

Evidence on the child care market

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What is the current state of the child care sector? This paper answers this question focusing on the issues of access and affordability.

The available evidence indicates that, contrary to popular perceptions, there is not an emerging crisis in the sector; supply is generally keeping pace with demand and child care has remained affordable.

1 The author is from Social Policy Division, the Australian Treasury. The article has benefited from comments and suggestions provided by Rob Heferen, Amanda Kirby, Sarah Lendrum, Neha Malhotra, Fergus Pope and Hector Thompson. The views in this article are those of the author and not necessarily those of the Australian Treasury.

Introduction

With the heightened demand for child care services in Australia over the last decade, has come growing concern about the accessibility and affordability of child care. This paper draws on a range of data sources to assess the veracity of these concerns.

Access to affordable child care is an important means of achieving valuable social outcomes.

Most notably, child care facilitates the labour market participation of parents with young children. The theoretical model of the relationship between child care and female labour force participation predicts that just as an increase in the wage rate increases the probability of employment, an increase in child care costs decreases the probability of employment. The international empirical literature bears out this negative relationship, although the range of responses reported for both participation in the labour force and hours of work vary widely (Andersen and Levine 1999). In Australia, the results are similarly ambiguous, but there is an established negative relationship between child care costs and female labour participation (Dorion and Kalb 2005, Rammohan and Whelan 2006).

Child care also plays an important role in improving the educational and developmental outcomes of children. Along with the growing recognition that the early years in the lives of children are critical for their development, a growing body of evidence shows that quality child care can support children's social-emotional functioning. International longitudinal studies suggest that high-quality child care can stimulate early cognitive and language development, and may even have a compensatory influence for children from less advantaged backgrounds (Vandell, Henderson and Wilson 1988, Sweinhart et al, 1993).

Given the importance of these outcomes, a critical and timely question is: What is the current state of the child care market?

The available evidence indicates that in recent years, the supply of formal child care (which includes long day, family, after school and occasional care) has generally kept pace with demand. At the same time, child care has generally remained affordable.

Data

The data for this paper is drawn from a variety of sources, including the Australian Bureau of Statistics (ABS), the Department of Family and Community Services and Indigenous Affairs (FaCSIA) and the Household Income and Labour Dynamics (HILDA) survey.

The ABS conducts a regular survey about the use of, and demand for, child care for children aged 0-12 years (ABS 2006). The most recent survey was conducted throughout Australia in June 2005, and included a sample of 32,249 households, of which 94 per cent responded.

In 2004, the Department of Family and Community Services conducted its regular Census of Child Care Services (FaCS 2005). The census provides details of child care users, staff and carers and operational details of child care services. Eighty-eight per cent of the estimated 8,989 child care service providers in the country participated in the census, including 85 per cent of private long day care services, 97 per cent of community long day care providers and 98 per cent of family day care schemes.

The HILDA survey is a longitudinal survey which gathers data on three main areas: economic and subjective wellbeing, labour market dynamics and family dynamics (Melbourne Institute 2005). In each of the four annual waves of the survey (the first of which began in 2002) the HILDA survey asked households with children 14 years of age and under that had used or thought about using child care in the last 12 months to assess how severe a difficulty they faced with various child care issues. Approximately 1,000 parents responded to the questions in each wave, ranking their responses on a scale ranging from 0 (not a problem at all) to 10 (very much a problem).² In the present analysis, in deciding whether a household experienced a problem or not, a cut-off score of 7 or above is used.³

Context

Almost half of all Australian women with children 0-4 years of age are in paid employment (ABS 2006a) and 48 per cent of children under the age of 11 now attend some form of child care (ABS 2006).

The proportion of children using formal child care has increased over time, from 14 per cent using formal care in March 1996 to 23 per cent in June 2005, as indicated in Chart 1 below. During this period, the proportion of children using long day care nearly doubled, and now accounts for just under half of all formal care. Usage of informal care fell in the same period, from 36 per cent of children in 1996 to 33 per cent nearly ten years later (ABS 2006).

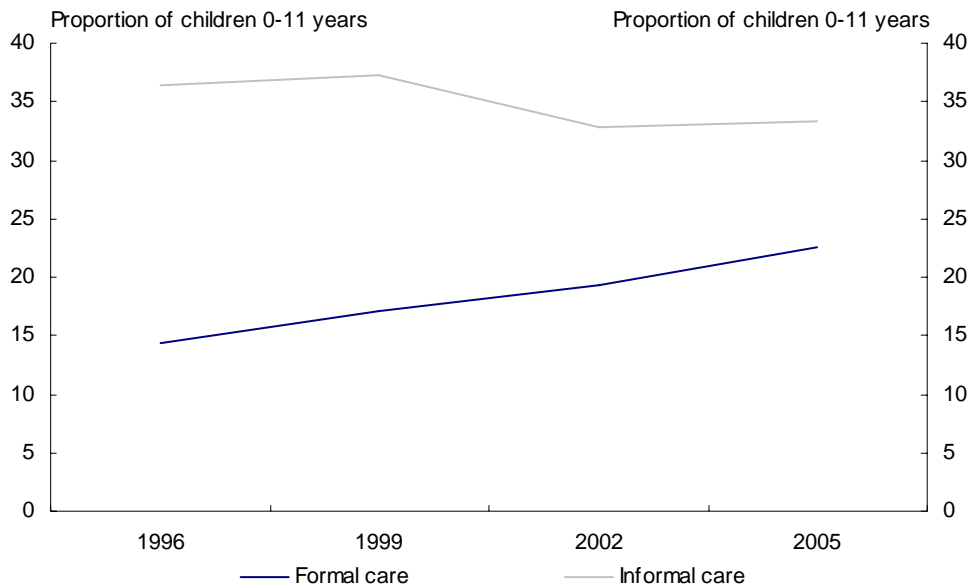
2 The small response rate to the child care questions relative to the size of the household sample (approx 8,000) calls for some caution in interpreting the relevant findings. However, the response rates are not systematically skewed by location, family type, age of children or any other criteria.

3 Cassells (2005) uses the same cut-off.

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The average amount of time individual children spend in care has also increased. Across all formal care types (and weighted according to use across types) the average child used 25 hours of care in 2004, compared with 20 hours in 1999 (FaCS 2004).

Chart 1: Estimated number of children attending child care in Australia
Usage of childcare



Note: Children may use both types of care.
Source: ABS (2006).

The increased use of formal child care has been mirrored by the Government expanding provisions to ensure child care remains affordable and accessible. In 2000, the Government introduced the Child Care Benefit (CCB). The CCB replaced both Childcare Assistance and the Childcare Cash Rebate and allows for varying levels of benefit, largely dependent on family income levels, for up to 50 hours of approved care per week. To improve affordability further, in 2005 the Government introduced the Child Care Tax Rebate (CCTR), a non-refundable tax offset, which covers 30 per cent of out-of-pocket child care expenses (up to a maximum of \$4,000 per child) for eligible families.⁴

In the 2006-07 Budget the Government expressly targeted the accessibility of child care by removing the cap on the number of outside school hours, care and family day care places.

⁴ Families are eligible if they receive CCB and meet the CCB work/study/training test. Families can claim the rebate in the tax year after child care expenses have been paid.

Access

Measuring unmet demand for child care is not a straightforward task. No consolidated waiting list for child care centres exists; and even if it did, it is unlikely that it would provide reliable evidence about shortages. Parents often list their child on the waiting lists at a number of centres simultaneously and also do not always remove their child from those lists once suitable care is found.

In the absence of a single reliable method of gauging child care accessibility, a range of measures have to be used.

Utilisation rates

Utilisation rates refer to the total child care hours paid for as a percentage of the total hours available. They gauge access by pitting capacity against use. According to FaCSIA data (2004), between 2002 and 2004, average utilisation rates in long day care fell from 88 to 85 per cent. Over the same period, utilisation rates in family day care centres fell 9 percentage points to 68 per cent. Given that more families are now using child care, these results suggest that there has not been a recent under-provision of formal child care places.

The spare capacity in the formal child care market (15 per cent long day care; 32 per cent family day care) also suggests that there is adequate scope for dealing with future spikes in demand.

At the aggregate level utilisation rates do not provide information on any potential spatial mismatch between places demanded and those provided; however, this issue is explored in more detail below.

Survey evidence

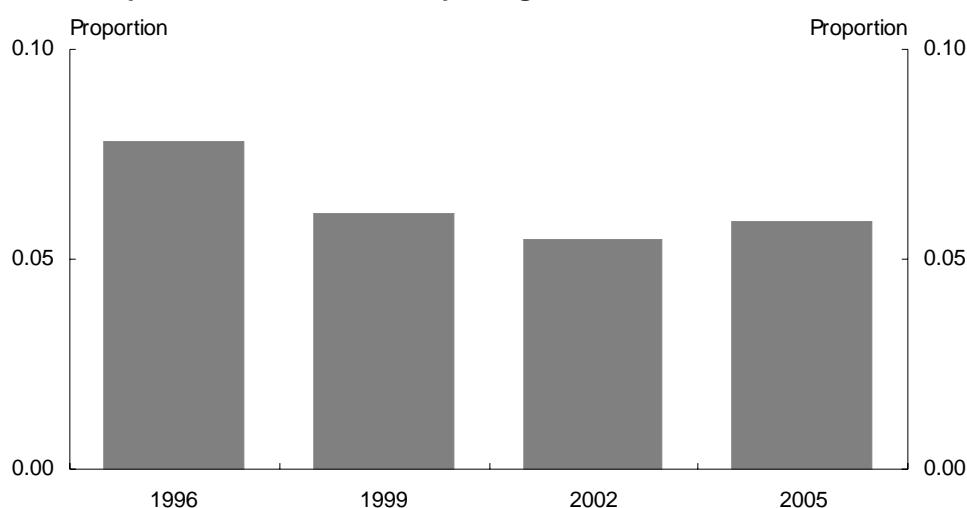
The ABS Child Care Survey measures the adequacy of child care provision by asking parents of children within and outside the existing child care system whether or not they require additional care in a random four-week period. As shown in Figure 2, in 2005, only 6 per cent of children required additional formal care, less than had been recorded in 1996 (8 per cent) and the same as in 1999 and 2002. Of this 6 per cent, only one-third of parents said that they had not used additional care because child care providers were booked out or otherwise unavailable. Moreover, for the majority of children for whom additional formal care had been required in the survey period, only an additional one or two days of care were required over the four weeks.

These findings are broadly supported by data collected as part of the HILDA survey. The proportion of parents reporting difficulties with accessing child care for the hours needed has been stable in recent years, accounting for approximately 20 per cent of

parents who use (or are considering using) child care.⁵ Over the four year period, the proportion of parents reporting no difficulties is consistently the highest response category at between 30 and 40 per cent of all respondents, while the proportion reporting great difficulties remained less than 10 per cent.

The differences in the level of response to concerns about accessibility across the HILDA and ABS surveys (6 per cent versus approximately 20 per cent reporting difficulties) may be explained by a number of factors, including differences in the precise questions asked of respondents, as well as differences in interpreting responses.⁶ However, all things else being equal, the ABS survey is likely to provide a more reliable indicator of parental difficulties due to its larger sample size.

Chart 2: Proportion of households reporting need for additional formal child care



Note: Households refers to those with children 12 and under who used or thought about using formal child care.
Source: ABS (2006).

Additional considerations

Notwithstanding the above evidence, there is a perception that there is a shortage of formal child care places. One factor which may explain this is spatial variation in the

5 The responses also include people who used informal care (that is, family or paid nannies). Restricting the analysis to those individuals who did access formal child care runs the risk of biasing the analysis in favour of satisfied users. In different waves of the survey, of all households who indicated that they had multiple problems with child care, approximately 5 per cent were not using any form of care at all. This strongly suggests that households may not be using a type of care (or any care) because of problems they face using that type of care.

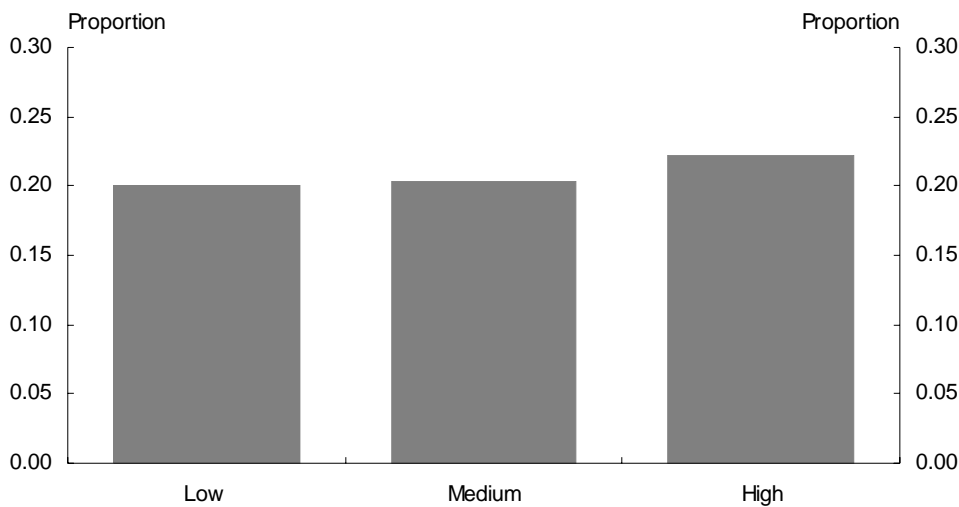
6 For example, using a cut-off score of 10 (very much a difficulty) for the HILDA data would produce similar results to those in the ABS survey.

supply of formal child care places. For example, insufficient supply of formal child care places has been reported in inner urban areas, where the alternative commercial use of available sites may bring greater returns on investment, while oversupply is reported in lower income outer urban areas (Horin 2006, AFR 2006).

However, the best available evidence from the HILDA survey suggests that this spatial variation may not be pronounced. The survey data does not include a variable differentiating between inner and outer urban areas (only inner and outer regional areas). Instead Chart 3 reports on difficulties urban parents encountered accessing child care for the hours needed, broken down by income categories. On balance of probability, high-income parents are likely to live in higher income inner urban areas, while the reverse is likely to be true for low-income parents.

As Chart 3 shows, although the proportion of high-income urban parents reporting difficulties with gaining access to child care is slightly higher than that of low-income parents in urban areas, the difference across income groups is marginal (and not significant).

Chart 3: Urban households experiencing difficulties accessing child care
(proportion of total urban households)



Notes: Household income categories per annum: low = less than \$40k; medium = \$40-80k; high = more than \$80k; Households with children 14 and under who used or thought about using child care to undertake paid work; Urban indicates that household lives in a major city.
Source: HILDA (wave 4).

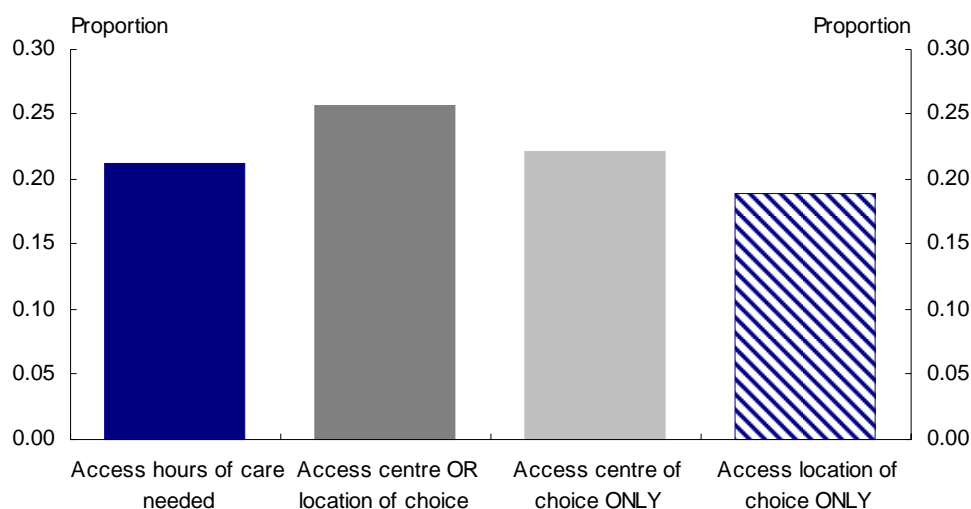
The reported shortage of child care places in urban areas may also be a function of consumer choice. That is, some parents may be able to access child care places, but not their preferred type of child care. In some instances, community care is preferred over corporate-provided care, while for others, care at the workplace is preferred over that near the family home.

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Chart 4 lends weight to this possibility. It shows that the proportion of parents in urban areas who report difficulties gaining access to their preferred child care service (that is 'the child care centre of choice' or child care in their 'preferred location') is in fact greater than the proportion of parents who report difficulties with accessing sufficient hours of care.⁷ The fact that the proportion of parents reporting difficulties with their preferred centre exceeds the proportion reporting difficulties with getting access to the number of hours of care they require, suggests that unmet consumer preferences represent more of a problem for parents than access itself.

Moreover, the data suggests that problems with choice or location do not typically explain any broader problems with access that parents may encounter. More than 40 per cent of parents who indicated that they had difficulties with access in general did not indicate that they had difficulties with accessing either their centre of choice or their location of choice. In other words, for many parents, difficulties with securing their preferred type of child care do not preclude them from accessing the amount of care that they require.

Chart 4: Households experiencing difficulties accessing preferred child care
(proportion of total urban households)



Notes: Households refers to those with children 14 and under who used or thought about using child care to undertake paid work. Urban indicates that household lives in a major city.
Source: HILDA (wave 4).

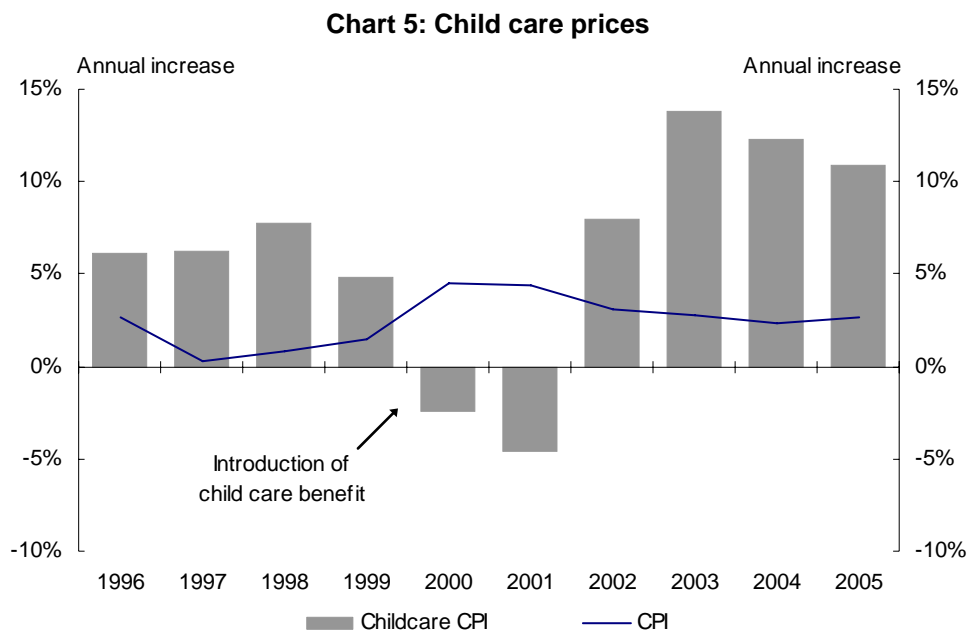
⁷ To address the concern that the results of the joint response category (that is, choice or location) are overstated because the same respondent has two opportunities to satisfy the condition of experiencing difficulty, Chart 4 also graphs the proportion of urban parents reporting difficulties gaining access to their centre of choice and their location of choice separately. The results show that choice, even defined narrowly, is at least as much a concern amongst urban parents as access.

Affordability

Like access, child care affordability can best be gauged by assessing a number of measures, including the amount of disposable income absorbed by child care costs and survey evidence.

Share of net income

As indicated in Chart 5, below, over the last ten years the growth in the price of child care has outstripped headline inflation. The price of child care (which refers to the cost parents incur after CCB has been taken out) has grown at just under 7 per cent per year, while inflation averaged below 3 per cent per annum over the same period.



Source: ABS (2006b).

However, just as housing affordability is not only affected by house prices, but also changes in employee remuneration and borrowing costs, child care affordability is similarly not just a function of child care prices.

A common indicator of child care affordability is child care costs (fees charged less government assistance) as a percentage of net family income. In April 2006, the Australian Institute of Health and Welfare (AIHW) released a report, based on ABS

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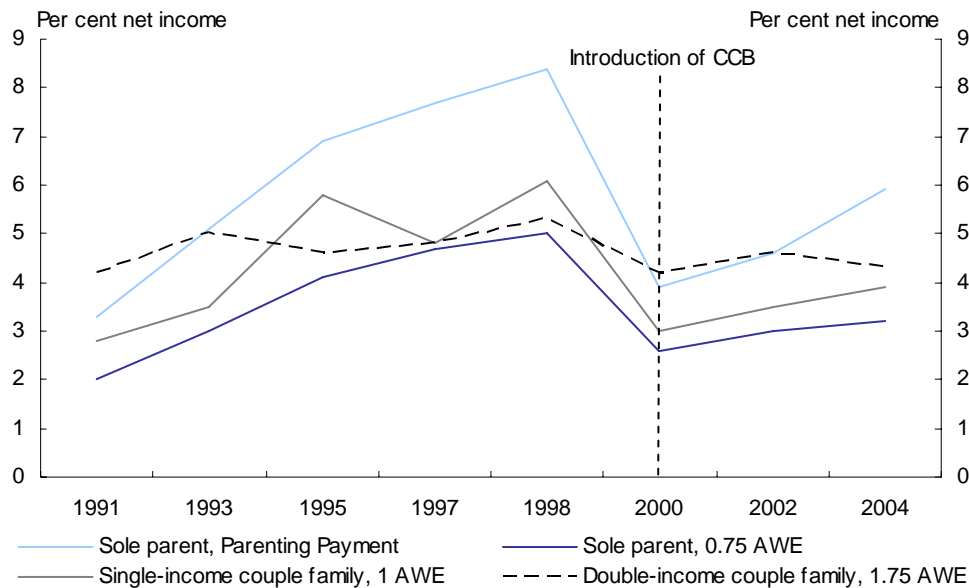
data, in which child care is measured as a share of net family income, which includes any Centrelink payments and allowances which are considered taxable.⁸

The AIHW analysis does not take into account the CCTR, which covers 30 per cent of out-of-pocket expenses for approved child care where parents meet the CCB work/training/study test. It also does not factor in the recent expansion of the Job Education and Training Child Care Special Fee Assistance Programme (JET), which is designed to assist parents receiving income support with the cost of child care by paying most or all of the 'gap fee'.

Nevertheless, the key findings of the AIHW report are that between 2000 and 2004, child care affordability remained largely unchanged for middle and upper income families and decreased slightly for low-income families.

Chart 6 below represents these trends graphically. A persistent problem with presenting a snapshot of affordability in a market characterised by a range of services (for example, community versus private long day care) and a diverse consumer base, is choosing a permutation of service and consumers which is representative of the broader population of users. In recognition of this, Chart 6 focuses on the costs of 20 hours of private long day care as a proportion of net income for different categories of income earners.

8 Thus the calculation of net income includes: gross income; Family Tax Benefits Parts A and B; Parenting Payment; Pharmaceutical Allowance; Pensioner Education Supplement; Education Entry Payment; Low-income Rebate; Pensioner Rebate; and CCB.

Chart 6: Cost of 20 hours of private long day care as proportion of net income

Sources: ABS (2006), AIHW (2006).

Note: Net income includes any Centrelink payments and allowances which are considered taxable.

Long day care accounts for just under 50 per cent of formal child care usage. Most concerns about child care affordability relate to privately provided care, and hence representing the affordability of this type of care implicitly accounts for other less expensive types of care as well. In 2004, the median amount of care per week paid for by parents was 23 hours. The median, rather than the mean, best captures the hours of care paid for by the typical parent, as it is not sensitive to outliers, such as parents who work full-time who have no family or friends to help them with care responsibilities. Finally, the typical number of children any family has in private long day care at any point in time is one, which is true of 82 per cent of Australian families using private child care (FaCS 2004).

In addition to showing that the share of net income spent on child care has generally remained unchanged, the most notable feature of Chart 6 is that the proportion of income spent on child care is also at an affordable level. In 2000, peak welfare groups the Brotherhood of St Laurence and the Australian Council of Social Services each independently benchmarked child care affordability. This benchmarking suggested that low-income families should be paying no more than 5 to 6 per cent of their disposable income on the cost of care (Powlay 2000). In Chart 6, the share of disposable income absorbed by child care costs is within this upper bound for all family types, for all periods after 2000.

For families using 20 hours of private long day care earning 1.75 average weekly earnings, the share of net income spent on child care costs between 2000 and 2004

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remained around the 4 per cent level. For single-income families earning average wages (where the non-working parent is studying), the proportion of net income spent on child care has increased slightly from 3 to 4 per cent.

For low-income households, represented by the broken lines in Chart 6, the relative decline in affordability is gauged by the share of income spent on child care by sole parents. The proportion of net income spent on child care for sole parents earning below-average incomes dropped notably with the introduction of CCB in 2000, and has since remained around the 3 per cent level. For sole parents receiving Parenting Payment, the proportion of net income spent on care dropped even more precipitously upon the introduction of CCB and has subsequently increased 2 percentage points to 6 per cent.

However, for this list group, the exclusion of JET Child Care provisions from the analysis would have biased the AIHW findings, making child care today seem less affordable than it might really be. The recently expanded JET programme was designed to assist recipients of certain Centrelink payments, particularly those on Parenting Payment.⁹

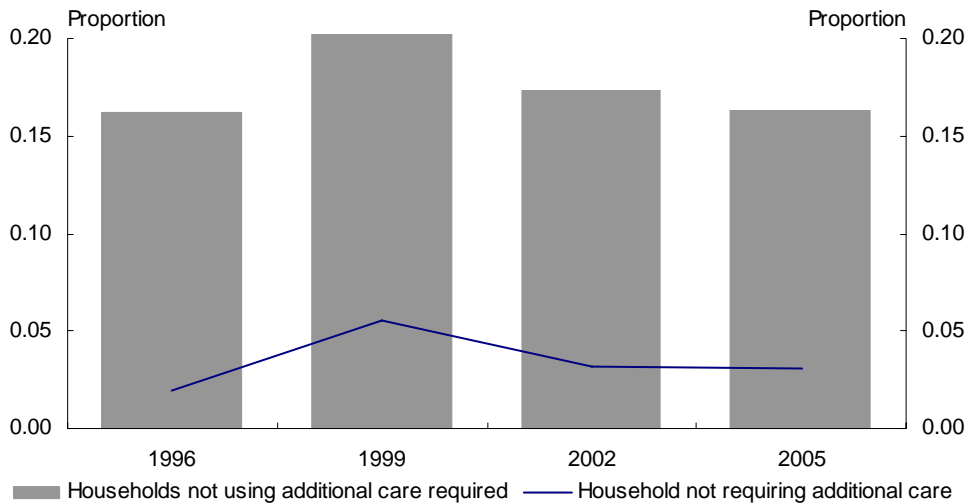
Survey evidence

Survey evidence about affordability supports the above analysis, suggesting that at the aggregate level parents are not overly concerned with the cost of care. As indicated in Chart 7, in the recent ABS survey, only 3 per cent of parents who indicated that they did not require additional child care did so because of problems with the cost of care. More notably, cost considerations only accounted for 16 per cent of children for whom additional care was required.

These findings are broadly reinforced by data collected as part of the HILDA survey. The proportion of all parents reporting difficulties with the cost of child care has been stable in recent years, and remains around 25 per cent of the population of parents who use (or consider using) child care. The proportion of parents reporting no difficulties in the HILDA data is also consistently higher than that reporting difficulties, while the proportion reporting great difficulties is 10 per cent or less of all respondents.

⁹ As a tax offset, the omission of the CCTR from the above analysis would not significantly alter our understanding of the way low-income families really experienced child care costs in recent years.

Chart 7: Households reporting difficulties with the cost of formal child care
(proportion of households)



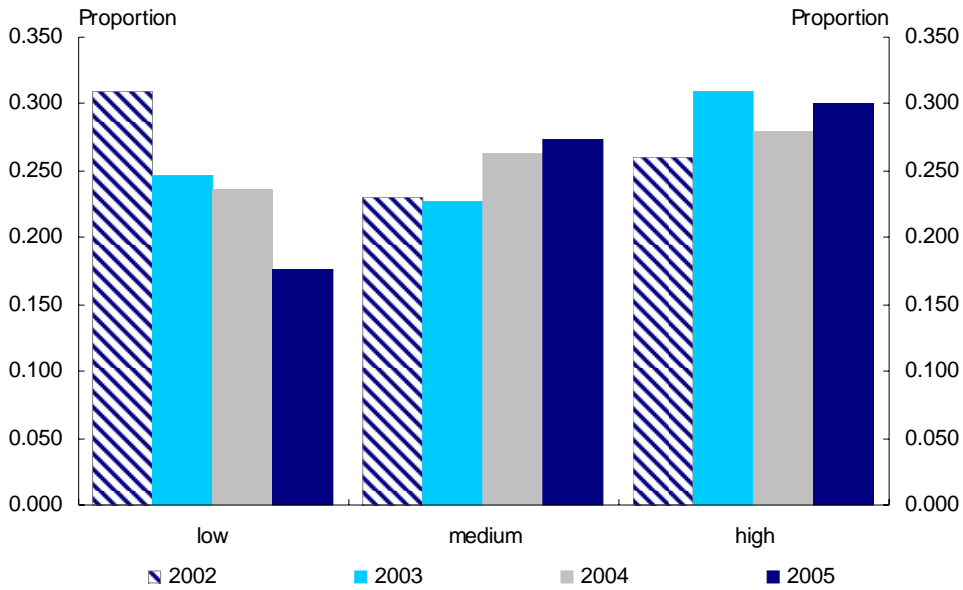
Note: Households refers to those with children 12 and under who used or thought about using formal child care.

Source: ABS (various).

When the same data is disaggregated by broad income categories the conclusions that can be drawn are essentially the same: as shown in Chart 8, for all income groups, the proportion of parents experiencing difficulties with the affordability of care hovers around 20 per cent and never exceeds 31 per cent. It is also interesting to note that although the AIHW analysis shows the proportion of net income spent on child care has recently increased for parents earning below-average incomes, the HILDA evidence suggests that low income families have increasingly experienced fewer difficulties with the cost of care over time. In 2002, the proportion of households earning less than \$40,000 per annum reporting difficulties was just over 15 per cent, compared with 30 per cent in 2002. This drop may reflect a lagged response to the introduction of CCB, which is progressively targeted. However, further analysis of the relationship between working hours, type of care used and changes in wages not captured by broad income categories is needed before drawing more concrete conclusions from the data.

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Chart 8: Proportion of households reporting difficulties with affordability



Note: Household income categories per annum: low = less than \$40k; medium = 40-80k; high = more than \$80k; Households refers to those with children 14 and under who used or thought about using child care to undertake paid work.
Source: HILDA (all waves).

Conclusion

Based on the best available recent evidence, child care in Australia remains accessible and affordable at the aggregate level.

Survey evidence does not support the thesis that while the overall provision of child care places is adequate, there is a mismatch between consumer demand and supply within specific regions. Instead, the evidence suggests that broad concerns about child care access might mask consumer choice, with parents expressing more disquiet about not being able to access their preferred type of child care rather than child care per se. As the child care industry matures, parents' preferences for type and location of care should increasingly be matched by market provision.

Income-based and survey evidence also suggests that in recent times child care costs have remained constant as share of net income and affordable for most users.

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