

# Economic Impact Analysis

## Economic Impact Analysis

Prepared on behalf of:  
Childcare Queensland

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### **Warranty**

This report has been based upon the most up to date readily available information at this point in time, as documented in this report. Urban Economics has applied due professional care and diligence in accordance with generally accepted standards of professional practice in undertaking the analysis contained in this report from these information sources. Urban Economics shall not be liable for damages arising from any errors or omissions which may be contained within these information sources.

As this report involves future market projections which can be affected by a number of unforeseen variables, they represent our best possible estimates at this point in time and no warranty is given that this particular set of projections will in fact eventuate.

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## Executive Summary

Urban Economics was commissioned in July 2009 by Childcare Queensland to undertake an Economic Impact Analysis of the proposed changes under the National Quality Agenda. Under Queensland's *Child Care Act 2002* and the *Child Care Regulation 2003* all staff employed by a licensed child care service are required to be qualified in Queensland, with the exception of family day carers. As such, the proposed qualified staffing requirements have not been assessed in detail within this analysis.

Whilst it is understood that there are a number of changes being proposed to assist in the regulatory streamlining of the childcare industry in Australia, Urban Economics has only assessed the economic implications associated with the proposed staff-to-child ratios.

Childcare in Queensland is currently regulated under the Child Care Act 2002 and the Child Care Regulation 2003. The maximum licensed capacity for a single long day care centre in Queensland is 75 places. The maximum number of children per group is regulated under the Child Care Regulation 2003 (refer to TABLE 2.1, Chapter 2.0, Section 2.1).

Long day care centres in Queensland are designed in accordance with the Queensland Development Code MP 5.4 Childcare Centres which stipulates the minimum area requirements per child to be provided. As such, the maximum number of children per room is constrained by the room size as all rooms have been built to the required licensed capacity requirements to accommodate the maximum number of licensed places.

In assessing the economic implications of the proposed staff-to-child ratios, Urban Economics has derived calculations based on a hypothetical 75 place long day care centre in Queensland. The centre configuration represents a typical 75 place centre in Queensland in which rooms have been built in accordance with the Queensland Development Code (MP 5.4 Childcare Centres) which stipulates the minimum area requirements per child to be provided. As such, the maximum number of children per room is constrained by the room size as all rooms have been built to the licensed capacity requirements to accommodate the maximum number of licensed places.

It has been found that the least burdensome change in regulations for families would be Option 2 and 3, with Option 2 being preferred due to the later implementation date. For Option 2, a 75-place childcare centre's preferred response would be to increase contact staff by 2.5 FTE positions, including one early childhood teacher and decreasing the number of places to 69. Assuming 100% capacity, this would result in an increase in costs of some \$13 per child per day.

This cost estimate is considered substantial and likely to lead to significant upheaval in the industry with a significant proportion of the population likely to seek alternative arrangements. However, it is considered that these cost estimates are conservative, in that they assume:

- Full capacity of the centre;
- No further loss of revenue due to parents pulling children out of childcare due to the increased costs;
- No structural renovations with centres in response to the changes;
- No staff training costs incurred by the centres, rather they are assumed to be borne by the individual or government; and
- No additional administration costs due to the introduction of the Quality Rating System.

Therefore it is Urban Economics' opinion that the proposed National Quality Standard options pose a substantial additional cost to families in Queensland, which is likely to result in children leaving care, parents changing work arrangements, increased budget stress on families and many centres no longer being commercially viable.

# 1.0 Introduction

## 1.1 Background

Urban Economics was commissioned in July 2009 by Childcare Queensland to undertake an Economic Impact Analysis of the proposed changes under the National Quality Agenda.

Urban Economics is a specialist economic and market research consultancy dedicated to the provision of professional, independent, object advice to clients within the property sector. Located within South East Queensland, Urban Economics has significant experience in consulting to the childcare industry in Queensland and northern New South Wales markets. In particular, Urban Economics specialises in examining the way in which we live within the urban environment and has examined the potential economic impacts and effects of a broad range of property sectors and developments from both individual and interrelated perspectives.

Established in 2003 through the amalgamation of the Queensland Professional Childcare Centres Association Inc. and the Childcare Industry Association of Queensland Inc., Childcare Queensland is the peak private long day childcare centre association in Queensland. Childcare Queensland commissioned Urban Economics to assess the economic impact of the proposed changes under the National Quality Agenda, with particular regards to the streamlining of staff-to-child ratios and the impact upon families within Queensland.

It is understood that this assessment would form part of a submission to the Department of Education, Employment and Workplace Relations from Childcare Queensland.

## 1.2 Study Objectives and Methodology

The objective of this Economic Impact Analysis is to examine the economic implications of the proposed regulations under the National Quality Agenda, in particular;

- a) Evaluate the additional costs incurred by long day care centres in Queensland as a result of regulated staff-to-child ratios under four options proposed under the National Quality Agenda; and
- b) Evaluate the flow-on costs to families utilising long day care services in Queensland as a result of additional costs incurred by long day care operators.

Whilst it is acknowledged that the proposed changes are applicable Australia-wide, Urban Economics has only assessed the implications of these changes within Queensland.

In undertaking this assessment, Urban Economics has employed the following methodology;

- a) Interviewed representatives of Childcare Queensland to discuss details pertaining to the introduction of the National Quality Agenda, expenditure streams;
- b) Reviewed the national standards proposed for the childcare industry under the National Quality Agenda;
- c) Reviewed the report prepared by Access Economics titled 'An Economic Analysis of the proposed ECEC National Quality Agenda';
- d) Assessed the total economic value of the childcare industry in Queensland;
- e) Assessed the cost to families and childcare services as a result of regulated staff-to-child ratios under each of the four options proposed of the National Quality Agenda; and
- f) Assessed the direct and indirect impacts of the introduction of the National Quality Agenda to families and childcare services in Queensland.

The data sources used in undertaking this assessment include:

- *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms July 2009;*
- *Policy Overview Regulation Impact Statement for Early Childhood Education July 2009;*
- *Queensland Childcare Regulation 2003;*
- *Children's Services Award – State 2006;*
- *1999 Census of Childcare Services Commonwealth Child Care Support – Department of Family and Community Services;*
- *2002 Census of Childcare Services – Department of Family and Community Services;*
- *2004 Census of Childcare Services – Department of Family and Community Services;*
- *2006 Australian Government Census of Child Care Services – Office of Early Childhood Education and Childcare;*
- *Australian Bureau of Statistics (ABS) Childhood Education and Care Australia June 2008;*
- *An Economic Analysis of the proposed ECEC National Quality Agenda, Access Economics 2009;*
- *Queensland Development Code MP 5.4 Child Care Centres;*
- *National Children's Services Workforce Study July 2006;* and
- *ABS Population Projections, Australia.*

### 1.3 Limitations

This study recognises that the benefits/impacts of the introduction of the National Quality Agenda extend beyond those which are economically quantifiable and that in evaluating the proposed changes, it is important to adopt a holistic view of its total benefit/impact to the community. It is not possible to place an economic value on all the benefits/impacts contributed to the childcare industry. This Report takes into consideration the costs of implementing the proposed regimes for families and childcare centres. In considering the adoption of any of the proposed changes, it would be required to balance these costs with the potential educational and social benefits.

## 2.0 Queensland Childcare Industry

### 2.1 Queensland Childcare Regulations

Childcare in Queensland is currently regulated under the Child Care Act 2002 and the Child Care Regulation 2003. The maximum licensed capacity for a single long day care centre in Queensland is 75 places. Long day care centres in Queensland are also regulated by maximum group limits as detail in the following TABLE 2.1.

**TABLE 2.1: Maximum Group Sizes in Childcare Centres – Queensland**

Ages of children in group	Qualified carer : child ratio	Maximum group size	Other limits of exceptions
Birth to 2 years	1 : 4	8	
Birth to 3 years, including at least 1 child aged 3 years	1 : 5	10	The group may not include more than 2 children aged birth to 1 year for each qualified carer.
15 months to 3 years	1 : 5	10	
2 to 3 years	1 : 6	12	
2½ to 3 years	1 : 8	16	
3 years to 6 years	1 : 12	24	
4 years to 6 years	1 : 13	25	
4 to 12 years, including at least 1 child of more than 6 years	1 : 12	No maximum	The group may not include more than 13 children aged 4 or 5 years
Ages for which no other entry applies	1 : 7	21	<ol style="list-style-type: none"> <li>1. The group may not include more than 4 children aged birth to 1 year</li> <li>2. The group may not include more than 2 children aged birth to 1 year for each qualified carer.</li> <li>3. If the group is in a centre based service with a licensed capacity of more than 30, the group may not include more than 10 children aged birth to 2 years.</li> </ol>

*Source: Child Care Regulation 2003, Queensland*

It is understood that a review of the Child Care Regulation 2003 is pending.

Long day care centres in Queensland are developed in line with the Queensland Development Code (MP 5.4 Child Care Centres) which stipulates the minimum area requirements per child as follows:

### **Indoor Play Facilities**

**A2** *Indoor play facilities are provided in accordance with the following:*

- a) *The indoor play space has an area of not less than 3.25m<sup>2</sup> for each child within the group it serves, exclusive of any passageway, thoroughfare, storage areas (including areas required for bedding), children's lockers, built-in furniture, cots, separate sleeping areas, toilets, bathrooms, washrooms, kitchens, offices, laundries, entrances and staff ...*

### **Sleeping Facilities for a Child Care Centre catering for children aged less than 15 months**

**A3** *Sleeping facilities are in accordance with the following:*

- a) *For each group, a sleeping room is provided that is separate from the group's indoor play area which –*
  - i. *Has an area of not less than 2.5m<sup>2</sup> for each child under the aged of 15 months ...*

### **Outdoor Play Facilities**

**A4** *Outdoor play facilities are provided in accordance with the following:...*

- ix. *A total outdoor play area of not less than 7m<sup>2</sup> for each child of the licensed capacity...*

As such childcare centres in Queensland have been designed to reflect the building requirements required on a per child basis as stipulated within the development code. The Child Care Regulation 2003 limits the overall size of the centre and individual class numbers, and thus with the Development Codes, Queensland centres have been developed to cater for a certain number of children and cannot easily be modified.

## 2.2 Trends in Childcare for Queensland

With evolving work habits, particularly for women, the childcare industry has experienced considerable growth in the demand for childcare places. In 2008, the Australian Bureau of Statistics (ABS) estimated that there were 179,000 children in Queensland aged 0 – 12yrs who were utilising some form of formal childcare, with an estimated 56% (100,000 children) of these children utilising long day care, highlighting the significance of long day care within Queensland. Other formal care arrangements include family day care, occasional care, pre-school and before and after care. It is acknowledged that parents may also utilise other informal/formal childcare arrangements in conjunction with or independent to their main childcare arrangements.

The 2008 ABS Childcare Survey identified that 70% of parents whose children attended some form of formal childcare arrangements indicated that the main reason for utilising formal care was work related, 18% beneficial for children (includes 'good for child', 'prepare for school', and 'other child-related reason'), and 11% personal (reasons including 'other study/training', 'sport', 'entertainment' etc).

Information sourced from the 1999, 2002, 2004 and 2006 Censuses of Childcare Services illustrates the increase in average weekly fees incurred by parents utilising long day care services. The following TABLE 2.2 summarises the average weekly fees for long day care services in Queensland with comparisons drawn with the State and Australian averages.

**TABLE 2.2: Average weekly fees for Long Day Care Services**

Year	QLD (\$)	NSW (\$)	VIC (\$)	SA (\$)	WA (\$)	TAS (\$)	NT (\$)	ACT (\$)	Australia (\$)
1999	153	173	166	168	160	177	153	180	166
2002	170	197	184	181	176	187	172	205	186
2004	191	225	207	198	195	202	184	227	210
2006	214	248	239	230	221	221	214	265	233

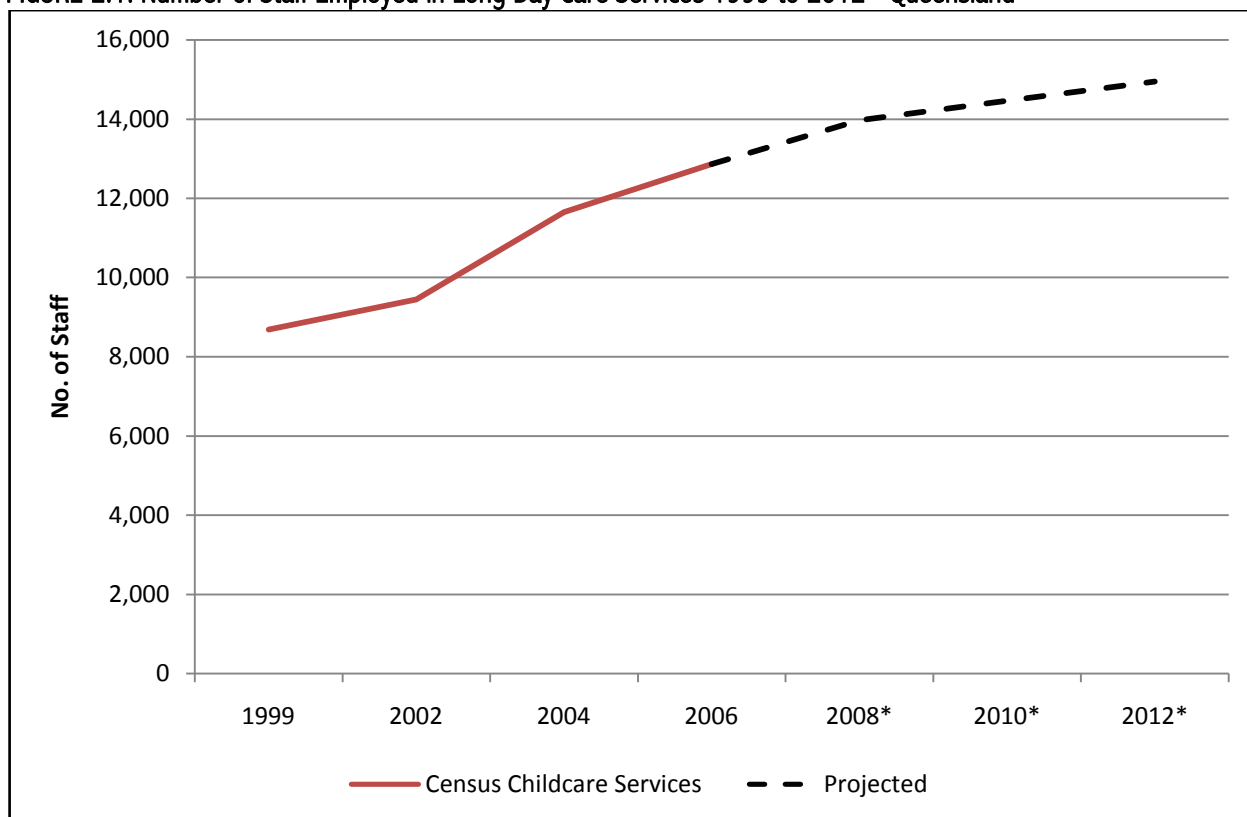
*Source: Census of Childcare Services 1999, 2002, 2004, and 2006*

Average weekly fees for long day care centres in Queensland have generally remained below the average weekly fees recorded in the other Australian States and Territories with the exception of the Northern Territory, highlighting the relative affordability of long day care services particularly in Queensland.

Interestingly, the 2006 Census of Childcare Services published by the Commonwealth Department of Education, Employment and Workplace Relations, reported a total of 22,277 paid staff employed within childcare services in Queensland. Significantly, 58% (12,861 paid staff members) were employed within long day care services. The 2006 National Children's Services Workforce Study projects that there are approximately 20,568 staff members in Queensland within the childcare sector as at 2009, with an estimated 14,214 staff within long day care services. The following FIGURE 2.1 illustrates the increase in staff employed within long day care services in Queensland based on the results of

the Australian Government Census of Childcare Services and projections prepared within the National Children's Services Workforce Study.

**FIGURE 2.1: Number of Staff Employed in Long Day Care Services 1999 to 2012 - Queensland**



Source: Australian Government Census of Childcare Services 1999, 2002, 2004, 2006.

\*National Children's Services Workforce Study July 2006

Information sourced from the Regulation Impact Statement for Early Childhood Education and Care Quality Reforms publication estimated that there were a total of 1,466 long day care services in Queensland as at 2008.

Using data from IBISWorld and the ABS, it is estimated that the gross childcare services industry revenue in 2008/09 in Queensland was some \$1.5 billion.

## 2.3 National Quality Agenda

In December 2007, the Council of Australian Governments (COAG) agreed to a partnership between the Commonwealth, State and Territory governments to pursue substantial reform in the areas of education, skills and early childhood development.

The National Quality Agenda comprises three areas of reform that are under consideration, which include:

1. A national quality standard;
2. Enhanced regulatory arrangements; and
3. A quality rating system.

A fourth component of the reform includes the development and implementation of the Early Years Learning Framework (EYLF) which will be encompassed within the proposed new national standard.

Such a reform envisaged the development of a new national quality agenda for childhood education and childcare, which comprises:

- Strong national quality standards for early childhood education and care;
- A quality rating system to drive continuous improvement and provide parents with robust and relevant information about the quality of learning and care;
- Streamlining or integrating licensing and accreditation arrangements; and
- A national Early Years Learning Framework.

## 2.4 Proposed Changes

The National Quality Agenda is to encompass all childcare service types; however the proposed changes at this stage apply to Long Day Care, Family Day Care, Outside School Hours Care and preschools. Options for staff-to-child ratios and qualification requirements have been proposed for Long Day Care, Family Day Care and preschools, however changes to staff-to-child ratios have not been proposed at this stage for Outside School Hours Care. The National Quality Standard and Ratings Framework will apply to those childcare service types previously mentioned. The following TABLE 2.3 summarises the proposed changes applicable to long day care and preschool services.

**TABLE 2.3: National Quality Standard Options for Long Day Care and Preschool**

Option	Staff-to-child ratio	Qualifications
<p><b>LDC and Preschool Option 1 – Baseline</b></p>	<p>No COAG policy change.</p> <p>Under this option states and territories will be free to choose whether or not to make their own changes to ratios, and may include some growth.</p> <p>A broad range of standards for ratios between jurisdictions will remain.</p>	<p>No COAG Policy change.</p> <p>Under this option states and territories will be free to choose whether or not to make their own changes to qualifications, and may include some growth.</p> <p>A broad range of standards for qualifications will remain.</p>
<p><b>LDC and Preschool Option 2</b></p>	<p>For children from birth to 24 months the staff-to-child ratio to be 1:4 no later than the end of 2015.</p> <p>For children aged 25 to 35 months the staff-to-child ratio to be 1:5 no later than the end of 2015.</p> <p>For children 36 months to school age the staff-to-child ratio to be 1:11 no later than the end of 2016.</p>	<p>All staff working with children would be required to have a minimum Certificate III level qualification (or enrolled in study) no later than the end of 2013.</p> <p>Fifty per cent of all staff working with children are to have a qualification (or be enrolled in study) of Diploma or above by no later than the end of 2013.</p>
<p><b>LDC and Preschool Option 3</b></p>	<p>For children from birth to 24 months the staff-to-child ratio to be 1:4 no later than the end of 2011.</p> <p>For children aged 25 to 35 months the staff-to-child ratio to be 1:5 no later than the end of 2011.</p> <p>For children 36 months to school aged the staff-to-child ratio to be 1:11 no later than the end of 2015.</p>	<p>Services that have 25, - 59 children on any day, are required to employ 1 full-time university qualified early childhood teacher by 2013.</p> <p>Services that have 60 – 80 children on any day, are required to employ 0.5 of an additional university qualified professional by 2015, and a full additional qualified professional for services with over 80 children on any day (with exact requirements for additional professionals to be determined).</p>
<p><b>LDC and Preschool Option 4</b></p>	<p>For children from birth to 24 months the staff-to-child ratio to be 1:4 no later than the end of 2010 and 1:3 no later than the end of 2020.</p> <p>For children aged 25 to 35 months the staff-to-child ratio to be 1:5 no later than the end of 2015.</p> <p>For children aged 36 months and over the staff-to-child ratio to be 1:10 no later than the end of 2013.</p>	<p>Services with less than 25 children would be expected to have access to a proportion of an early childhood qualified teacher for educational leadership by 2013.</p> <p>Where the service provision only includes children birth to 3 years of where there is already qualified teacher on site an appropriate alternative qualification may fulfil this requirement (with the need for and exact requirements for additional professionals to be determined).</p>

*Source: Regulation Impact Statement for Early Childhood Education and Care Quality Reforms July 2009*

Under Queensland's *Child Care Act 2002* and the *Child Care Regulation 2003* all staff employed by a licensed child care services are required to be qualified in Queensland, with the exception of family day carers. As such, the proposed qualified staffing requirements have not been assessed in detail within this analysis.

Whilst it is understood that there are a number of changes being proposed to assist in the regulatory streamlining of the childcare industry in Australia, Urban Economics has only assessed the economic implications associated with the proposed staff-to-child ratios prescribed in the above TABLE 2.3 as detailed in Chapter 3.0.

## 3.0 Economic Analysis

In assessing the various options proposed for the National Quality Standard, it is important to assess the change in costs associated with each option, relative to the baseline scenario. Urban Economics has reviewed Access Economics' assessment of the proposed regulations and provided our analysis of the potential cost changes in Queensland.

### 3.1 Access Economics Cost Benefit Analysis

Access Economics developed a review of the economic implications of the proposed reforms on behalf of the Department of Education, Employment and Workplace Relations in July 2009, titled, *An economic analysis of the proposed ECEC National Quality Agenda*. Urban Economics has reviewed this report in relation to its findings for Queensland.

The assessment utilised a cost-benefit approach to assess and compare the proposed scenarios and the baseline growth assumption at a national and state-wide level. The assessment attempted to factor in costs incurred in meeting the proposed regulatory provisions under each scenario.

Urban Economics has taken a different approach, assessing the overall numbers for Queensland and also looking at example childcare centres in Queensland, their likely responses to the change in the regulations and the resulting cost changes for families. Urban Economics' focus was on the change in costs due to increasing staff-to-child ratios in centres, as this is likely to be the dominant factor in increasing childcare fees in Queensland, with costs associated with staff qualification increases likely to be a lower factor.

The Access Economics report assessed the additional net present cost (NPC) of long day care to 2020 in Queensland for each option, compared to the baseline case, with Option 2 having a NPC of \$451.8 million, Option 3 \$469.5 million and Option 4 \$804.9 million, compared to the baseline case of \$41.9 million.

A summary of the Access Economics report's findings for the additional cost per child per day to 2020 in Queensland for long day care is provided in the table below. Access Economics did not provide significant commentary as to whether they considered these costs to be burdensome for families.

**TABLE 3.1 Access Economics Results**

Year	\$/child/day			
	Option 1	Option 2	Option 3	Option 4
2010	0	0.55	0.62	1.17
2011	0	1.18	1.32	2.44
2012	0	1.90	2.12	3.83
2013	0	2.75	3.04	5.37
2014	0	3.39	3.76	6.22
2015	0.09	3.99	4.12	7.04
2016	0.20	4.36	4.36	7.64
2017	0.36	4.60	4.60	8.26
2018	0.56	4.87	4.87	8.90
2019	0.81	5.14	5.14	9.57
2020	0.81	5.14	5.14	9.57

As can be seen from the data, all options will incur significant additional costs for Queensland over the baseline case, with Option 2 and 3 similar in scale and about half of the cost of Option 4.

Several assumptions were used in the cost-benefit approach, as is necessary in such analyses. While it is a matter of professional opinion in which assumptions to adopt, Urban Economics questions the following assumptions:

- **Linear Growth:** It was assumed that in the years preceding the adoption of the higher staff-to-child ratios that the sector would move towards the new regime in a linear model, that is, a set number of centres would convert to the new system in each year. It is Urban Economics' opinion that it is more likely that the initial years would have little movement towards the new system, before a final flurry of activity in the 12-18 months prior to the adoption of the new ratios. Centres that do prepare 3-4 years early would gain a competitive advantage by taking the additional and appropriately qualified staff in a constrained labour market, but would have to charge higher fees than their competitors to compensate. It is questionable whether centres would take this approach and be able to market themselves on being compliant 3-4 years ahead of schedule. Therefore it is considered that there would be a more steep increase in fees than projected in the report.
- **Price Inelasticity of Childcare:** The report stated that changes in cost of childcare due to increased quality has no statistically significant impact on parents' labour supply decisions and thus implies that enrolments are unlikely to be materially affected. The proposition being that the increased attractiveness of childcare due to the increase in quality offsets those dropping out of care due to the increase in cost. While this may be true in conditions where the existing quality is low, it is questionable whether in this instance this is the case given that the standard of care in Queensland is already high and parents may not see the additional benefit in moving from a staff-to-child ratio of, say, 1:12 to 1:11, but would be aware of the additional cost. It is Urban Economics' opinion that enrolments in Queensland would be more sensitive to price changes than suggested in the report.

- **Labour Availability:** The report assumes a growth in the available labour of 5.5% per annum, which, as it states, is significantly above recent trends of 1-2% per annum. The higher figure was adopted after consultation with DEEWR and takes into account initiatives to increase the participation in this sector. While it is agreed that such initiatives can accelerate growth in a labour sector, it is questionable whether a 5.5% per annum growth can be achieved and sustained over the coming decade. The sector is a relatively low paying sector and does not attract males to a significant degree, thereby limiting potential supply. Initiatives to attract more students into tertiary studies in childcare would take several years to achieve higher labour supply. As seen in the report's sensitivity analysis, a lower growth of labour supply would result in slightly lower costs.
- **Full Compliance by the Specified Deadlines:** Notwithstanding the difficulties in the point above, in assessing the cost implications of a new policy regime that has specific timeframes for implementation, couched in phrases such as "no later than...", it would be appropriate to assess the cost implications of full compliance by the specified dates. This would result in a steeper growth in costs than is projected, and with qualified labour shortages, it is likely that in order to achieve full compliance before the deadline, a higher level of wage and training costs would be incurred than projected in the report.

On balance, it is considered that the actual increase in costs would be steeper than projected in the Access Economics report and that the full costs would be higher than projected. It is Urban Economics' opinion that parents would be more sensitive to these changes than considered in the report.

By limiting the analysis to the national and state level, the inefficiencies created by moving from one system to another at the centre scale are not identified. The macro approach assumes full flexibility and moveability within the system and does not take into account the fixed and discrete nature of the childcare infrastructure, nor the limitations for families to move from one centre to another.

Urban Economics is in agreement that Option 4 would incur the highest costs and would be about double the costs of Option 2 and 3.

## 3.2 Queensland

Urban Economics has analysed the potential economic impacts in Queensland of the introduction of the new regulations. The direct economic impacts will be experienced by families needing childcare, childcare centres and staff of centres. Changes in the availability or cost of childcare places in Queensland would have flow-on impacts to the wider community, through families potentially changing household budgets and childcare arrangements.

The National Quality Standard options have been assessed using constant 2009 dollar values, wages and fee levels. Growth in childcare demand has been based on population growth projections by age published by the ABS and estimates in the change in take-up rates over time. Cost changes have been quoted as the final change in costs between the baseline and the proposed option (i.e. at the final deadline provided in the proposed regulations).

The following table summarises the projected growth in the number of children requiring childcare in Queensland to 2020, using population projections from the ABS and assuming a growth in current take-up rates of formal care in Queensland of 1% per annum.

**TABLE 3.2 Total Persons in Long Day Care and Pre-school**

Queensland Total Persons in Long Day Care, Pre-School													
Age	2006	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0-1yr	3,860	4,413	4,577	4,748	4,928	5,114	5,304	5,499	5,698	5,898	6,100	6,303	6,504
1yr	13,268	15,390	15,954	16,543	17,155	17,799	18,464	19,142	19,841	20,551	21,265	21,988	22,713
2yr	20,206	22,414	24,647	25,547	26,478	27,444	28,462	29,511	30,583	31,685	32,808	33,937	35,078
3yr	22,756	26,130	26,303	28,858	29,899	30,974	32,090	33,265	34,477	35,717	36,989	38,286	39,592
4yr	16,511	18,134	19,120	19,267	21,085	21,837	22,613	23,418	24,264	25,138	26,032	26,951	27,886
5yr	5,708	6,003	6,313	6,656	6,711	7,327	7,585	7,852	8,128	8,419	8,718	9,026	9,341
6yr	1,952	2,053	2,138	2,247	2,368	2,389	2,603	2,694	2,787	2,884	2,986	3,092	3,199
<b>TOTAL</b>	<b>84,261</b>	<b>94,537</b>	<b>99,052</b>	<b>103,866</b>	<b>108,624</b>	<b>112,884</b>	<b>117,121</b>	<b>121,381</b>	<b>125,778</b>	<b>130,292</b>	<b>134,898</b>	<b>139,583</b>	<b>144,313</b>

*SOURCE: ABS, Urban Economics*

The minimum full time equivalent (FTE) staffing requirements under current regulatory arrangements, to care for this level of children would need to increase from 11,400 FTE positions in 2006 to 12,900 positions in 2009, to 16,500 in 2015 and 19,600 in 2020. Allowing for centres having staff levels over the minimum requirements and allowing for casual and part-time positions, this would equate to some 30,000 positions being required by 2015 and 35,000 positions being required by 2020.

Urban Economics has assessed the overall changes in staff requirements due to the proposed regulatory changes. It is estimated that some 1,500 additional FTE staff by 2016 (on top of projected growth in the baseline scenario) would be required under Option 2 of the proposed regulatory changes. Option 3 would require an additional 1,700 FTE positions by 2015 and Option 4 would require an additional 4,700 FTE positions by 2020, including an additional 2,200 FTE positions by 2015.

Allowing for centres having staff above the regulated minimum and casual and part-time positions, it is estimated that Option 2 would require an additional 2,700 positions by 2016, Option 3 would require an additional 3,000 positions by 2015 and Option 4 would require an additional 8,400 positions by 2020.

It is questionable whether the additional staffing requirements, including staff with increased qualifications, can be provided in Queensland, even allowing for policy initiatives to increase enrolments in tertiary education facilities to train future staff. Limiting the supply of labour in the coming decade in this sector are the following factors:

- The sector already has staffing shortages, particularly for highly qualified staff;
- The sector is a low-paid sector, particularly in relation to other sectors with tertiary qualified staff, and thus is at a comparative disadvantage;
- The sector does not attract males, severely limiting the potential staffing pool; and
- Even successful policy changes to increase enrolments in tertiary education will take several years to result in significant increases in the pool of qualified labour.

It is unclear what the provisions or penalties would be for non-compliance should centres be unable to find additional suitably qualified staff by the required deadline. Presumably such centres would not be able to operate at full capacity. This would have further implications on availability of places in a given locality, cost of places and choice of childcare type.

The additional costs due to the higher staffing requirements have been estimated in constant 2009 dollar values, using industry standards for wages in Queensland. It is assumed that the additional staff would have a range of qualifications in accordance with the new regulations, and thus would have a range of wage levels. Costs such as superannuation and an allowance for additional operational costs as a result of having additional staff have also been included in the calculations.

It is estimated that under Option 2 there would be additional staff costs of approximately \$80 million in Queensland per annum from 2016. Option 3 would require additional staff costs of \$90 million per annum from 2015 and Option 4 would require additional staff costs of \$240 million from 2020.

As will be demonstrated in the following section, it is our opinion that these estimates of additional staffing requirements and therefore costs are a substantial under-estimation of the likely figures as they assume that the entire Queensland childcare market is fully flexible and adaptable and working as one entity. That is, as this analysis has considered Queensland as a whole, it has not included inefficiencies in the system due to the discrete nature of childcare centres facilities and capacities, the locations of children and staff throughout the state, variances in supply and demand throughout the state, etc. Such inefficiencies are likely to substantially increase actual costs. Urban Economics has assessed a hypothetical individual childcare centre later in this chapter to illustrate the further limitations that capacity constraints impose on an individual centre.

### 3.3 Case Scenario – Long Day Care Centre

In assessing the economic implications of the proposed staff-to-child ratios, Urban Economics has derived calculations based on a hypothetical 75 place long day care centre in Queensland (75 places is the maximum number of places allowable in a single long day care centre in Queensland). The centre configuration represents a typical 75 place centre in Queensland in which rooms have been built in accordance with the Queensland Development Code (MP 5.4 Childcare Centres) which stipulates the minimum area requirements per child to be provided. As such, the maximum number of children per room is constrained by the room size as all rooms have been built to the licensed capacity requirements to accommodate the maximum number of licensed places. The following TABLE 3.3 summarises the centre configuration for which calculations are based upon. Staffing numbers are derived on the current staff-to-child ratios stipulated within Queensland.

**TABLE 3.3: Theoretical 75 place Long Day Care Centre Configuration**

Age Groups	No. of Places	Ratio**	No. of Contact Room Staff (FTE)
0 – 15 months	8	1:4	2
15 months – 2yrs	10	1:5	2
2.5 – 3 yrs	16	1:8	2
3yrs – 4 yrs*	16	1:12	2
4 – 5 yrs	25	1:13	2
Director	-	-	1
<b>TOTAL</b>	<b>75</b>	<b>-</b>	<b>11</b>

**NB:** \*for this age group, group size is typically smaller than the allowable group size in order to keep within the licensed capacity of 75 places

\*\*staff-to-child ratio based on Queensland Childcare Regulations 2003

While centres in Queensland have variations in design, size and capacity, the above five room configuration is typical of a Queensland centre.

Urban Economics has modelled a number of scenarios based upon the above theoretical centre configuration in assessing the economic implications of the proposed changes under each of the proposed options detailed in TABLE 2.3, Chapter 2.0. It is acknowledged, that not all long day care centres are the same, and variations of age groups, number of places, operating hours, staff numbers, etc. may occur from centre to centre. For the purposes of this analysis, Urban Economics has based calculations on the above centre configuration. Staff numbers illustrated in the above TABLE 3.3 are minimum required FTE levels for compliance. Additional staff may be required for relief work, additional programs or administration. The following provides a summary of the key assumptions adopted within each of the scenarios measured.

## Scenario 1 – Centre to maintain the same number of places (i.e. 75 place centre)

### Assumptions

Scenario 1 assesses the centre's ability to maintain the same number of places (i.e. 75 places). In assessing the economic implications under this scenario, Urban Economics has adopted the following key assumptions:

1. The centre is able to maintain a 75 place centre;
2. Children are placed in the following age groups and corresponding rooms in line with the proposed staff-to-child ratio changes:

Proposed Age Groups	Rooms	Number of Places
0 – 2 yrs	0 – 15 months	8
	15 months – 2yrs	10
2 – 3yrs	2.5 – 3 yrs	16
3+yrs	3yrs – 4 yrs*	16
	4 – 5 yrs	25
<b>TOTAL</b>		<b>75</b>

3. Current Queensland maximum group sizes stipulated within the Childcare Regulations 2003 apply;
4. The number of staff required are derived from the proposed staff-to-child ratios detailed within TABLE 2.3, Chapter 2.0;
5. Staff numbers exclude additional staff which may be required for relief work, administration and management of the centre;
6. The centre operates 52 weeks per year; and
7. The centre is operating at 100% capacity

The centre is obviously limited by its existing design and layout. Therefore while the proposed regulations include three age brackets and no limitations on group sizes, the centre would retain its five room layout, with the existing rooms designed to incorporate a fixed number of places, constraining capacity and opportunities to reorient groups.

The following TABLE 3.4 summarises the centre's additional contact staff requirements in order to adhere to the proposed staff-to-child ratios. TABLE 3.5 provides a summary of the key implications under this scenario.

TABLE 3.4: Scenario 1- Maintain the Same Number of Places within the Centre (75 Places)

Options 2 and 3								
Proposed Age Groups	Room	No. of Places	Proposed Staff:Child	Theoretical Total No. of FTE Contact Staff	Theoretical No. of Additional FTE Contact Staff	Actual No. of Places	Actual Total No. of FTE Contact Room Staff	Actual No. of Additional FTE Contact Room Staff
0 - 2yrs	0 - 15mths	8	1:4	2	0	8	2	0
	15mths - 2.5yrs	10	1:4	3	1	10	3	1
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	16	4	2
3yrs+	3-4yrs	16	1:11	2	0	16	2	0
	4-5yrs	25	1:11	3	1	25	3	1
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>14</b>	<b>4</b>			
<b>ACTUAL TOTAL</b>						<b>75</b>	<b>14</b>	<b>4</b>
Option 4 2011 - 2015								
Proposed Age Groups	Room	No. of Places	Proposed Staff:Child	Theoretical Total No. of FTE Contact Staff	Theoretical No. of Additional FTE Contact Staff	Actual No. of Places	Actual Total No. of FTE Contact Room Staff	Actual No. of Additional FTE Contact Room Staff
0 - 2yrs	0 - 15mths	8	1:4	2	0	8	2	0
	15mths - 2.5yrs	10	1:4	3	1	10	3	1
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	16	4	2
3yrs+	3-4yrs	16	1:10	2	0	16	2	0
	4-5yrs	25	1:10	3	1	25	3	1
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>14</b>	<b>4</b>			
<b>ACTUAL TOTAL</b>						<b>75</b>	<b>14</b>	<b>4</b>
Option 4 - 2020								
0 - 2yrs	0 - 15mths	8	1:3	3	1	8	3	1
	15mths - 2.5yrs	10	1:3	4	2	10	4	2
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	16	4	2
3yrs+	3-4yrs	16	1:10	2	0	16	2	0
	4-5yrs	25	1:10	3	1	25	3	1
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>16</b>	<b>6</b>			
<b>ACTUAL TOTAL</b>						<b>75</b>	<b>16</b>	<b>6</b>

**TABLE 3.5: Summary Analysis Scenario 1: Maintain the same number of Places within the centre (i.e. 75 places)**

- In order to maintain the same number of places (i.e. 75 places), the centre would need to **employ a minimum of 4 additional contact staff (Options 2 and 3), and employ a total of 6 additional contact staff under Option 4;**
- The centre would also need to **employ a full time university qualified Early Childhood Teacher;**
- Given the centre comprises 75 places, the centre would also be required to **employ 0.5 of an additional university qualified professional;**
- This is an **inefficient use of staff resources;**
- Additional cost per child is derived from the **additional staffing costs incurred;**
- Such an approach is **NOT financially viable for the centre to adopt**, therefore it is considered that under this scenario this is **NOT a possible option for the centre.**

**It is estimated that under this situation the cost per child per day would be in the order of \$16 from 2016 for Option 2, \$16 from 2015 for Option 3 and \$21 from 2020 for Option 4.**

It is considered that childcare cost increases of this level would lead to a substantial upheaval within the industry with a large proportion of families seeking alternative childcare/workforce arrangements, either by using informal care or changing or reducing work hours. It is considered that low and medium income families would be particularly vulnerable to such increases.

### ***Issues and Implications***

This is an inefficient use of labour resources, with the actual child-to-staff ratio being a higher staff per child ratio than required by the new regulations. This is because adopting new ratios does not readily lead to maintaining current child levels with an optimum use of labour.

Childcare centres in Queensland are currently governed by maximum group sizes as detailed in section 2.1. Restrictions placed on the number of children permitted per room are likely to influence the composition of the centre and the number of additional staff required.

As detailed in section 2.1, childcare centres in Queensland are designed in accordance with the Queensland Development Code (MP 5.4 Childcare Centres) which stipulates the minimum area requirements per child to be provided. Therefore increasing the levels of children to use the labour at an optimum level, is unlikely to be possible or practical without significant renovations of the centre.

## **Scenario 2 – Minimise the number of additional FTE Contact Room Staff and loss of places**

### Assumptions

This scenario assesses the balance between maximising the number of places able to be sustained whilst minimising the number of additional staff required as a result of the proposed staff-to-child ratios under each of the proposed options. It builds upon Scenario 1, but adopts a more practical approach, with businesses needing to balance the benefits of maintaining a high number of places, with the costs of employing additional contact staff. In undertaking this assessment, Urban Economics has adopted the following key assumptions:

1. The centre minimises the reduction in places;
2. The centre minimises the number of additional staff employed (i.e. 1 additional staff member is employed); and
3. Employment of an additional staff member is within the 2 – 3 age bracket as this best represents the most efficient use of labour resources in minimising the loss of places.

The following TABLE 3.6 summarises the centre's number of places and number of additional staff required under the proposed staff-to-child ratios. TABLE 3.7 provides a summary of the key implications under this scenario.

It must be remembered that the building design constraints thwart the opportunity to expand beyond 75 places without substantial renovations.

TABLE 3.6: Scenario 2 – Minimise the number of additional FTE Contact Room Staff and loss of places

Options 2 and 3									
Proposed Age Groups	Room	No. of Places	Proposed Staff:Child	Theoretical Total No. of FTE Contact Staff	Theoretical No. of Additional FTE Contact Staff	Actual No. of Places	Actual Total No. of FTE Contact Room Staff	Actual No. of Additional FTE Contact Room Staff	Loss of Places Under Proposed Changes
0 - 2yrs	0 - 15mths	8	1:4	2	0	8	2	0	0
	15mths - 2.5y	10	1:4	3	1	8	2	0	-2
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	15	3	1	-1
3yrs+	3-4yrs	16	1:11	2	0	16	2	0	0
	4-5yrs	25	1:11	3	1	22	2	0	-3
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>14</b>	<b>4</b>				
<b>ACTUAL TOTAL</b>						<b>69</b>	<b>11</b>	<b>1</b>	<b>-6</b>

Option 4 2011 - 2015									
Proposed Age Groups	Room	No. of Places	Proposed Staff:Child	Theoretical Total No. of FTE Contact Staff	Theoretical No. of Additional FTE Contact Staff	Actual No. of Places	Actual Total No. of FTE Contact Room Staff	Actual No. of Additional FTE Contact Room Staff	Loss of Places under Proposed Changes
0 - 2yrs	0 - 15mths	8	1:4	2	0	8	2	0	0
	15mths - 2.5y	10	1:4	3	1	8	2	0	-2
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	15	3	1	-1
3yrs+	3-4yrs	16	1:10	2	0	16	2	0	0
	4-5yrs	25	1:10	3	1	20	2	0	-5
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>14</b>	<b>4</b>				
<b>ACTUAL TOTAL</b>						<b>67</b>	<b>11</b>	<b>1</b>	<b>-8</b>

Option 4 - 2020									
Proposed Age Groups	Room	No. of Places	Proposed Staff:Child	Theoretical Total No. of FTE Contact Staff	Theoretical No. of Additional FTE Contact Staff	Actual No. of Places	Actual Total No. of FTE Contact Room Staff	Actual No. of Additional FTE Contact Room Staff	Loss of Places Under Proposed Changes
0 - 2yrs	0 - 15mths	8	1:3	3	1	6	2	0	-2
	15mths - 2.5y	10	1:3	4	2	6	2	0	-4
2 - 3yrs	2.5 - 3yrs	16	1:5	4	2	15	3	1	-1
3yrs+	3-4yrs	16	1:10	2	0	16	2	0	0
	4-5yrs	25	1:10	3	1	20	2	0	-5
<b>THEORETICAL TOTAL</b>		<b>75</b>	<b>-</b>	<b>16</b>	<b>6</b>				
<b>ACTUAL TOTAL</b>						<b>63</b>	<b>11</b>	<b>1</b>	<b>-12</b>

TABLE 3.7: Summary Analysis – Scenario 2  
Minimise the number of additional FTE Contact Room Staff required and loss of places

- The above scenario provides centres with a potential **middle ground between losing places and incurring additional staffing costs**;
- The centre would ultimately experience a **decrease in capacity** from 75 places to 69 places under Options 2 and 3, and a total capacity of 63 places under Option 4;
- The centre would experience a **total loss of 6 licensed places under Options 2 and 3, and a total of 12 places under Option 4**;
- In order to maintain current revenue levels **the centre would need to increase fees for the remaining places to cover the loss of revenue due to the loss of places**;
- The **centre would incur additional staffing costs** from the employment of an additional staff member within the 2 – 3 yr age bracket;
- The centre would need to **employ a full time university qualified Early Childhood Teacher** in addition to the staff member employed within the 2 – 3 yr age bracket;
- Given the centre would comprise over 60 places, the centre would also be required to **employ 0.5 of an additional university qualified professional**;
- Centres are **unable to increase groups sizes within the centre beyond the room capacity** to increase the number of children in a room;
- **Additional costs per child** are derived from the additional staffing costs incurred and the recoup of income lost due to a reduction in licensed capacity.

It is estimated that the additional cost would be approximately \$13 per child per day from 2016 for Option 2, \$13 per child per day from 2015 for Option 3 and \$20 per child per day from 2020 for Option 4.

It is considered that childcare cost increases of this level would lead to a substantial upheaval within the industry with a large proportion of families seeking alternative childcare/workforce arrangements, either by using informal care or changing or reducing work hours. It is considered that low and medium income families would be particularly vulnerable to such increases.

### Scenario 3 – Centre to maintain the same number of FTE Contact Room Staff

#### Assumptions

Scenario 3 assumes that the centre maintains the same number of staff (i.e. 10 FTE contact staff). Under this scenario, Urban Economics has adopted the following key assumptions:

1. The centre is able to maintain the same number of staff, i.e. 10 FTE contact staff;
2. Staff are placed in the following age groups in line with the proposed changes;

Proposed Age Groups	Rooms	Number of FTE Contact Room Staff
0 – 2 yrs	0 – 15 months	2
	15 months – 2yrs	2
2 – 3yrs	2.5 – 3 yrs	2
3+yrs	3yrs – 4 yrs*	2
	4 – 5 yrs	2
<b>TOTAL</b>		<b>10</b>

3. The number of places generated is derived from the proposed staff-to-child ratios under each of the proposed options as detailed within TABLE 2.3, Chapter 2.0;
4. Staff numbers exclude additional staff which may be required for relief work, administration and management of the centre;
5. Average childcare fees are \$60 per child per day; and
6. The centre is operating at 100% capacity.

TABLE 3.8: Scenario 3 – Maintain the same number of FTE Contact Room Staff

Options 2 and 3									
Proposed Age Groups	Room	No. of Staff	Proposed Staff:Child	Theoretical Total No. of Places	Theoretical Loss of Places	Actual Total No. of FTE Contact Room Staff	Actual Total No. of Places	Actual No. Loss of Places	Loss of Places under Proposed Changes
0 - 2yrs	0 - 15mths	2	1:4	8	0	2	8	0	0
	15mths - 2.5yrs	2	1:4	8	-2	2	8	-2	-2
2 - 3yrs	2.5 - 3yrs	2	1:5	10	-6	2	10	-6	-6
3yrs+	3-4yrs	2	1:11	22	6	2	16	0	0
	4-5yrs	2	1:11	22	-3	2	22	-3	-3
<b>THEORETICAL TOTAL</b>		<b>10</b>	<b>-</b>	<b>70</b>	<b>-5</b>				
<b>ACTUAL TOTAL</b>						<b>10</b>	<b>64</b>	<b>-11</b>	<b>-11</b>

Option 4 2011 - 2015									
Proposed Age Groups	Room	No. of Staff	Proposed Staff:Child	Theoretical Total No. of Places	Theoretical Loss of Places	Actual Total No. of FTE Contact Room Staff	Actual Total No. of Places	Actual No. Loss of Places	Loss of Places under Proposed Changes
0 - 2yrs	0 - 15mths	2	1:4	8	0	2	8	0	0
	15mths - 2.5yrs	2	1:4	8	-2	2	8	-2	-2
2 - 3yrs	2.5 - 3yrs	2	1:5	10	-6	2	10	-6	-6
3yrs+	3-4yrs	2	1:10	20	4	2	16	0	0
	4-5yrs	2	1:10	20	-5	2	20	-5	-5
<b>THEORETICAL TOTAL</b>		<b>10</b>	<b>-</b>	<b>66</b>	<b>-9</b>				
<b>ACTUAL TOTAL</b>						<b>10</b>	<b>62</b>	<b>-13</b>	<b>-13</b>

Option 4 - 2020									
Proposed Age Groups	Room	No. of Staff	Proposed Staff:Child	Theoretical Total No. of Places	Theoretical Loss of Places	Actual Total No. of FTE Contact Room Staff	Actual Total No. of Places	Actual No. Loss of Places	Loss of Places under Proposed Changes
0 - 2yrs	0 - 15mths	2	1:3	6	-2	2	6	-2	-2
	15mths - 2.5yrs	2	1:3	6	-4	2	6	-4	-4
2 - 3yrs	2.5 - 3yrs	2	1:5	10	-6	2	10	-6	-6
3yrs+	3-4yrs	2	1:10	20	4	2	16	0	0
	4-5yrs	2	1:10	20	-5	2	20	-5	-5
<b>THEORETICAL TOTAL</b>		<b>10</b>	<b>-</b>	<b>62</b>	<b>13</b>				
<b>ACTUAL TOTAL</b>						<b>10</b>	<b>58</b>	<b>-17</b>	<b>-17</b>

TABLE 3.9: Summary Analysis – Scenario 3 – Maintain the same number of FTE Contact Room Staff

- If the centre were to maintain the same number of staff the centre would ultimately experience a **decrease in capacity** from 75 places to 64 places under Options 2 and 3, and a total licensed capacity of 58 places under Option 4;
- Under this scenario the centre would experience a **total loss of 11 licensed places under Options 2 and 3, and a total of 17 places under Option 4;**
- In order to maintain current revenue levels **the centre would need to increase fees for the remaining places to cover the loss of revenue due to the loss places;**
- Although the number of FTE contact staff would remain unchanged, the centre would be required to **employ a full time university qualified Early Childhood Teacher;**
- As the centre would still comprise more than 60 children (under Options 2 and 3) the centre would also be required to **employ 0.5 of an additional university qualified professional;**
- **Additional costs per child** are derived from the additional staffing costs incurred from employment of an Early Childhood Teacher and 0.5 of a professional together with the centre recouping income lost due to a reduction in licensed capacity.

It is estimated that the additional cost would be approximately \$16 per child per day from 2016 for Option 2, \$16 per child per day from 2015 for Option 3 and \$21 per child per day from 2020 for Option 4.

Assuming that a reduction in places would lead to some reduction in operating costs (although major costs such as wages and leases would remain unchanged), the additional cost per child per week would be approximately \$15 for Options 2 and 3 and \$20 for Option 4.

Once again it is considered that such increases would lead to substantial upheaval in the industry and families struggling and seeking alternative arrangements.

### Issues and Implications

In maintaining the current staffing levels, under any of the proposed options the centre would be required to reduce the number of places provided with Options 2 and 3 resulting in the least number of places lost. However, it is not considered desirable for the centre to reduce the number of places as this would result in some enrolled children unable to be accommodated by the centre. A number of repercussions are envisaged to result from such a scenario, which may include:

- Parents seeking alternative childcare arrangements;
- Increased fees for those parents able to remain at the centre although there is a reduction in the number of places provided;
- Parents seeking alternative workforce arrangements;
- Reduced levels of choice for parents seeking childcare;
- Animosity and distress for parents and staff in turning away enrolled children; and
- Loss of value of leasehold and freehold businesses.

While this scenario maintains an efficient use of labour, it leads to an inefficient use of the centre, which was designed and developed to accommodate 75 places. Therefore the centre would be paying higher than necessary leasing costs.

### **3.4 Summary**

From an assessment of the individual hypothetical centre, it has been demonstrated that no matter which business response that a childcare centre takes to the new regulations, there would be a substantial cost burden for families. Even the least burdensome alternative (Scenario 2, Option 2 or 3) would result in an additional cost impost of \$13 per child per day, which would be significant for families. The constraints due to the existing design and layout of the centre dramatically increase the costs from changing regulations.

The additional costs for Queensland families assuming centres balance a reduction in places with an increase in staff (Scenario 2 approach) would be about \$210 million in 2015 for Option 2, \$220 million in 2016 for Option 3 and \$390 million in 2020 for Option 4. These costs would increase in subsequent years due to population growth.

These state estimates are substantially higher than the estimates for Queensland provided in Section 3.2. The reason for this is that the Section 3.2 estimates assumed full flexibility, adaptability and mobility between and within centres. Once taking into account the considerable constraints of building and room sizes, the costs for the state are substantially higher. This demonstrates the need to assess the centre-level implications of the proposed regulations, rather than only an assessment at the national and state level.

## 4.0 Conclusion

This analysis has reviewed the additional cost implications likely to occur from the introduction of the National Quality Standard options for childcare facilities in Queensland. The benefits of the proposed changes would need to be weighed against these costs in deciding which if any of the proposed options should be adopted.

Childcare in Queensland is of a high standard and provides families with a wide variety of quality alternatives. Childcare in Queensland is affordable relative to the other states.

The proposed regulations would lead to increased costs for centres, which would be passed on to families through higher fees. The particular option that is selected, and the centres' responses to the new regulations, would influence the level of additional costs for families.

It is Urban Economics' opinion that Options 2 or 3 would result in the lowest overall cost imposition for families in Queensland, with Option 2 the preferred option, occurring at a later date. The difference in timing between Option 2 and 3 of the introduction of the ratios for the 0-2yr groups is considered to have a significant impact upon this age group in Queensland. Queensland centres do not operate to the 0-2yr age bracket, instead opting to provide a higher quality separation of this age group as two separate baby groups (i.e. 0 – 15mths, with a current staff-to-child ratio of 1:4 and a 15mths – 2.5yrs group, with a current staff-to-child ratio of 1:5). As such, children within the current 15mths to 2.5yrs age group will be significantly affected by the proposed change in staff-to-child ratios,

While Option 2 would be Urban Economics' preferred option, it is considered that all options would impose a large impact on families and is likely to lead to changes in enrolments in childcare and workforce participation for some parents. Many centres would not be able to maintain a viable business model.

It is Urban Economics' opinion that Access Economics has underestimated the potential additional costs in childcare centres in Queensland. It is our opinion that the cost increases are likely to be steeper and of a higher scale than estimated by Access Economics. The Access Economics report also did not consider the significant inefficiencies that will result in Queensland from moving from the existing regulations to any of the proposed options.

The cost estimates provided in this report are of sufficient scale to lead to changes in the way families use formal childcare in Queensland. However, it is considered that these cost estimates are conservative, in that they assume:

- Full capacity of the centre;
- No further loss of revenue due to parents pulling children out of childcare due to the increased costs;
- No structural renovations with centres in response to the changes;
- No staff training costs incurred by the centres, rather they are assumed to be borne by the individual or government; and
- No additional administration costs due to the introduction of the Quality Rating System.

Therefore it is Urban Economics' opinion that the proposed National Quality Standard options pose a substantial additional cost to families in Queensland, which is likely to result in children leaving care, parents changing work arrangements, increased budget stress on families and many centre no longer being commercially viable.