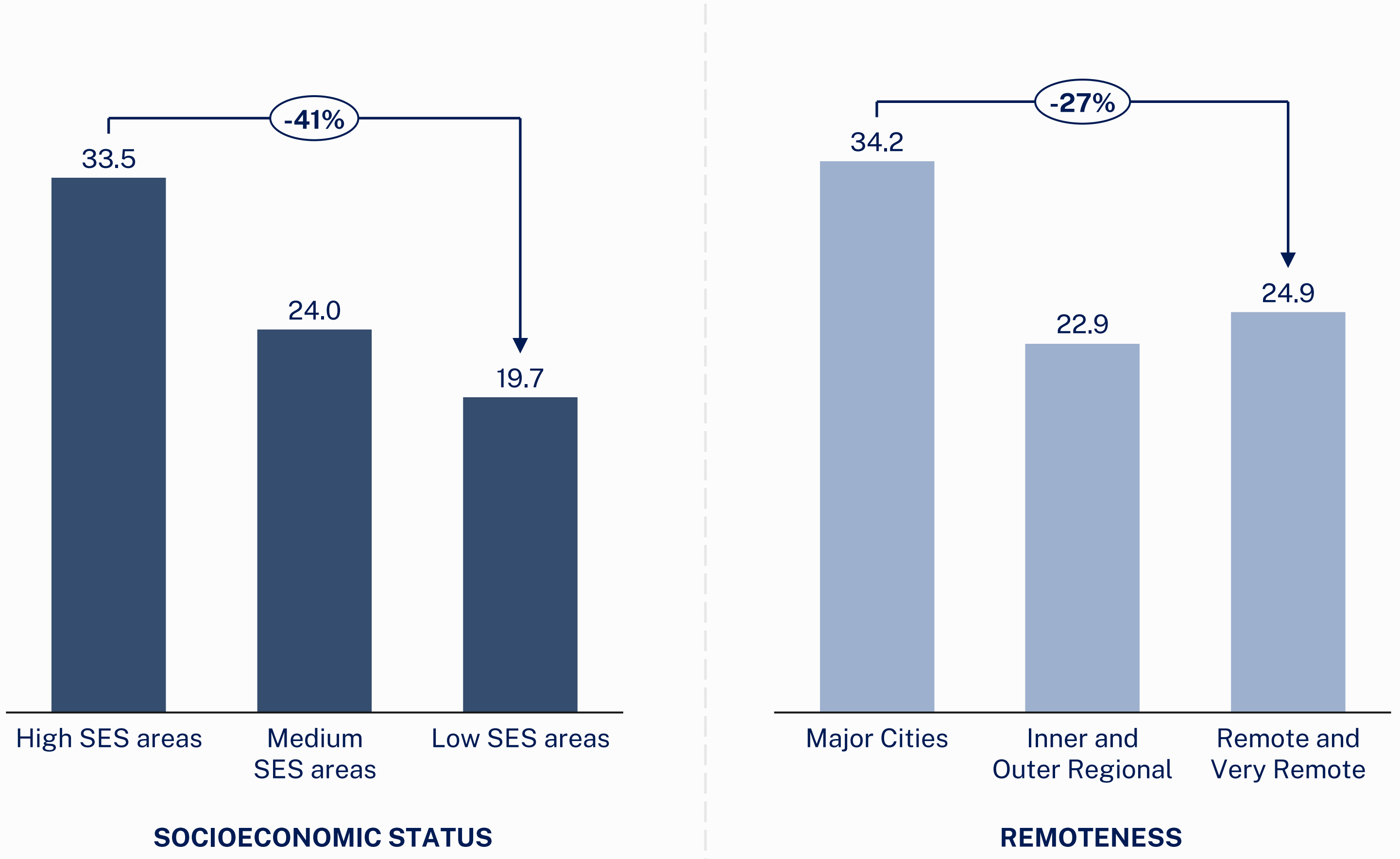
The more advantaged and metropolitan areas in Australia are also those that have the greatest access to LDC centres. One possible explanation for this is that providers – particularly for-profits, which are an increasingly large share of the LDC mix – are more likely to operate centres in areas in which people can afford to pay more. This is supported by a positive correlation between the average number of childcare places per 100 children, and the mean fees charged per hour.[1]

The recent ACCC Childcare inquiry also notes that "providers' supply decisions are highly influenced by expectations of profitability and viability within a particular area or local market" with household incomes a key consideration in this assessment.[2] Childcare subsidy rates and activity tests also influence the profitability of services.

1 Mitchell Institute for Education and Health Policy and Victoria University (2022), *Deserts and oases: How accessible is childcare in Australia?*
2 Australian Competition and Consumer Commission (2023), *Childcare inquiry*

LDC places per 100 children by socioeconomic status[2] (SES) and remoteness

2024, Australia



2 LDC places per 100 children, averaged across LGAs of different socioeconomic status (based on SEIFA, IRSAD deciles where a low SES LGA is an LGA in decile 1 to 3, a medium SES LGA in decile 4 to 7 and a high SES LGA in decile 8 to 10).
Source: ABS (2024) *2021 Census*; ABS (2023) *Socio-Economic Indexes for Areas (SEIFA), Australia;* ACECQA (2024) *NQF Snapshots;* Mandala analysis.

Over 100 LGAs across Australia still have no access to LDC services

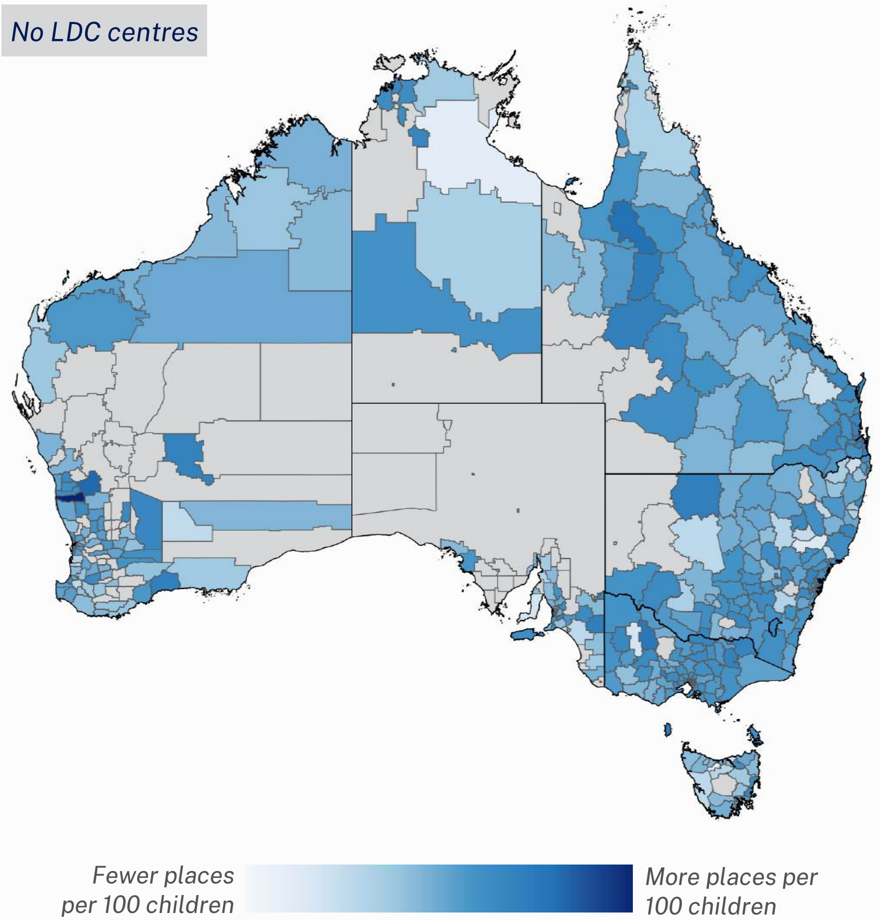
While there has been a broad-based increase in LDCs across Australia, the availability of services remains highly varied across Local Government Areas (LGAs). On one hand, the LGAs of Coorow, Adelaide and Perth have more places than children. On the other hand, despite 22 LGAs having gained access to LDC services for the first time since 2013, 109 LGAs still have no LDC service availability. Most LGAs without LDC services are in rural communities, highlighting the unequal access to LDC services between regional and metropolitan Australia.

The availability of LDC services also varies significantly across Australian states and territories. The ACT has the greatest amount of supply relative to its population aged 0-6 years old, with 43 places in LDC services per 100 children. Conversely, Tasmania and Western Australia only have 23 places per 100 children.

LDC services per 100 children by Australian Local Government Area (LGA)

2024, Australia

	LDC services	*Maximum total places*	*Places per 100 children*
NT	97	6.7k	28
WA	862	56.9k	23
SA	485	38.6k	28
VIC	1,960	179.3k	33
QLD	1,869	161.1k	37
NSW	3,543	207.7k	31
ACT	187	15.8k	43
TAS	140	9.3k	23



Note: Number of children aged between 0 and 6 years old. Population numbers are retrieved from the 2021 Census. Source: ABS (2024) *2021 Census*; ACECQA (2024) *NQF Snapshots;* Mandala analysis.

2 LDC supply growth is unevenly distributed across provider types and regions

2.1 Low SES, and regional and remote areas have relatively poor access to LDC services

2.2 Increasingly, large and for-profit providers are dominating the market, but they are concentrated in metro and gentrifying areas

One third of all LDC services are run by large providers, up from one quarter in 2013

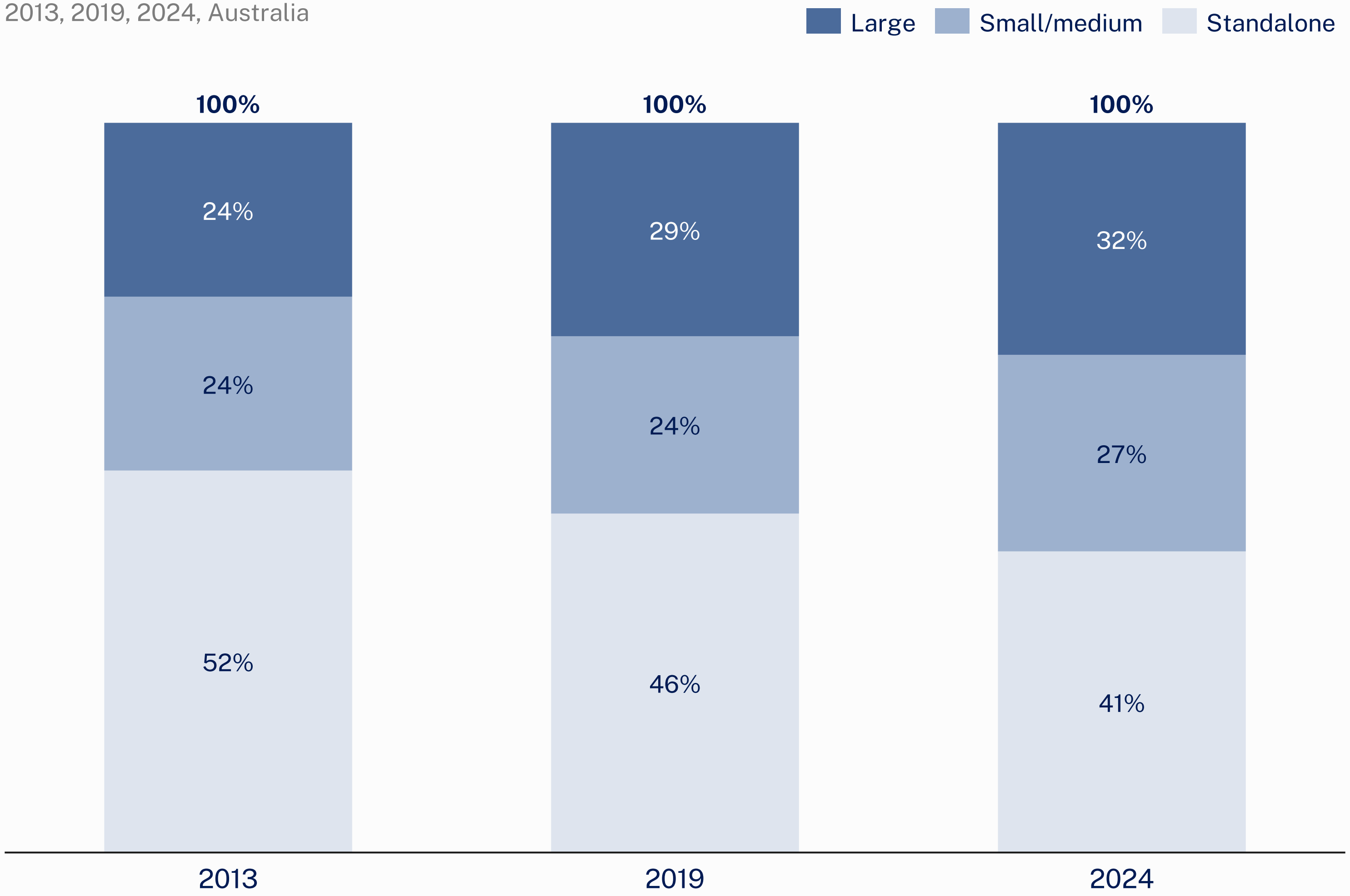
The LDC sector has seen a shift towards a greater share of services being operated by providers running multiple LDC centres.

Large providers have seen the greatest increase in the share of total LDC services provided. Nearly a third of all LDC services are operated by large providers, an increase from one quarter in 2013. There are now 103 large providers in the LDC sector, up from 47 large providers in 2013.

The share of services provided by small and medium providers has slightly increased from 24 per cent in 2013 to 27 per cent in 2024, while the share of centres operated by standalone providers has declined from 52 per cent to 41 per cent.

LDC services by provider size[1]

2013, 2019, 2024, Australia



1 A provider is considered 'Large' if it operates at least 8 LDC services. A provider is considered 'Small/medium' if it operates 2-7 LDC services. A 'standalone' provider operates 1 LDC service. This definition of large and small/medium is based on the Royal Commissions into ECEC within South Australia report (March 2023).
Source: ACECQA (2024) NQF Snapshots; Mandala analysis.

LDC services are increasingly being run by for-profit providers

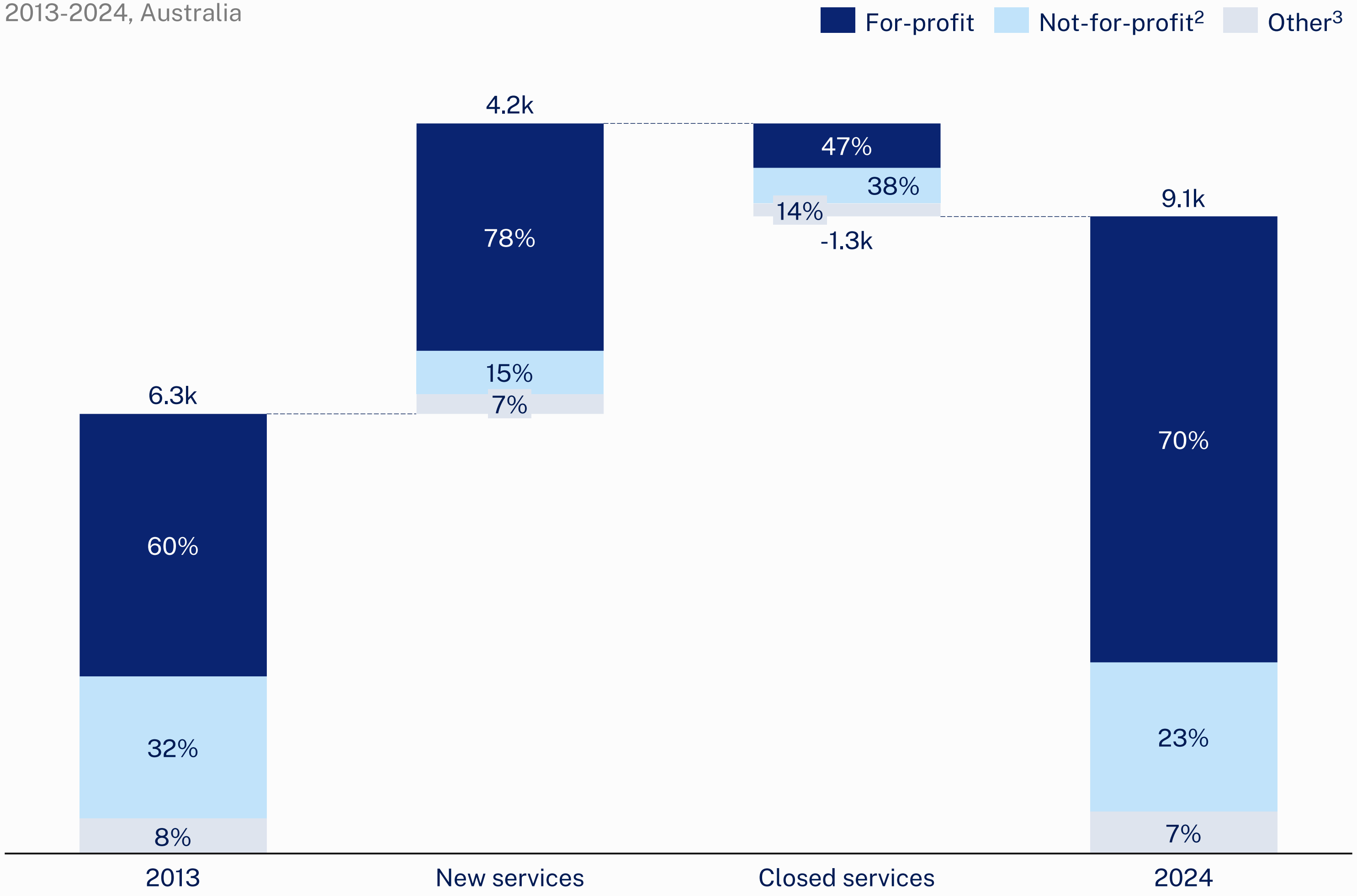
The LDC sector is increasingly dominated by for-profit providers. In 2024, 70 per cent of all LDC services were operated by for-profit providers, an increase from 60 per cent in 2013. In contrast, the share operated by not-for-profit providers has declined from 32 per cent in 2013 to 23 per cent in 2024.

The increase in services run by for-profit providers is mainly driven by new services being disproportionately run by for-profit organisations. Since 2013, 78 per cent of all new LDC centres have been opened by for-profit operators.

By contrast, less than half of all LDC centre closures were operated by for-profit providers. Centres operated by other providers are over-represented in service closures, with 14 per cent of service closures managed by these operators compared to 8 per cent of all operational services in 2013.

LDC services by provider type[1]

2013-2024, Australia



1 Numbers exclude unclassified LDC services.
2 Not-for-profit providers include private not for profit community managed centres, and private not for profit other organisations as defined in the NQF.
3 Other providers include Catholic and independent schools, State/Territory and Local Government managed facilities and State/Territory government schools.
Source: ACECQA (2024) *NQF Snapshots*; Mandala analysis.

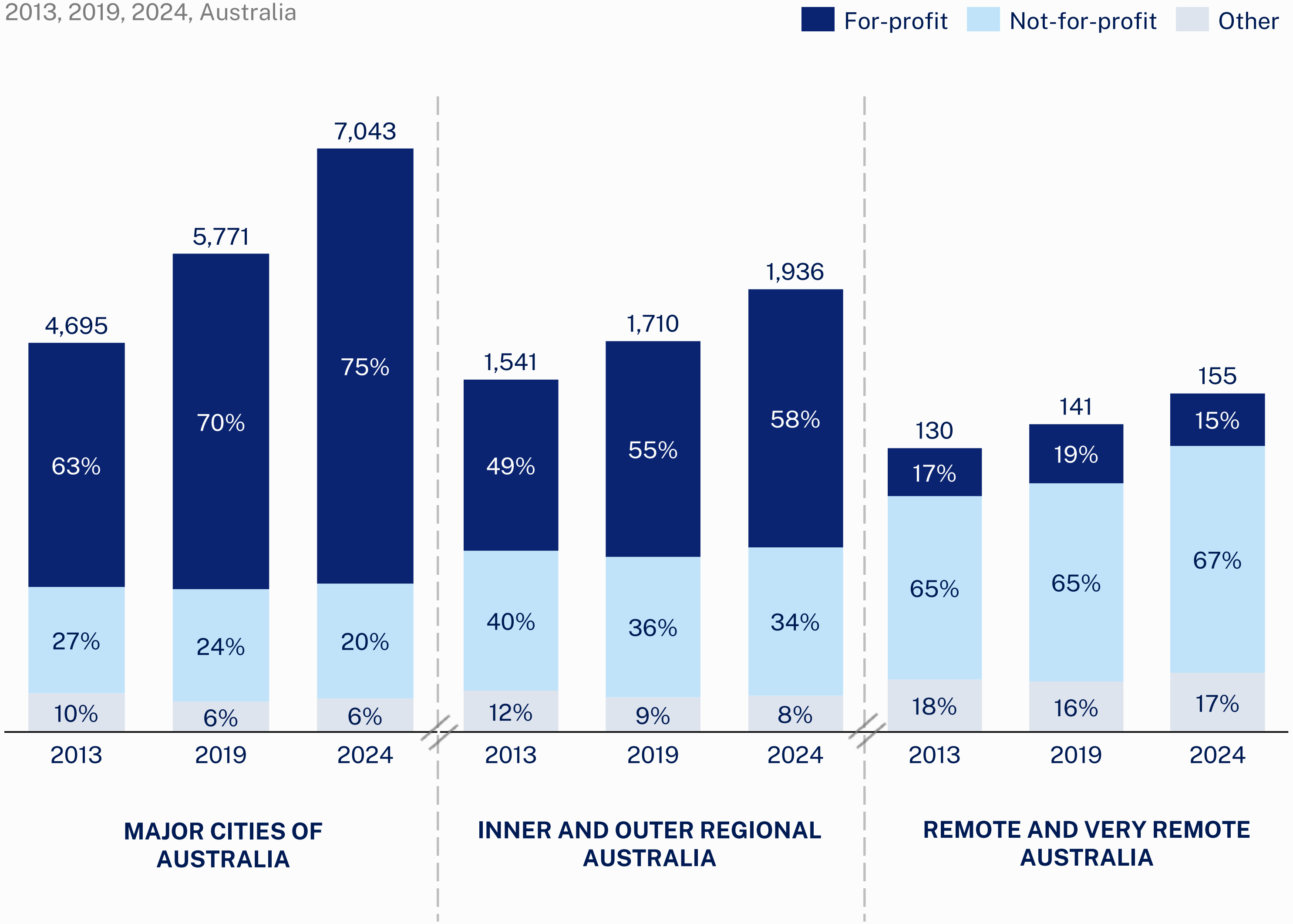
For-profit services dominate major cities while not-for-profits are the primary providers in remote areas

Almost all growth in LDC supply in Australia's major cities and inner and outer regional areas has been driven by for-profit providers. The share of services run by for-profit providers increased from 63 per cent in 2013 to 75 per cent in 2024 in major cities while it increased from 49 per cent to 58 per cent in regional areas.

Although for-profit providers make up a majority of all LDC centres across Australia, they operate a small portion of centres in remote and very remote areas of Australia. In 2024, for-profit providers made up only 15 per cent of LDC services in remote and very remote areas, while not-for-profit providers accounted for over two-thirds of providers. This likely reflects the unprofitability of operating LDC centres in remote and very remote areas. A consequence of this is that over 400 towns with a population of 1,500 or less are not serviced by any childcare services at all.[1]

LDC centres by provider type and remoteness

2013, 2019, 2024, Australia



1 Mitchell Institute for Education and Health Policy and Victoria University (2022), *Deserts and oases: How accessible is childcare in Australia?*

2 Based on population figures by remoteness area from the 2011 and 2021 Census.
Source: ACECQA (2024) *NQF Snapshots;* Mandala analysis.

Areas undergoing gentrification have seen a large increase in for-profit LDC places

LGAs that were classified as ‘gentrifying’[1] in 2021 saw a large increase in the number of for-profit places between 2021 and 2024. They also saw a decrease in the number of places offered by not-for-profit and other providers.

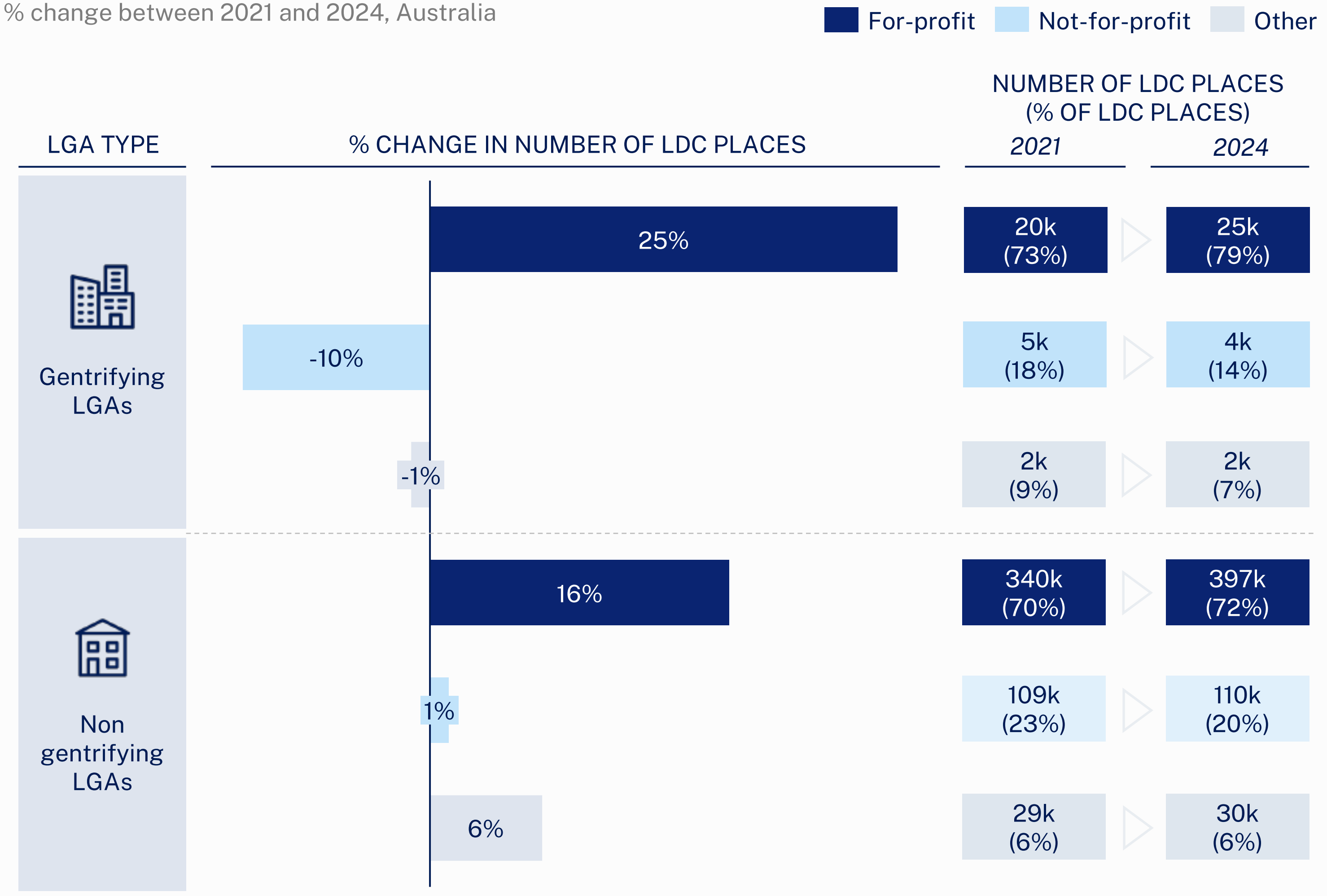
Areas that were not classified as experiencing gentrification in 2021 also saw an increase in for-profit places, and a modest increase in not-for-profit and other places.

The increase in for-profit places in areas undergoing gentrification, which outstrips that in areas not undergoing gentrification can likely be attributed to the supply side of the ECEC market. One possible explanation is that as costs – particularly rents – increase in gentrifying areas, only the most profitable providers can afford to operate.[2]

1 LGAs with low- or mixed-income households experiencing house price increases faster than the city's median.
2 Glaeser, Luca & Moszkowski (2023) *Gentrification and retail churn: Theory and evidence.*

Change in number of LDC places by gentrification status[3]

% change between 2021 and 2024, Australia

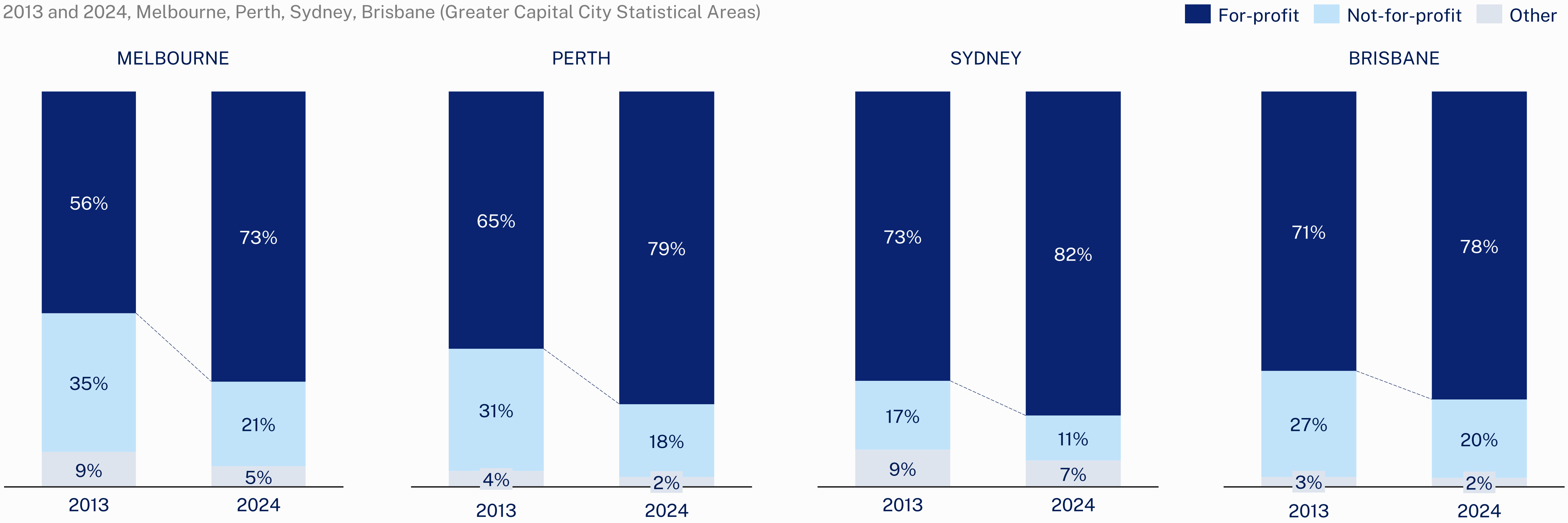


3 Based on classifications from the Australian Urban Observatory on the gentrification status of LGAs in Australia's largest 20 cities. Those labelled as experiencing “early ongoing gentrification” were classified as “gentrifying LGA” in our analysis. There are 7 LGAs in the sample that are gentrifying and 159 non gentrifying LGAs.
Source: Australian Urban Observatory (2023) *Housing*; ACECQA (2024) *NQF Snapshots;* Mandala analysis.

For-profit providers have significantly increased their dominance in major cities over the last decade

Change in shares of LDC places by provider type in Australia's four largest cities

2013 and 2024, Melbourne, Perth, Sydney, Brisbane (Greater Capital City Statistical Areas)



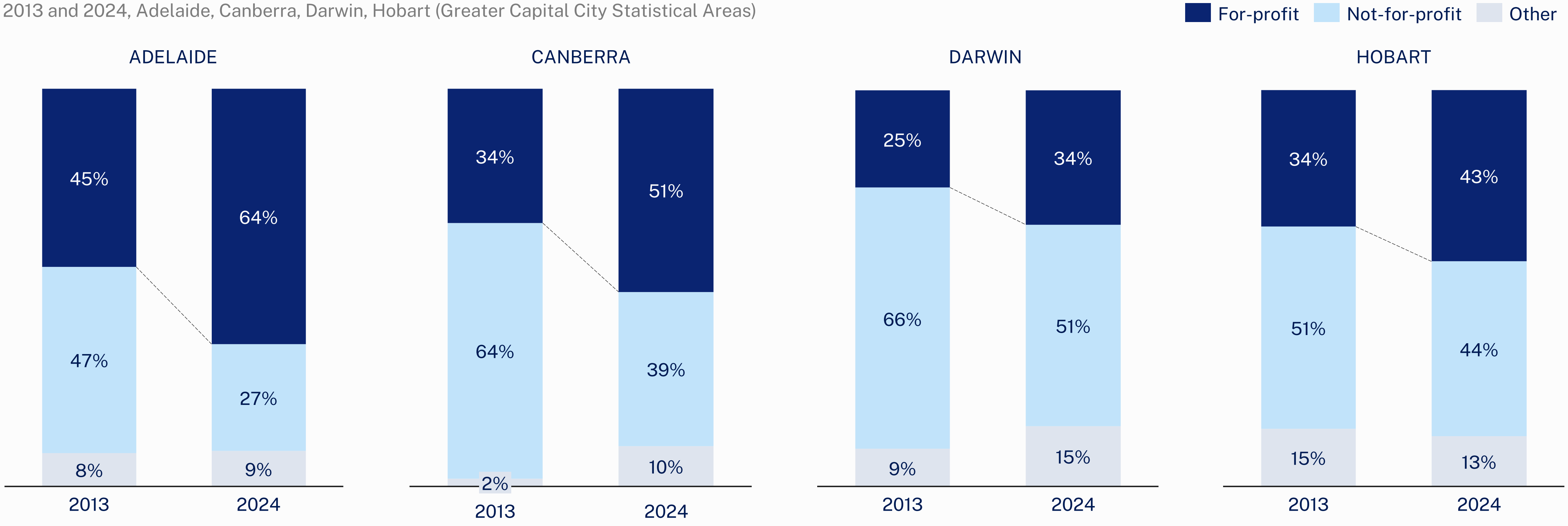
For-profit childcare providers dominate Australia's largest cities. Their market share has grown significantly over the last decade, mainly at the expense of not-for-profit services. This shift has created a noticeable imbalance in the childcare market in these urban areas.

Source: ACECQA (2024) *NQF Snapshots;* Australian Bureau of Statistics (2024) *Greater Capital City Statistical Areas*; Mandala analysis.

Not-for-profits have historically played a major role in mid-size cities, but their presence has declined over the last decade

Change in shares of LDC places by provider type in Australia's mid-sized capital cities

2013 and 2024, Adelaide, Canberra, Darwin, Hobart (Greater Capital City Statistical Areas)



Not-for-profit childcare providers maintain a stronger presence in Adelaide, Canberra, Darwin and Hobart compared to larger cities. However, for-profit services have gained significant market share in these smaller capitals since 2013, mirroring the national trend.

Source: ACECQA (2024) *NQF Snapshots;* Australian Bureau of Statistics (2024) *Greater Capital City Statistical Areas*; Mandala analysis.

1. Rising childcare demand has driven growth in supply of LDC centres in Australia
2. LDC supply growth is unevenly distributed across provider types and regions
3. **On average, not-for-profits deliver better quality services, pay higher wages, and charge lower fees than for-profits**
4. As access improves, policy needs to ensure a more balanced LDC market across all regions, to provide quality and affordable care for all

Not-for-profit providers outperform for-profits on service quality

The National Quality Standard (NQS) is the national rating system for assessing quality of childcare services across Australia and was first introduced in 2012. It assesses services on 7 criteria and rates each criteria from “significant improvement required” to “exceeding NQS”.

The NQS is an established and trusted measure of service quality and helps set standards in the ECEC sector.

Based on NQS ratings, not-for-profit providers on average offer higher quality services than for-profit providers.

28 per cent of not-for-profit LDC centres are above the NQS i.e., either exceeding NQS or rated excellent, compared to 15 per cent of for-profits.

Similarly, there are fewer not-for-profits who have not yet met NQS standards (7 per cent) compared to for-profits (12 per cent).

Not-for-profit providers also have higher educator to child ratios, pay higher wages to educators, and retain their staff longer.[1] This may reflect a higher quality workforce that can in turn deliver higher quality services.

1 JSA (2024) *The Future of the Early Childhood Education Profession.*

Share of LDCs by provider type and NQS rating

2024, Australia

2 Excludes 8% of LDC services that are yet to be rated.
3 ‘Above NQS’ combines ratings ‘Exceeding NQS’ and ‘Excellent’ ratings according to the NQF. ‘Below NQS’ combines ‘Working towards NQS’ and ‘Significant improvement required’ ratings.
Source: ACECQA (2024) *National Quality Standard;* Mandala analysis.

Not-for-profit providers are more likely to pay staff higher wages compared to for-profits

The award rate wage in the childcare industry is set by the Fair Work Ombudsman in the Children's Services Award. The award rate stipulates the minimum pay that a childcare services employee is entitled to and varies by the qualification level and tenure of the employee.

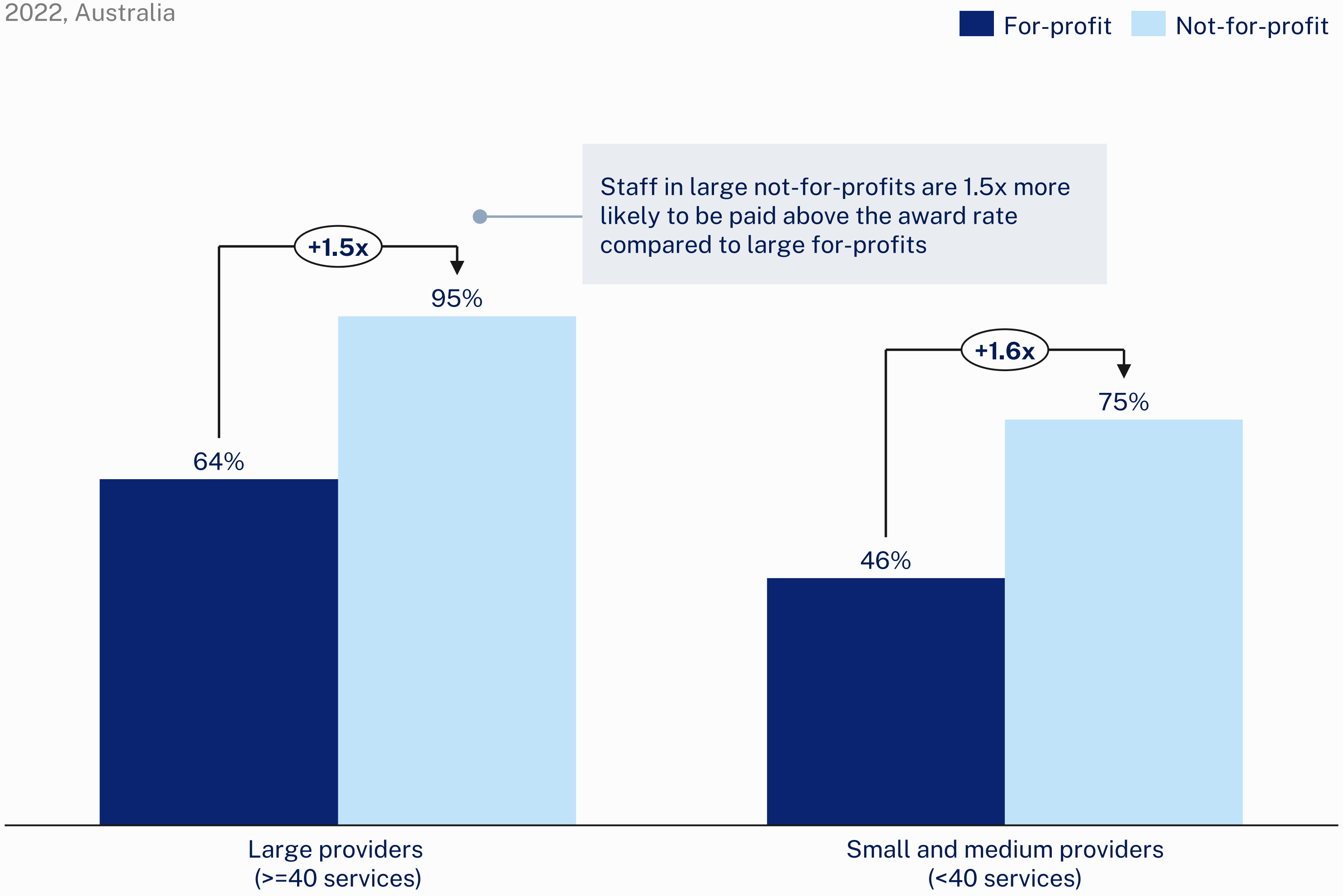
All services must pay at least the award rate but can pay above. Not-for-profit providers of all sizes are more likely to pay their staff above the award rate wage than for-profits.

95 per cent of staff working for large not-for-profit providers are paid above the award rate wage, compared to 64 per cent of staff in large for-profit providers.

This difference is present even amongst small or medium sized providers. 75 per cent of staff in small or medium not-for-profits are paid above the award rate wage, compared to 46 per cent of staff in for-profits of similar size.

Share of staff paid above award rate wages for LDC[1] providers by provider type and size

2022, Australia



1 ACCC's centre based day care (CBDC) category includes LDC and occasional care. OSHC and IHC are included as separate categories. PSK is excluded from ACCC analysis. The CBDC category is therefore assumed to be and referred to as LDC.

Source: ACCC (2023) *Childcare Inquiry Interim Report September 2023.*

Not-for-profits are less likely to charge higher fees compared to for-profits

The Child Care Subsidy hourly rate cap for childcare refers to the maximum amount per hour that the Australian Government will subsidise childcare. Any amount charged above the hourly rate cap by a provider is therefore an out-of-pocket expense covered by the household using childcare services.

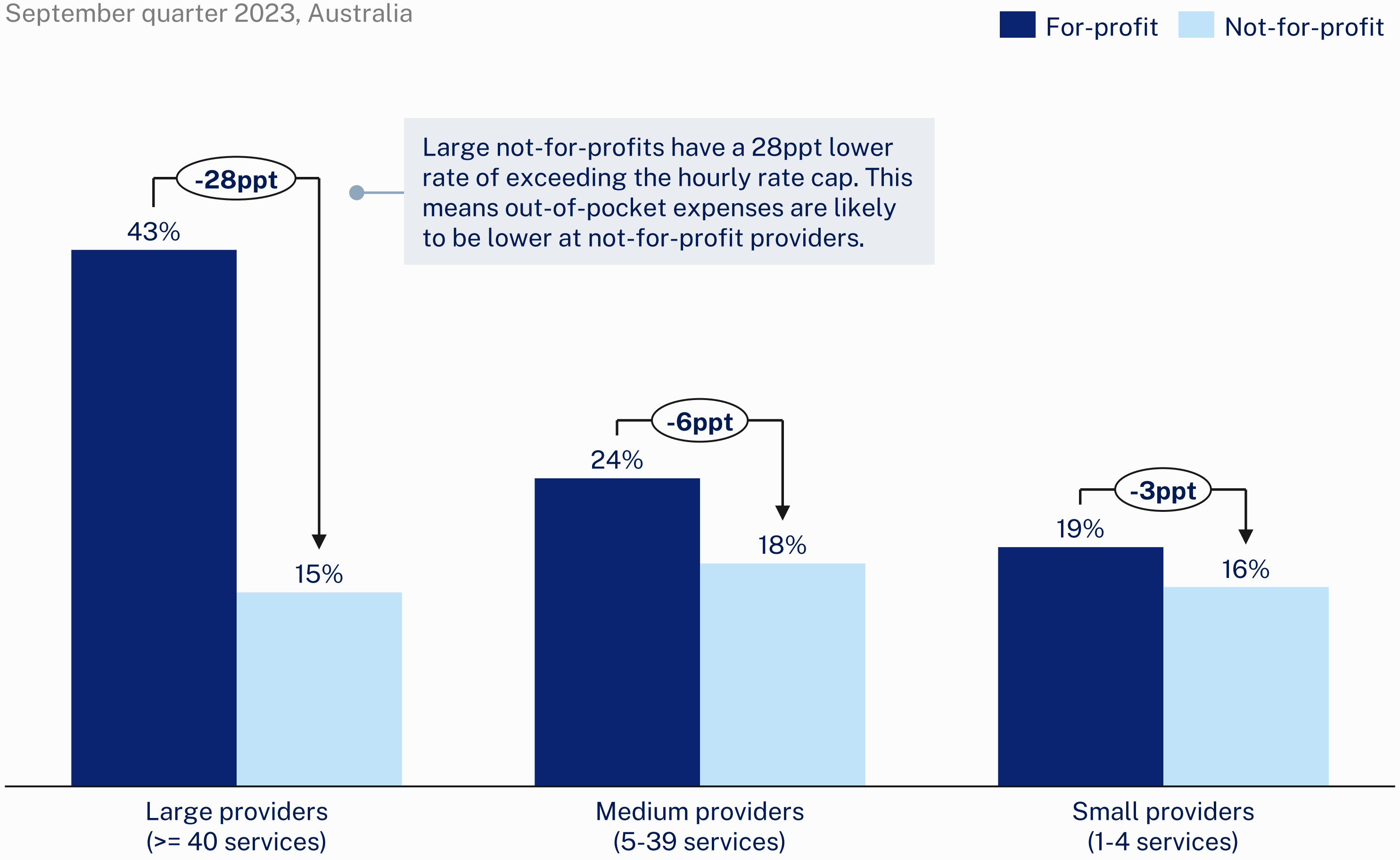
When pricing their services, not-for-profit providers are less likely to charge above the hourly rate cap than for-profit providers regardless of size.

The largest difference is observed in large providers, where for-profit providers are almost three times as likely to charge higher than the hourly rate cap compared to not-for-profit providers.

This reflects that not-for-profit providers not only deliver higher quality services but do so at a lower rate to make childcare more affordable for households.

Share of LDC services with an average hourly fee above hourly rate cap by provider type and size

September quarter 2023, Australia



1 A provider is considered 'Large' if it operates 40 or more services. A provider is considered 'Medium' if it operates 5-39 services. A provider is considered 'Small' if it operates 1-4 services.
2 Figures have been rounded based on ACCC report and chart.
3 ACCC's centre based day care (CBDC) category includes LDC and occasional care. OSHC and IHC are included as separate categories. PSK is excluded from ACCC analysis. The CBDC category is therefore assumed to be and referred to as LDC.
Source: ACCC (2023) *Childcare Inquiry Final Report December 2023.*

1 Rising childcare demand has driven growth in supply of LDC centres in Australia

2 LDC supply growth is unevenly distributed across provider types and regions

3 On average, not-for-profits deliver better quality services, pay higher wages, and charge lower fees than for-profits

4 As access improves, policy needs to ensure a more balanced LDC market across all regions, to provide quality and affordable care for all

As access and inclusion improve, policy must focus on ensuring a balanced LDC market to provide quality and affordable care to everyone

KEY FINDINGS FROM THIS RESEARCH

This report highlights poor accessibility in low SES and remote areas, an unbalanced LDC market and higher quality of not-for-profits.

Geographical and market imbalances: For-profit providers dominate in most major cities but are scarce in regional and remote areas. In low SES areas, access is 41% lower than in high SES areas.

Not-for-profits displacement: In gentrifying LGAs, not-for-profits have seen a 10% decrease in LDC places since 2021. Meanwhile for-profit LDC places have increased by 25%.

Not-for-profit high performance: NFPs on average deliver higher quality services, are more likely to pay staff above the award rate and less likely to charge higher fees compared to for-profits.

\+

KEY FINDINGS FROM THE PC INQUIRY REPORT

The Productivity Commission's Inquiry report[1] highlights key issues surrounding accessibility, affordability and inclusion

Affordability: Current activity tests limit access for many families, and subsidy rates are too low to make LDC services affordable for many lower income families.

Availability: In many areas, particularly low SES areas, increasing the Child Care Subsidy alone is insufficient to stimulate expanded access to ECEC services.

Inclusion: Children with additional needs face significant barriers in accessing appropriate ECEC services, and current support mechanisms are inadequate.

=

FUTURE POLICY CONSIDERATIONS

As supply increases, particularly in low SES and remote areas, policy needs to ensure balance in all LDC markets to provide quality and affordable care for everyone

Balance in provider types: For-profits dominate metro and gentrifying areas, and neglect remote regions. Not-for-profits (NFPs) are primary providers in thinner markets.

Quality and affordability: Policy needs to prioritise centres providing not only affordable but also quality care. Research finds that funding policies focused solely on affordability have limited ability to improve service quality, when both are essential.[2]

Supporting NFPs in larger markets: Prioritising quality providers in thin markets should naturally support NFPs. However, to cross-subsidise in thin markets NFPs also need to build a presence in other areas.[2]

1 Productivity Commission (2024) *A path to universal childhood education and care*; 2. *Supplementary statement by Professor Brennan: The operation and adequacy of the market, including types of care and the roles of for-profit and not-for-profit providers.* Source: Mandala analysis.

MANDALA