

Childcare choices: What parents want

July 2023



Acknowledgment of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

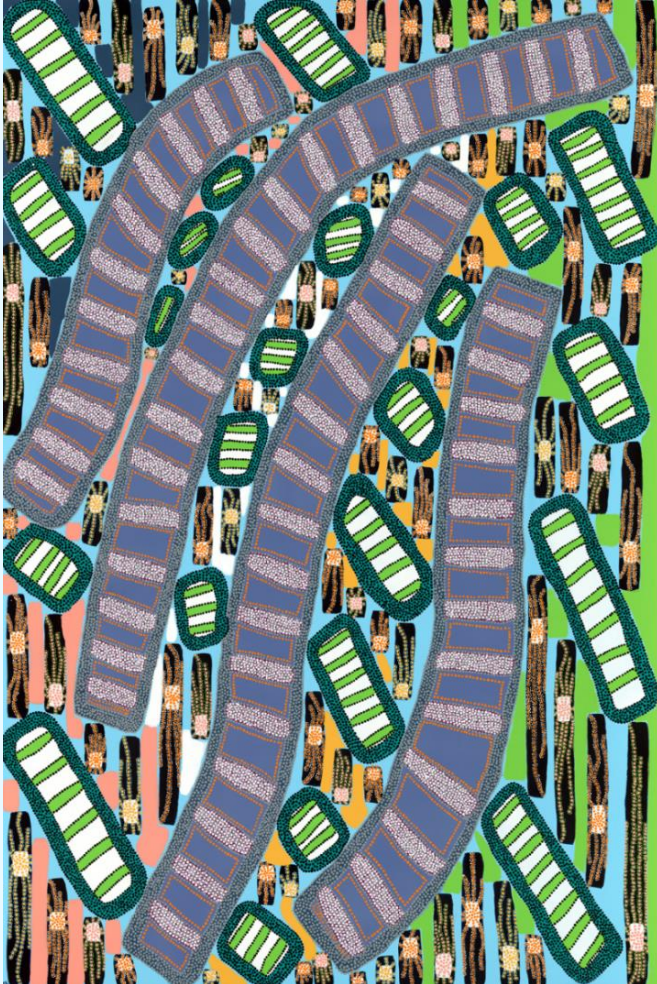
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families, and communities, towards improved economic, social, and cultural outcomes.

Artwork:

Regeneration by Josie Rose



Productivity Commissioner's foreword

Families today must juggle work, personal responsibilities, and the care and nurturing of their children. With three children of my own, I know all about this balancing act.

Finding accessible and affordable childcare should not be difficult, but for many families that is the case. Long waiting lists, a lack of flexible services, and limited options are just some of the challenges that families face in using Early Childhood Education and Care (ECEC) services.

The demand for ECEC has never been greater, as more parents and carers, particularly women, actively participate in the workforce. Governments recognise the pivotal role ECEC plays in fostering economic growth, promoting gender equality, and supporting the overall development of our children. However, despite significant government spending in recent decades, access and affordability issues persist.

With the increase to the national Child Care Subsidy rate from July 2023, along with new early childhood education initiatives in New South Wales, there is plenty of interest in helping families to use ECEC. A missing piece in the ECEC puzzle is knowing what families want in an ECEC market. So, I set out to hear what families had to say.

My paper *Childcare choices: What parents want* highlights the different challenges households face across NSW when it comes to using ECEC and the actions government can take to help them. This is the third paper that the NSW Productivity Commission has released on the ECEC sector, highlighting the importance of the sector to workforce participation and future productivity growth.

This paper is unique in the policy insights it provides about how the NSW and Australian Governments could support accessible and affordable ECEC for households across New South Wales, while delivering value-for-money for taxpayers. Great work has been done to help households access ECEC services, evident in the fact that 85 per cent of NSW children aged four are already attending ECEC. With enrolment rates already so high, government measures must be targeted if they are to be effective in helping those who need it most.

Childcare choices: What parents want is about understanding what parents want in an ECEC market so that we can make their lives better. While cost is important, particularly for disadvantaged households, cost is not everything. In giving households access to the ECEC services that suit their preferences, lifestyles, and work schedules, families will be better positioned to take full advantage of ECEC. This will help move parents off waiting lists and into employment, study, and other pursuits.

No two families are the same; each family has their own set of circumstances and their own needs and wants when it comes to childcare. Government action in the ECEC sector will be all the better for listening to what families have to say.



A handwritten signature in blue ink that reads "Peter Achterstraat". The signature is written in a cursive, flowing style.

Peter Achterstraat AM
NSW Productivity Commissioner

About the NSW Productivity Commission

The NSW Productivity Commission ('the Commission') was established by the NSW Government in 2018 under the leadership of the state's inaugural Commissioner for Productivity, Peter Achterstraat AM.

The Commission is tasked with identifying opportunities to boost productivity growth in both the private and public sectors across the state to continuously improve the regulatory policy framework and other levers the Government can pull. Productivity growth is essential to ensure a sustained growth in living standards for the people of New South Wales, by fully utilising our knowledge and capabilities, technology and research, and physical assets.

The Commission's priorities include:

- productivity and innovation
- fit-for-purpose regulation
- efficient and competitive NSW industries
- climate resilient and adaptive economic development.

Since its inception, the Commission has undertaken several reviews on productivity matters and published the landmark *Productivity Commission White Paper 2021: Rebooting the economy*.

Disclaimer

The views expressed in this paper are those of the NSW Productivity Commission alone, and do not necessarily represent the views of NSW Treasury or the NSW Government.

Regarding the policy insights in this paper, NSW Productivity Commission recommendations only become NSW Government policy if they are explicitly adopted or actioned by the NSW Government. The NSW Government may adopt or implement recommendations wholly, in part, or in a modified form.

List of abbreviations

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AOR	Australian Online Research
BWS	Best-worst scaling
CALD	Culturally and Linguistically Diverse
CCS	Child Care Subsidy
DCE	Discrete choice experiment
ECEC	Early childhood education and care
IPART	Independent Pricing and Regulatory Tribunal

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Executive summary

We need to understand what families want from early childhood education and care

The early childhood education and care (ECEC) sector is undergoing a policy-driven expansion supported by a mix of government initiatives. If New South Wales is to keep advancing the sector, we need to understand what families want from childcare, and the policy initiatives that parents will value most.

Many parents struggle to find ECEC services that allow them to juggle financial commitments with the need to care for their children. Yet New South Wales' ECEC sector is now well-developed, with around 85 per cent of four-year-olds already attending ECEC.

To increase the uptake of ECEC further, we must find out more about the needs of families who still make low or no use of ECEC services. We also need to solve today's chronic shortage of ECEC workers.

Better information lets us find out what parents value

To better understand what NSW families want, the NSW Productivity Commission commissioned a survey of more than 2,000 NSW families who have children aged between 0 and 5. We also drew upon existing Australian Bureau of Statistics (ABS) data.

We knew that these families make complex family decisions about ECEC, involving economic trade-offs, preferences, and access challenges. Our survey was designed to find out something new: the reasons that these parents give for not using childcare, or for using it relatively little. It is also unique in the breadth of barriers it considers, and for its large and representative sample.

We then applied a technique called 'discrete choice modelling' to our survey data. This technique is useful for turning survey answers into clear preferences. It has given us new insights into:

- the policy options that different types of NSW parents would most value
- the impact of various barriers on ECEC usage.

Key finding: On ECEC, parents worry about more than money

Our results underline that households value choice and flexibility – often more so than increased subsidies.

- Cost is not necessarily the only or main reason preventing non-users and low users from increasing their use of ECEC services. Three other factors are often more important to parents:
 - a lack of choice
 - inflexible care arrangements
 - poor access (that is, problems securing a place at their preferred provider).
- The difficulties parents face in accessing up-to-date and accurate information, and uncertainty about out-of-pocket costs, can be barriers as big as cost.
- Specific caring needs, parental preferences and judgements on education and care also drive parents' decisions to use ECEC services little or not at all.
- Preferences and barriers differ in Sydney and regional New South Wales. The greater difficulty that regional families tend to face in accessing services partly reflects smaller, more dispersed

population bases. But it also reflects a greater need from parents in regional areas for flexible care arrangements, as they are more likely to be employed in shift work.

- Many families not using ECEC services do so out of personal preference rather than reflecting ECEC cost or availability considerations.
- The perceived quality of ECEC services is not a large barrier to usage.

Policy implications: Further broad-based subsidies may not be cost-effective

These findings have a series of implications for policy:

- A one-size-fits-all approach will not do much to improve ECEC. Families value diversity in ECEC services.
- ECEC use is unlikely to increase as dramatically in the future as it has in the past 30 years. This is because parents may continue to make limited or no use of ECEC services due to family preferences, irrespective of any changes to ECEC access and affordability.
- Further broad-based subsidies may not be the most cost-effective means to increase ECEC usage and workforce participation. Our survey shows that non-users' ECEC choices are more sensitive to access than to price. Indeed, policy measures that improve affordability may make ECEC harder to access in the short term.
- To support ECEC usage, the NSW and Australian Governments could reduce the uncertainty of out-of-pocket costs by:
 - simplifying subsidy design
 - improving online tools
 - promoting consistency across national and state subsidy schemes.
- Our survey is consistent with evidence that NSW families have fewer flexible care options compared to families in other states (see Figure 8). This could be addressed by reconsidering regulatory requirements that slow the opening of new centres, discourage flexible ECEC models such as family day care, and prevent ECEC services from providing the hours of care that parents really want. Doing so would be particularly effective in regional areas where ECEC access is more challenging due to smaller, more dispersed population bases and shift workers who need flexible care arrangements.
- Boosting access by providing more choice and flexibility in ECEC services will make it easier for parents to continue working, raising *hours worked* – but it may only modestly increase workforce *participation*. We estimate if every parent who reports they are out of the labour force for ECEC-related reasons could find employment, NSW's labour force would expand by just 0.5 per cent.
- Adopting the national staffing and qualification regulatory standards in New South Wales could increase the availability of childcare places, allowing more children to experience the educational benefits of ECEC services. Currently NSW ECEC centres must operate with staff-to-child ratios of at least 1:10 compared to the national standard of 1:11 for children aged 3-6 and employ more degree-qualified early childhood educators than centres elsewhere in Australia. The change could also provide ECEC operators with more flexibility to manage staff shortages.

Our survey and analysis deepen our understanding about what parents want from ECEC, which is important to ensure that ECEC policy initiatives are effective. Our work would complement further work to better understand what children need from ECEC and what the ECEC market is capable of offering.

1 We need to know what parents want

1.1 Introduction

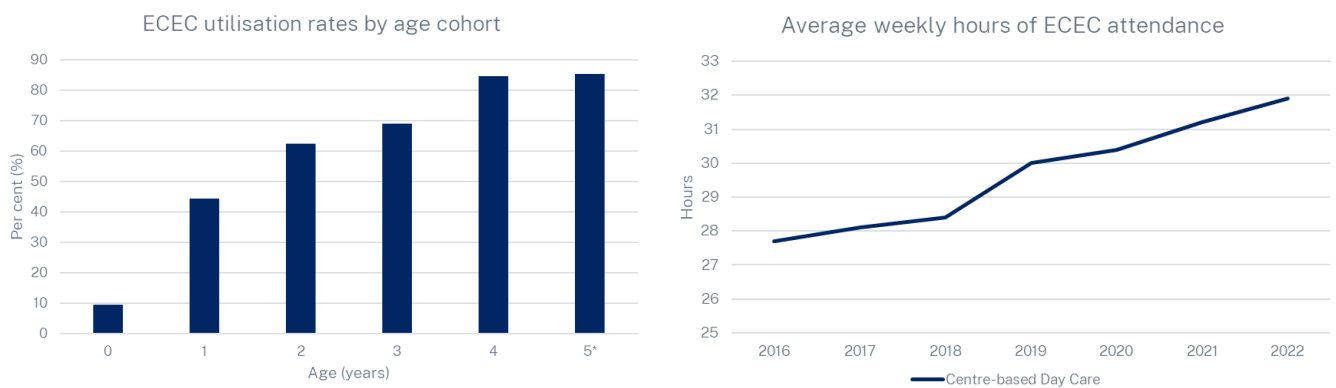
A family usually decides to use early childhood education and care (ECEC) only after resolving a number of issues. The social and other developmental benefits that parents expect formal childcare will provide for their kids are important, but a whole host of other factors are at play.¹ Family needs and preferences, family income and spending trade-offs, and broader considerations such as whether they can access the ECEC services they want and trust also matter. We would therefore expect that families would prefer different mixes of ECEC services.

For many years, all levels of government have made substantial funding commitments to help overcome ECEC affordability and access barriers. Further increases in funding are being introduced at both the federal and NSW Government level (see Box 1).

As more is done to support ECEC, it becomes harder to design and implement policies that further boost ECEC participation in a way that delivers taxpayers ‘bang for their buck’. The increase in government spending brings into sharper focus whether this spending is efficient *at the margin*. A large proportion of NSW children now attends ECEC, and the average weekly hours of ECEC attendance are high and increasing (Figure 1). In 2021:

- 85 per cent of children aged four attended ECEC in New South Wales
- The average weekly hours of long day care attendance – which constitutes about 80 per cent of the ECEC market – has increased by about five hours per week over the past six years.

Figure 1: ECEC utilisation rates in New South Wales are high while hours of ECEC attendance are increasing



* ECEC usage for children aged 5 adjusted for kids in kindergarten
Sources: ABS; NSW Productivity Commission; Hanley, et al. (2019)

Sources: Department of Education (2023); Commonwealth Productivity Commission (2022); NSW Productivity Commission

¹ We recognise the diversity of families, and the range of care arrangements that may exist for children. When we say ‘parent’ in this document, we are generally referring to biological parents, legal guardians, and any other people who are primary caregivers for children. This includes relative carers, kinship carers, foster carers, and residential carers.

Government spending is most effective if it addresses the actual needs and wants of users. For spending in the ECEC sector to promote the best outcomes for society, the NSW Government needs to know:

- What is in parents' minds when they make decisions about the education and care of their young children?
- What is stopping them from getting it, and what the government might do to help at a reasonable cost?

But existing studies and data do not shed enough light on these questions because:

- Most existing studies did not examine a comprehensive set of barriers that parents face, and have not surveyed a large, representative sample of the population.
- Data on ECEC usage does not account for what influences the preferences of non-users.
- Parents' preferences are being shaped by emergent and ongoing trends, such as increased working from home.
- Existing studies have not surveyed parents about the value they place on different policy solutions, and how parents make trade-offs between different choices.

Box 1: Recent new funding for ECEC

In the most recent ECEC funding decisions:

- The Australian Government is increasing the Child Care Subsidy (CCS) rate from 10 July 2023.
- The CCS maximum amount will increase from 85 per cent to 90 per cent for families earning up to \$80,000.
- The family income limit will increase from \$356,756 to \$530,000.
- In 2022, the NSW Government indicated plans to spend \$15.9 billion in the ECEC sector over the next 10 years. This funding is made up of the Childcare and Economic Opportunity Fund, which aims to boost access to and affordability of ECEC and provide universal preschool program.

Figure 2: The CCS is rising

CCS rate by household income for family claiming CCS for one eligible child



Source: NSW Productivity Commission
Data: Services Australia

1.2 The NSW ECEC survey and choice modelling study

To address these gaps, the NSW Productivity Commission commissioned an ECEC survey and choice modelling study from Australian Online Research (AOR). The modelling identified the policy options most valued by parents and the relative importance of various barriers to ECEC usage (see Box 2). The survey uses a variety of techniques to ask parents to identify their preferences (that is, their *stated* preference), providing a rich set of information on barriers and preferences that is not feasible from observed data (that is, their *revealed* preference).

If we draw inferences based on observed data alone, we do not shed any light on the preferences of parents who do not use ECEC services (that is, there is a self-selection bias). The survey results can

also help assess the level of demand for ECEC if access and affordability are not issues, and the flow-on impact this may have on workforce participation.

The survey results highlight that parents' preferred policy options and barriers systematically differ depending on their current level of usage of ECEC services, and by whether they live in Sydney or elsewhere in New South Wales. Throughout the report, the preferences and barriers to ECEC usage are analysed across these cohorts.

In particular, preferences and barriers vary depending on whether a parent is a non-user, low user, or high user of ECEC:

- **Non-users** do not use any formal ECEC services (e.g. long day care and community preschools).
- **Low users** access ECEC services less than 15 hours per week or have multiple children who use a mix between the three categories.
- **High users** access ECEC services more than 15 hours per week for all children.

The split of non-, low, and high users was driven by the survey results. The 15-hour per week threshold is a global benchmark, encouraged by the United Nations Children's Fund, for the use of preschool services (Beatson et al. 2022).

Box 2: How did we evaluate what parents want from ECEC?

The NSW Productivity Commission commissioned a survey of a representative sample of 2,015 NSW parents who have childcare responsibilities for at least one child aged 0 to 5. We asked these parents questions regarding their household characteristics including: their current usage of ECEC; their preferred policy solutions; and the importance of different ECEC barriers.

The survey design was informed by a literature review, focus group interviews with parents, a pilot survey, and consultation with other government stakeholders. AOR consultants provided expertise in survey design and choice modelling and conducted the online survey.

We used a **discrete choice experiment** (DCE) to assess the value that parents place on policy solutions (see Technical Appendix, Section 4). The experiment offered parents three hypothetical ECEC options with different policy offerings: for example, they might have different levels of subsidy, ECEC supply, and ECEC quality. Participants then selected their best and worst policy option. The participants repeated the process five times, with the attributes (such as the subsidy amount) varied each time.

This discrete choice technique lets us assess which policy attributes parents value the most. For instance, we can model how much parents value subsidies relative to other policy options, such as more ECEC supply.

There are several reasons why we assess parents' preferred policy solutions using a DCE rather than directly asking parents what they would be 'willing to pay' for different ECEC services and various policy options. A DCE has several major advantages:

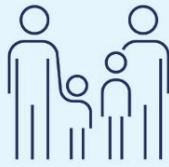
1. It forces parents to make trade-offs, which is more realistic and allows us to better understand the relative importance of individual policy options.
2. It provides a systematic approach to understanding how changes in policy settings, such as subsidies, may affect our current system.
3. It makes the survey less difficult for participants to complete compared to other methods of finding out their preferences. This makes the data we collect more reliable.
4. It helps parents give a more accurate picture of their willingness to pay for services. People often find this difficult when asked hypothetical questions.

Evidence suggests that simply asking people to state how much they value something can yield unreliable results (Diamond and Hausman 1994). The DCE approach has been shown to more accurately reflect the choices that people make in a real-world setting (Carlsson et al. 2007; Ryan & Skåtun 2004).

In addition, we used a **best-worst scaling** (BWS) method to identify the relative importance of the ECEC barriers faced by parents (See Technical Appendix, Section 5). In the BWS, participants were presented with nine different barriers and were asked to select the largest and smallest barriers to ECEC usage. The participants repeated the process eight times while the list of barriers varied each time. This BWS technique has enabled us to assess the relative importance of 28 different ECEC barriers. The BWS method was used because it is easier for participants to make several relative judgements (such as the best and worst option) than to rank the importance of 28 different barriers.

Further details on the survey design, implementation and analysis are provided in the Technical Appendix to this report.

1.3 About the families that participated in our survey

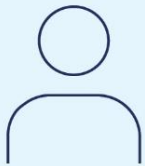


The survey found ECEC users fell into three groups:

32%
Non-users

34%
Low users

34%
High users



20% of non-users are unemployed or not working.

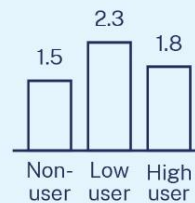
This is compared to **13% of low users** and **7% of high users.**



6 in 10 households live in **Sydney.**
4 in 10 live elsewhere in New South Wales.



Non-users are nearly twice as likely as high users to have a child with a major health issue; **low users are 1.5 times as likely.**



Low users tend to have more children.



Non-users prefer home-based care for their child(ren). They are also **less likely to believe in ECEC's developmental benefits.**

High users earn more income, on average.

\$102K
Non-user



\$109K
Low user

\$133K
High user



Non-users are more likely to have younger children.

Non-users do not use any formal ECEC services.

Low users access ECEC services for less than 15 hours/week or have multiple children who use a mix between the three categories.

High users access ECEC services for more than 15 hours/week for all children.

Note: ECEC Survey 2023 consists of 2,015 NSW parents and primary carers.

Source: ECEC Survey 2023, NSW Productivity Commission.

The ECEC survey and choice modelling study add to our understanding in several ways:

1. This is the only recent work (that we are aware of) which evaluates parents' preferences for a range of policy settings using a representative sample of parents in New South Wales.
2. It shows how preferences differ between non-users and users of ECEC.
3. The large nature of the survey lets us assess the importance of various barriers across a variety of different household types.
4. The survey design lets us determine the relative, as well as the absolute, importance of a wide variety of potential ECEC barriers.

The ECEC survey and related analysis complements several ECEC reviews underway (see Box 3).

Box 3: Our work complements other reviews already underway

The Australian Competition and Consumer Commission (ACCC) is inquiring into the market for the supply of childcare services (ACCC 2023). The ACCC will examine and consider costs including labour, land, finance and administration, regulatory compliance, and consumables, and will consider the prices charged since 2018. The inquiry began in January 2023; the final report is due to the Treasurer by the end of December 2023.

The Commonwealth Productivity Commission is assessing Australia's support for affordable, accessible, equitable, and high-quality ECEC that reduces barriers to workforce participation and supports children's learning and development, including considering a universal 90 per cent childcare subsidy rate (Commonwealth Productivity Commission 2023a). The inquiry commenced in March 2023; the final report is due to the Australian Government by the end of June 2024.

The Independent Pricing and Regulatory Tribunal (IPART) is assessing affordability, accessibility, and consumer choice in the NSW ECEC sector to ensure reforms and investment result in improved outcomes for children and families (IPART 2023). The terms of reference for the review were finalised in February 2023; the final report is due to the Minister by December 2023.

2 Cost may not be the largest barrier to ECEC use

The cost of ECEC is a natural barrier that prevents or constrains some parents from using ECEC services. The out-of-pocket cost reflects the fees charged by ECEC suppliers, less any subsidies received.

Any survey that simply asks parents about the importance of cost faces a challenge: all parents would like to pay less for ECEC. The key question is not whether parents would like to pay less, but whether – and to what extent – cost prevents or constrains families from using ECEC services.

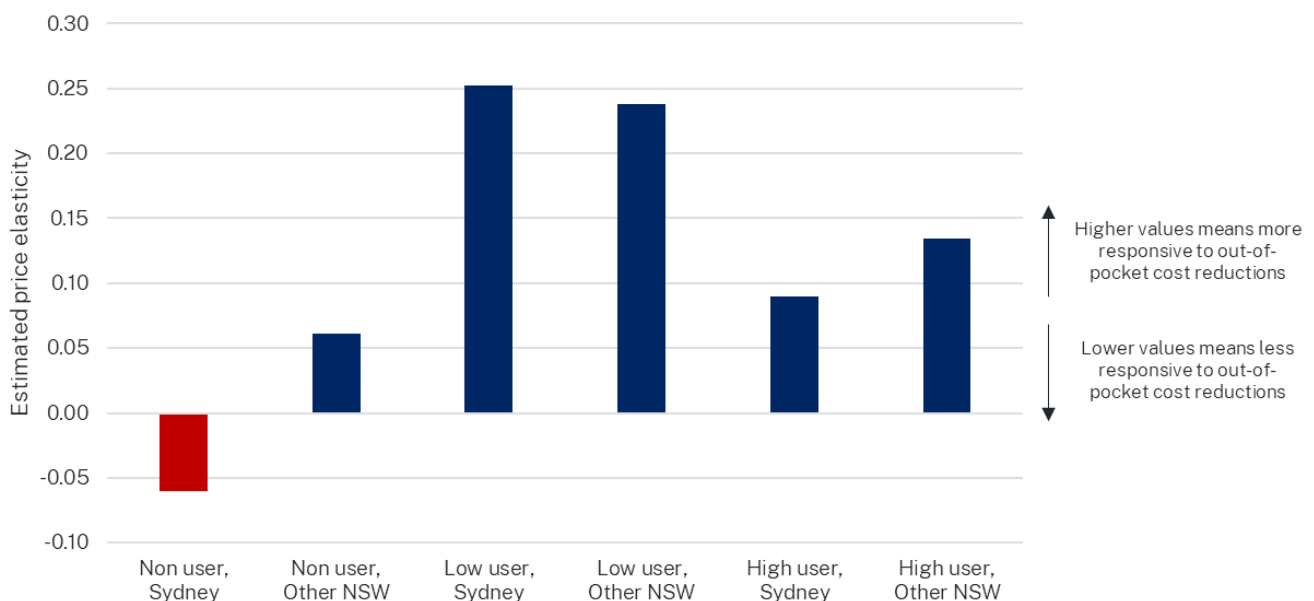
Our survey and the discrete choice experiment (DCE) provided an answer to this question. We were able to find out whether a reduction in cost, or a range of other policy levers, would have a bigger impact on the ECEC choices parents would make.

The results show that non-users value further subsidies very little, relative to other policy options. This implies that further broad-based subsidies may not be the most cost-effective means to support ECEC participation rates.

2.1 Non-users of ECEC value subsidies the least

We estimated the value that each group of parents/carers place on subsidies by calculating their price elasticity (Figure 3) (see Technical Appendix, Section 4 for further details). This measures the probability that survey participants would select an ECEC option if subsidies offered were increased by one per cent, holding all else constant. For example, a coefficient of 0.10 indicates that a household would be one per cent more likely to choose a policy option for each 10 per cent increase in subsidy.

Figure 3: Non-users are least responsive to changes in costs, based on discrete choice analysis



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 4 for modelling details)

If households strongly preferred policy options that provided the highest subsidies, this would be reflected by a larger positive price elasticity. A negative price elasticity indicates that parents/carers would actually be less likely to select a designated option if subsidies offered were increased.

We find that non-users do not place a lot of value on subsidies compared to other policy levers (see Figure 3). In fact, non-users in Sydney view higher childcare subsidies as a cost rather than a benefit.

The results are somewhat surprising at first but have an intuitive explanation. For parents who do not use ECEC services, higher subsidies do not provide any direct benefit. But those subsidies may impose costs through higher taxation or lower government expenditure in other areas that those parents value. Non-users may also perceive additional subsidies as a cost if they expect they will exacerbate ECEC access issues, which are more prevalent among non-users.

One might think that the results could be driven by higher-income households that may have comparably less need for subsidies. But the perception that subsidies are a cost rather than a benefit was stronger for households with lower average incomes and parental educational attainment levels (see Technical Appendix, Section 6.1 for further details). The results highlight that the parents of those that are likely to benefit the most from ECEC participation – children from low-income households – value subsidies the least relative to other policy options.

The results imply that further broad-based subsidies may have a diminishing return in supporting children's ECEC participation rates, as non-users value subsidies less than users. Instead, higher broad-based subsidies could have a larger impact in increasing *hours* for children who currently attend ECEC, rather than increasing the *number* of children attending ECEC. This is reflected by low users valuing ECEC subsidies the most. While this could help increase the workforce participation of low users in particular, the flipside is that a large portion of ECEC users may have limited scope to increase their level of workforce participation in response to the subsidies. The average child now attends ECEC services for more than 30 hours a week.²

Our results contrast with the literature, which typically emphasises high out-of-pocket costs as the main factor limiting ECEC use, particularly for lower-income families (Beatson et al. 2022; Carbone et al. 2004; Hand et al. 2014). Our results may reflect that Australia has a well-established ECEC market, compared to the markets studied in the literature. Price is now heavily subsidised for many households, particularly lower-income families.

Our findings align with research that interviewed and surveyed families from disadvantaged communities in New South Wales and found: 'Cost was not raised at all by parents who did not have a child enrolled in an ECEC service. This may suggest that, in Australia, government subsidy schemes have been largely effective in resolving cost as a barrier for families, leaving only those families who have other concerns disengaged from ECEC services' (Grace et al. 2014, p. 292).

² For children aged 3-5, there is evidence that full-time attendance at preschool led to no more significant gains in developmental benefits compared to part-time attendance (Sammons et al. 2012). For children aged 0-3, previous research suggests attendance in ECEC has no developmental benefits for children who are not disadvantaged at home (CCCH 2007).

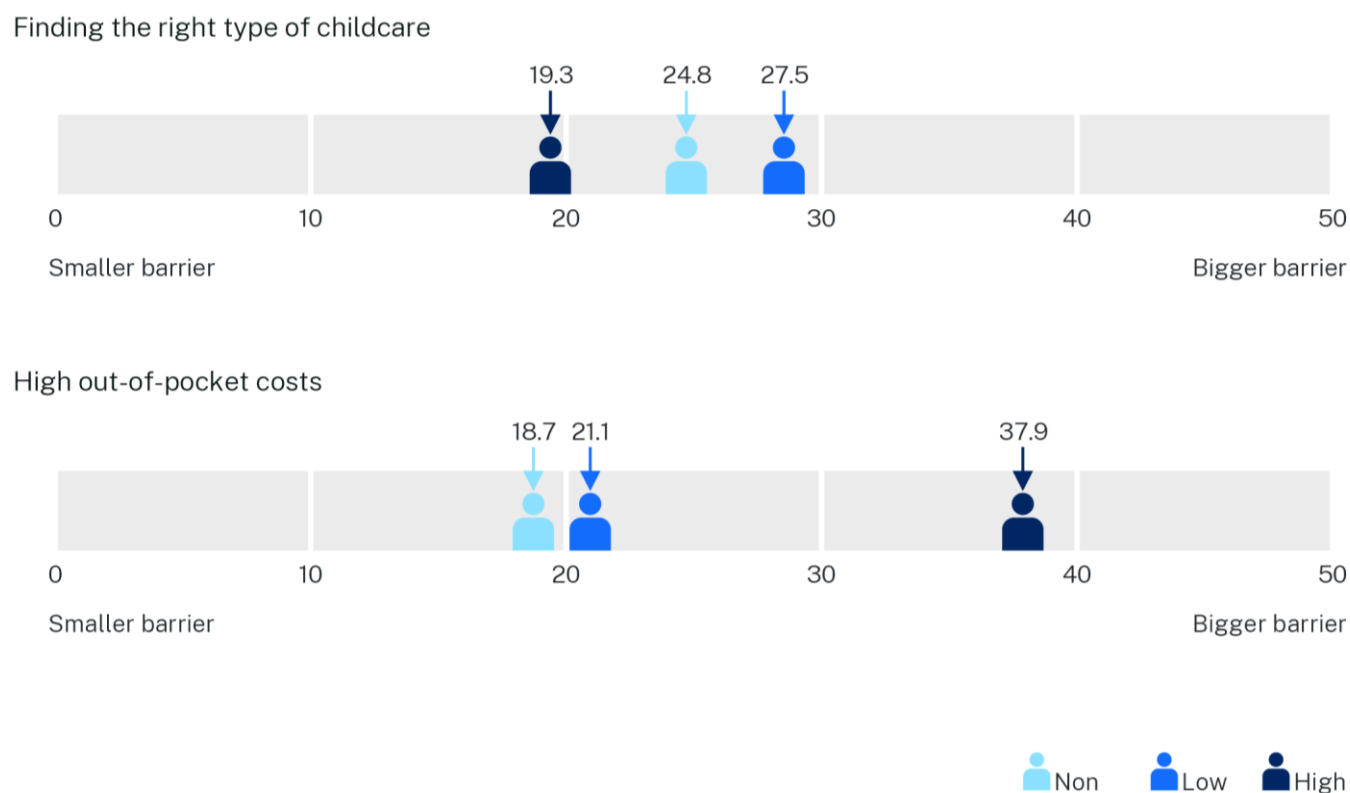
2.2 Choice of ECEC matters more than cost for many parents

The results of our BWS exercise also emphasise that out-of-pocket cost may not be the largest barrier to ECEC use (see Box 2 for further details on the BWS). Our survey results show that, for many parents, finding the right childcare provider is more important than out-of-pocket costs. Figure 4 compares whether finding the right type of childcare is a larger or smaller barrier than out-of-pocket costs. It plots the scores from the BWS exercise (see Technical Appendix, Section 5 for further details). The scores range from -100 to 100, with larger scores reflecting barriers that are relatively more important to ECEC use and lower scores for barriers that are less important.

For the average non-user or low user of ECEC services, finding the right childcare provider is a larger barrier to using ECEC than high out-of-pocket costs. Finding the right childcare provider includes finding providers of preferred type and size, with suitable operating hours, and providers that enable parents to juggle multiple childcare arrangements.

High users, meanwhile, reported that cost is a larger concern than finding the right type of care.

Figure 4: Finding the right type of care is more important than out-of-pocket cost for non-users and low users



Source: ECEC Survey 2023, NSW Productivity Commission; (see Technical Appendix, Section 5 for modelling details)

This result is important because it suggests that reducing costs by itself may not do much to boost the use of ECEC services for most households. While high users reported cost as their largest barrier, addressing the barriers of non-users and low users is likely to have the greatest impact on ECEC use. This is because households with no or limited ECEC use have more opportunity to increase their usage compared to households already using relatively more hours of ECEC. For non-users and low users, who have most scope to increase their use of ECEC, cost is a smaller barrier.

3 Parents value choice and flexibility

The NSW ECEC survey highlights, above all, that parents value choice and flexibility in their ECEC services. Families did not express a clear preference for a single mode of care. They value access to all types of care: long day care centres, family day care centres, and preschools. They also want ECEC services to be flexible in the operating hours and days they offer. And this preference is strongest among parents who have multiple children and shift-working parents.

3.1 Parents do not prefer any one type of ECEC provider

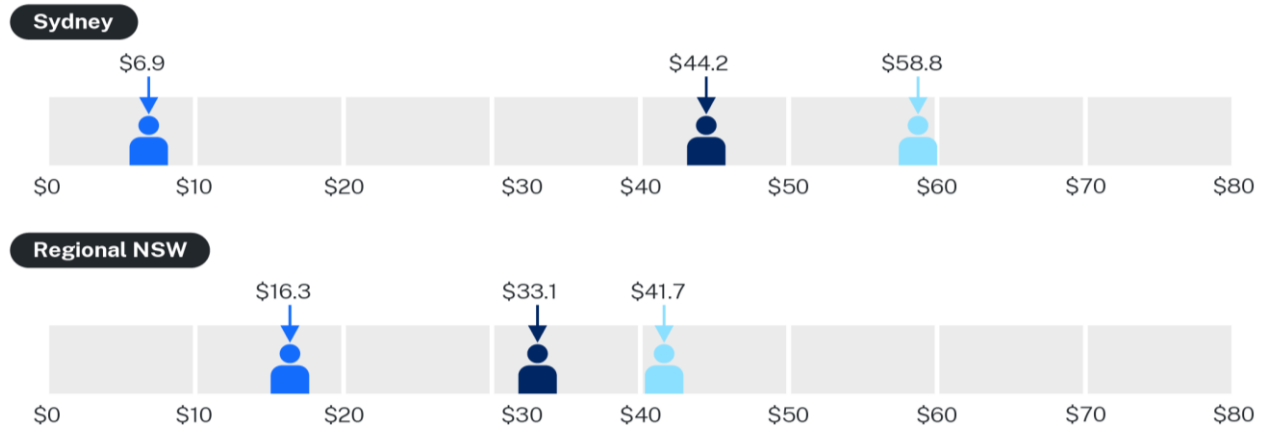
Our survey results show parents value a range of different ECEC providers, including long day care, family day care, and preschool, rather than one specific model of care. Parents would like a greater number of all types of ECEC providers so they can choose the one that best aligns with their needs.

Figure 5 presents estimates of the value that parents place on more long day care centres, family day care centres, and preschools. As outlined above, in the DCE we asked parents to make choices about whether they preferred more ECEC providers rather than lower out-of-pocket costs. We then calculated a willingness to pay based on these stated choices (see Technical Appendix, Section 4 for further details).

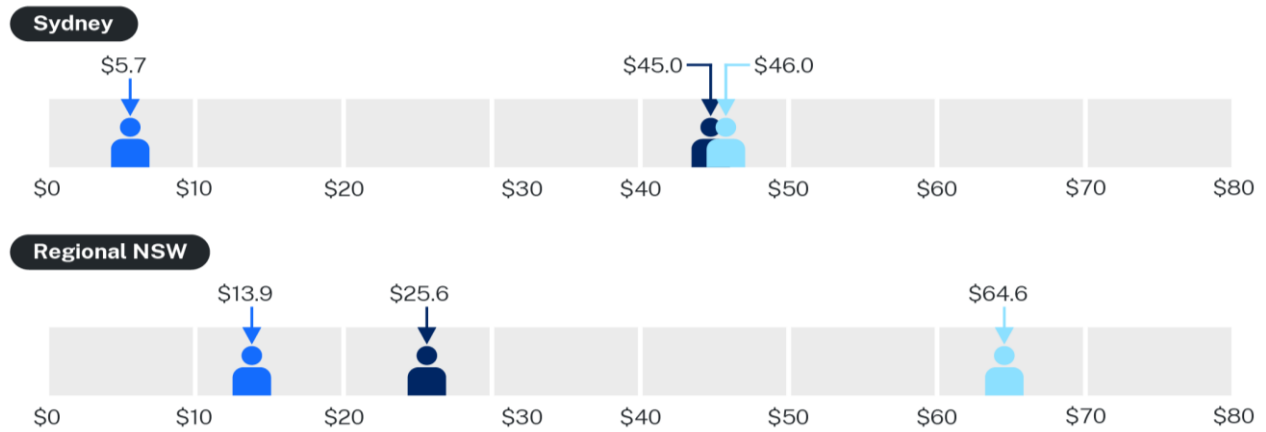
We can see that, within each user segment, the amounts parents are willing to pay for more ECEC providers do not differ substantially by provider type. For instance, non-users in regional New South Wales are willing to pay \$65 per day for more family day care centres and \$62 per day for more preschools. The demand we observe across a range of ECEC services is consistent with the literature, which suggests parents want greater availability of childcare places so they can select the option that best suits them and their children (Baxter et al. 2016).

Figure 5: Parents want to be able to choose the type of service that suits their family

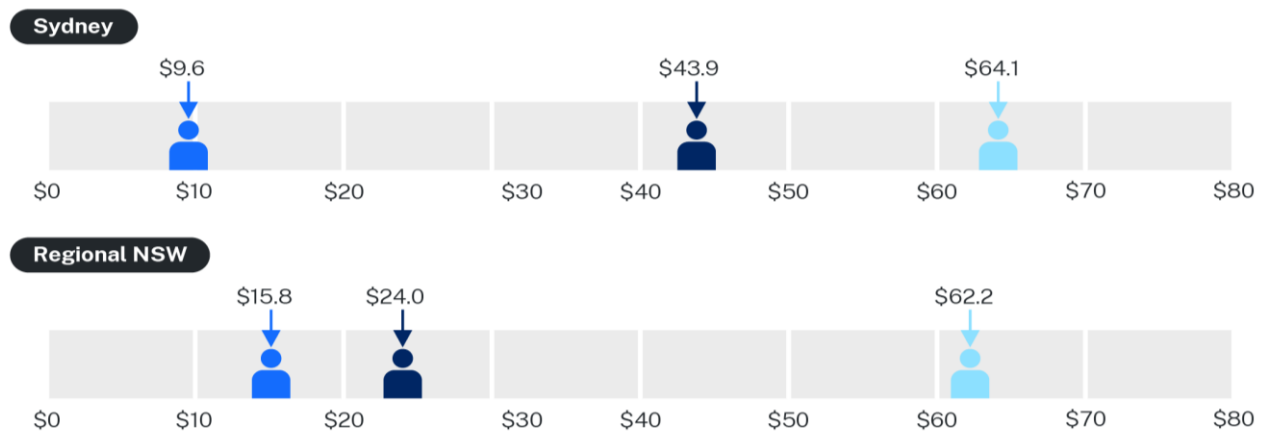
The amount parents are willing to pay per day to have more long day care centres (including those that offer preschool programs)



The amount parents are willing to pay per day to have more family day care centres



The amount parents are willing to pay per day to have more pre-schools (community based and operating from 9am-3:30pm in school terms)



● Non ● Low ● High

Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 4 for modelling details)

Interestingly, low users exhibit consistently lower willingness to pay for more ECEC centres. At first brush, the results seem surprising, but could reflect a few factors. Firstly, relative to non-users, these households already have a foot in the door at ECEC providers, and so have already overcome many of the barriers that are preventing non-users from accessing the market. Secondly, relative to both non-users and high users, low users are more sensitive to price than they are to measures that boost ECEC flexibility, choice, or quality (see Figure 3).

While each type of ECEC provider combines elements of both education and care, parents likely want variety because each type of ECEC provider has different features. Long day care centres usually offer 10 to 12 hours of care per day, making them more suitable to working parents with a typical 9am-5pm work schedule. By comparison, family day care centres provide a more home-like learning environment and cater for children up to 12 years of age. This type of care tends to be more flexible in catering for each family's needs, such as care outside normal working hours and overnight care for shift-working parents. Meanwhile, preschools offer planned educational programs for children before they commence school. For this reason, however, it is only available for children between 3 and 5 years of age.

Parents also have views on the benefits of each provider type. For instance, Hand (2005) found mothers who place more value on structure and learning tend to prefer centre-based day care, whereas mothers who want a home-like experience tend to prefer family day care.

These results suggest difficulty accessing the right type of ECEC is a barrier for non-users and low users. Potential policy implications are discussed in Chapter 8.

3.2 Parents want flexibility

Parents also told us flexibility is important to them. Our survey results show parents rank finding suitable providers as the third biggest barrier to using ECEC, after high out-of-pocket costs and uncertainty about these costs. 'Suitable providers' here means those that have suitable operating hours and/or can accommodate flexibility in required days.

The finding that flexibility is important is consistent with previous studies which found parents experienced difficulties accessing ECEC services at times that worked best for them (Hand et al. 2014; Beatson et al. 2022; Baxter et al. 2016).

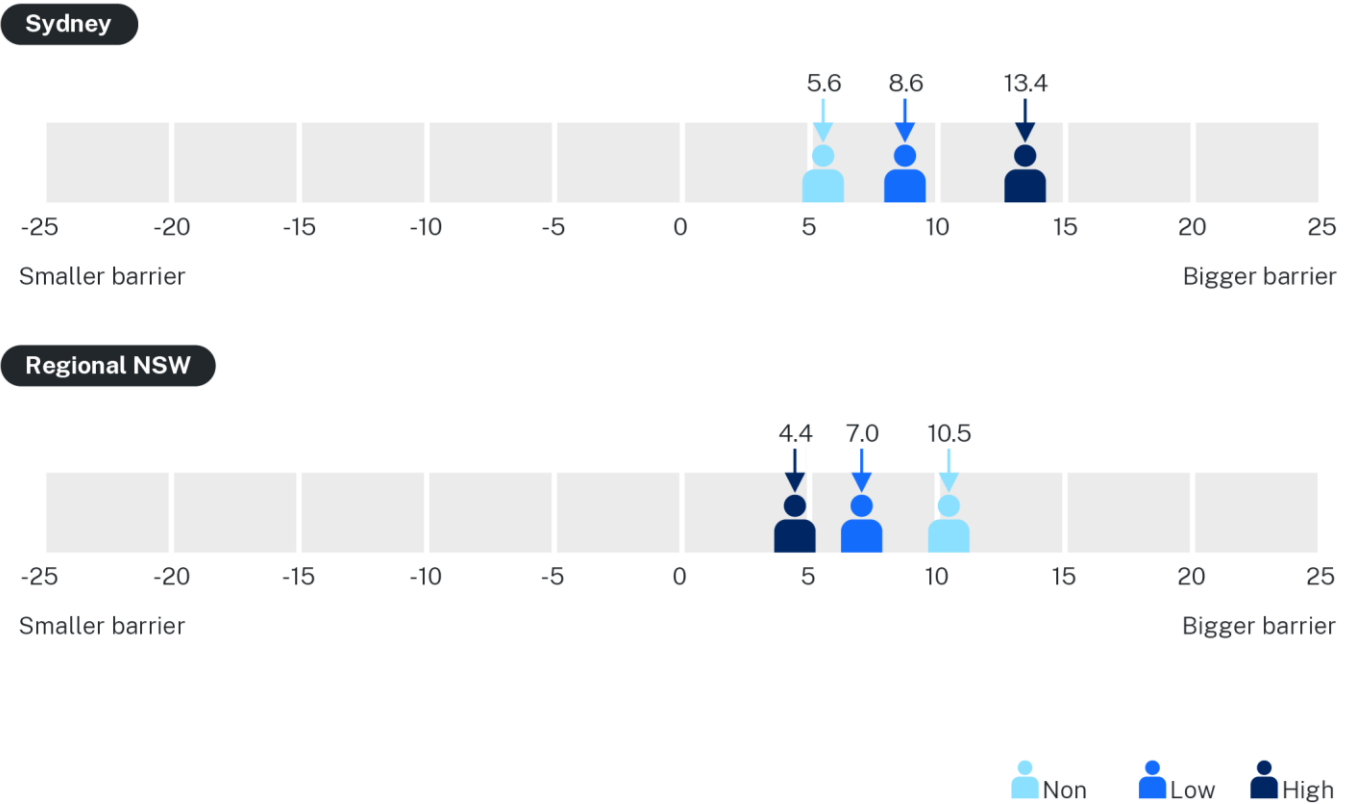
Figure 6 shows the BWS results by ECEC usage level and location for the barrier of 'finding providers with suitable operating hours and/or that can accommodate flexibility in required days' (see Technical Appendix, Section 5 for further details).

One thing stands out in these results: the difference between user groups in Sydney and in regional New South Wales. For Sydneysiders in particular, as their ECEC usage increases, finding providers that offer suitable operating hours and/or can be flexible in the required days becomes more of a barrier to their ECEC use. By contrast, non-users in regional New South Wales have greater difficulty finding flexible providers, and this becomes less of an issue as households use more hours of care.

This tells us that households in regional areas have a greater need for flexibility to enter the ECEC market. This may be because there is a greater proportion of shift workers — people who do not work regular daytime hours — in regional New South Wales who require flexibility to navigate their changing work schedule.

Figure 6: Lack of flexibility among providers is a key barrier to ECEC use

Cannot find providers with suitable operating hours and/or can accommodate flexibility in required days



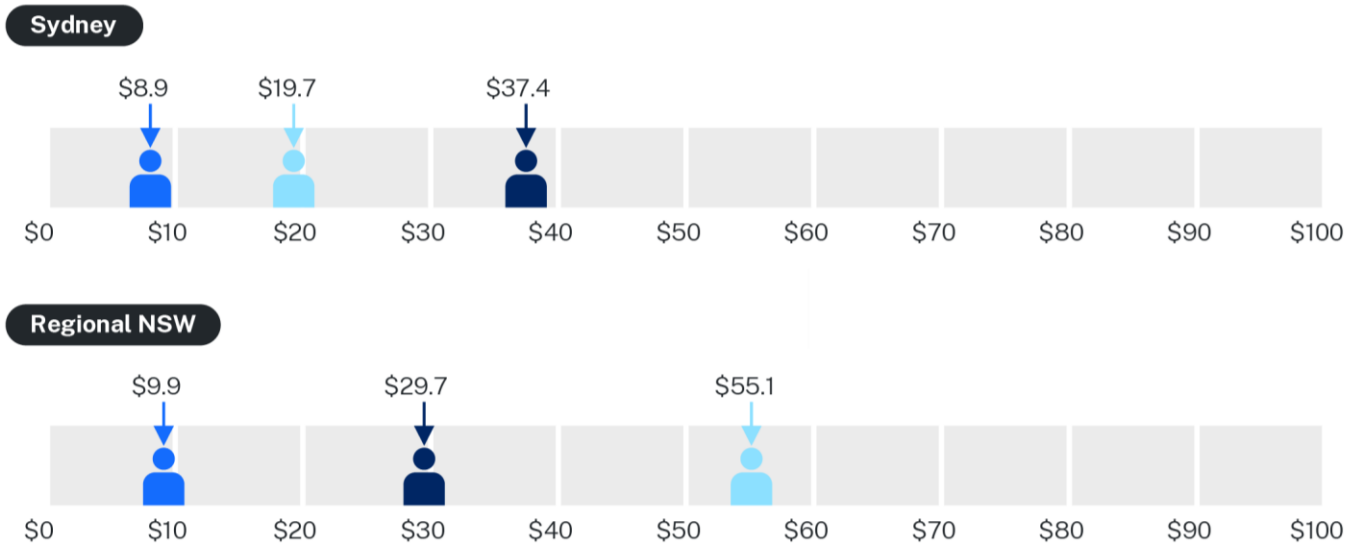
Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

Our results also show that parents value ECEC services operating for longer hours and outside traditional working hours.

Figure 7 displays the DCE results by ECEC usage level and location; it shows that non-users in regional New South Wales are willing to pay the most for greater flexibility in ECEC hours (see Technical Appendix, Section 4 for further details).

Figure 7: Parents have high willingness to pay for greater flexibility in ECEC services

The amount parents are willing to pay per day to have longer opening hours



The amount parents are willing to pay per day to have ECEC centres operating outside traditional working hours (e.g. nights, weekends)

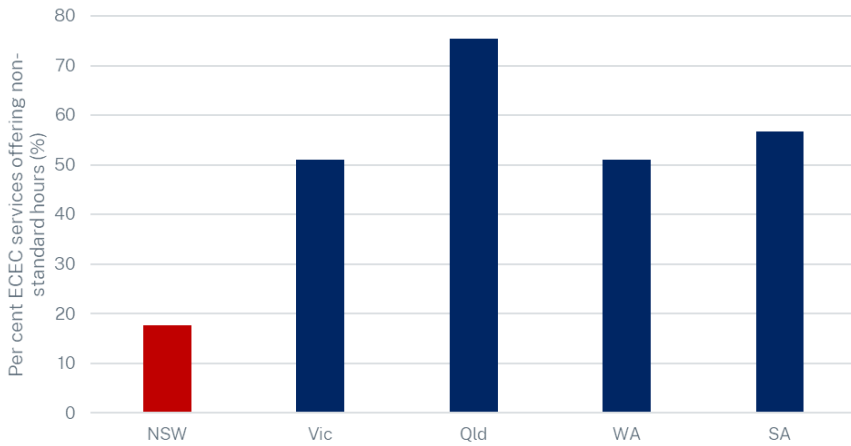


Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 4 for modelling details)

Our survey highlights an important point. Among the major Australian states, New South Wales has by far the lowest proportion of ECEC centres offering services with flexible hours (see Figure 8). Less than 20 per cent of NSW centres offer flexible opening hours, compared to more than 50 per cent in Victoria, Queensland, Western Australia, and South Australia.

This lack of flexible care options is making ECEC access – and life – more difficult for NSW families. That is particularly true for families whose schedules do not fit the norm. In Chapter 8 we highlight the planning regulations that might be driving this lack of flexibility in New South Wales, relative to other Australian states.

Figure 8: Proportion of ECEC centres offering flexible hours, across jurisdictions

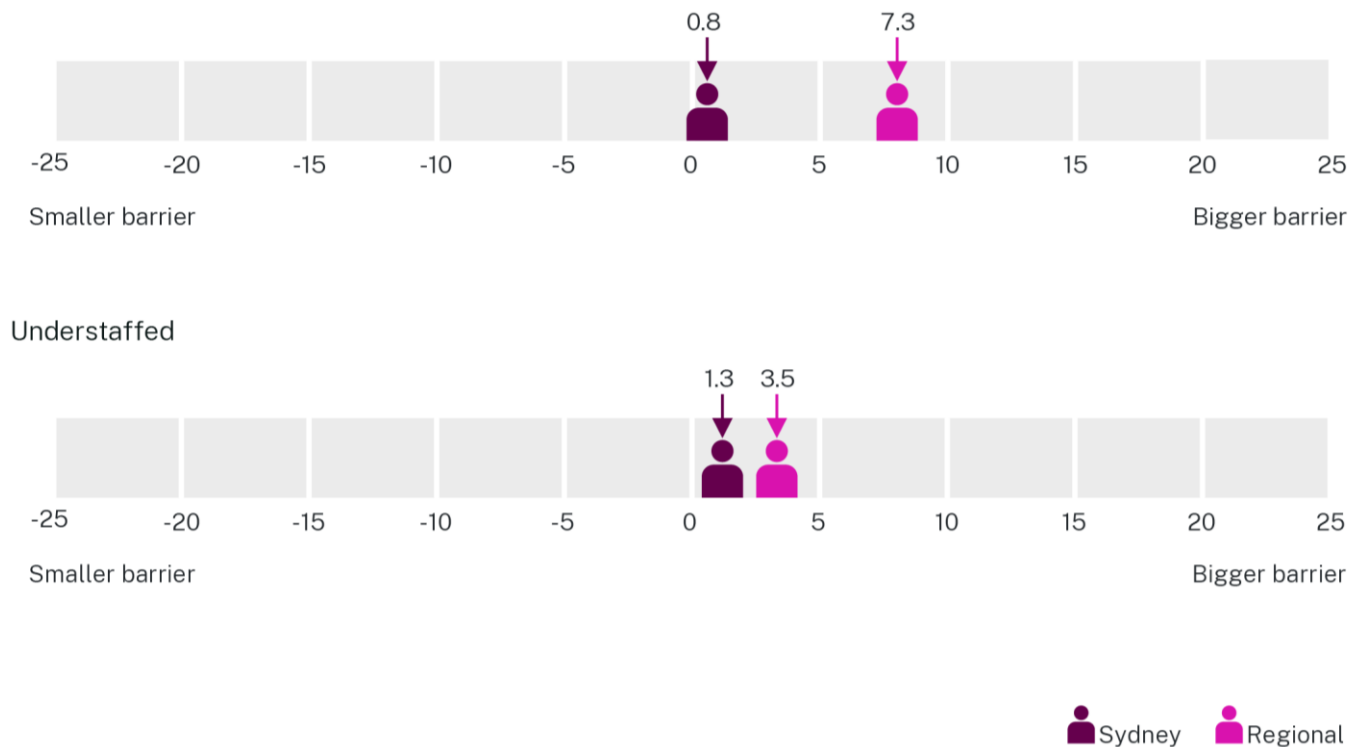


Note: Refers to the proportion of Australian Government Child Care Subsidy approved centre-based day care services that are available during non-standard hours (before 7am on weekdays, after 6:30pm on weekdays, or on weekends)
 Sources: Commonwealth Productivity Commission (2023b) using data from the Australian Government Department of Education (unpublished) Child Care Subsidy System

3.3 It is difficult to access ECEC, particularly in regional New South Wales

Our survey results show many parents – particularly those living outside of Sydney – find it difficult to access available places at ECEC providers of their choice and report long waiting times. Figure 9 shows that 'accessing a place at the service provider' is a larger barrier for parents in regional New South Wales than for those in Sydney (see Technical Appendix, Section 5 for further details).

Figure 9: Parents in regional New South Wales find it harder to get the places they want
 Cannot access a place at the service provider of choice (i.e. long waiting list)



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

This is consistent with research that finds 61 per cent and 85 per cent of the Australian population in outer regional and remote areas respectively, live in areas with more than three children per childcare place, compared to 29 per cent of the population in major cities (Hurley et al. 2022). Other qualitative studies similarly conclude that ECEC access is a bigger issue in regional and rural areas (Hand 2005; Morda et al. 2000). Hand (2014) finds:

‘High demand for ECE places in some areas left parents having to accept options that were not their first preference, or in a small number of cases meant children had not attended an ECE program’

Hand et al. 2014, p. X

Parents and carers may find it more difficult to access ECEC in regional New South Wales given lower population densities, which naturally increase the distance households must travel to access services. However, ECEC services have reported persistently lower vacancy rates in regional areas compared with metropolitan areas in New South Wales.³ This suggests that the ECEC access issues in regional areas may reflect a persistent undersupply of ECEC services.

One commonly cited reason for shortages in regional areas is a lack of staff (Australian Childcare Alliance 2022). Our survey results support this, showing that understaffing is more of an issue for parents in regional New South Wales than for those in Sydney (see Figure 9).

The undersupply of ECEC services in regional areas may partly reflect the innate challenges in providing services in areas with lower population densities. But, as discussed in Chapter 8, unnecessary regulatory costs disproportionately affect access in regional areas. This is because some ECEC services, such as large-sized long day care providers, may not be economically viable in small towns. Smaller ECEC providers (such as family day care) are more prevalent in regional areas, and they are disproportionately impacted by the costs of regulatory barriers in opening and maintaining an ECEC service.

³ Based on the 2016 and 2021 National Workforce Census, regional New South Wales have experienced persistently low vacancy rates. Roughly half of all Local Government Areas (LGAs) in regional New South Wales experienced vacancy rates below five per cent in 2016. This figure has persisted through to 2021.

4 Parents are uncertain about the cost and availability of ECEC services

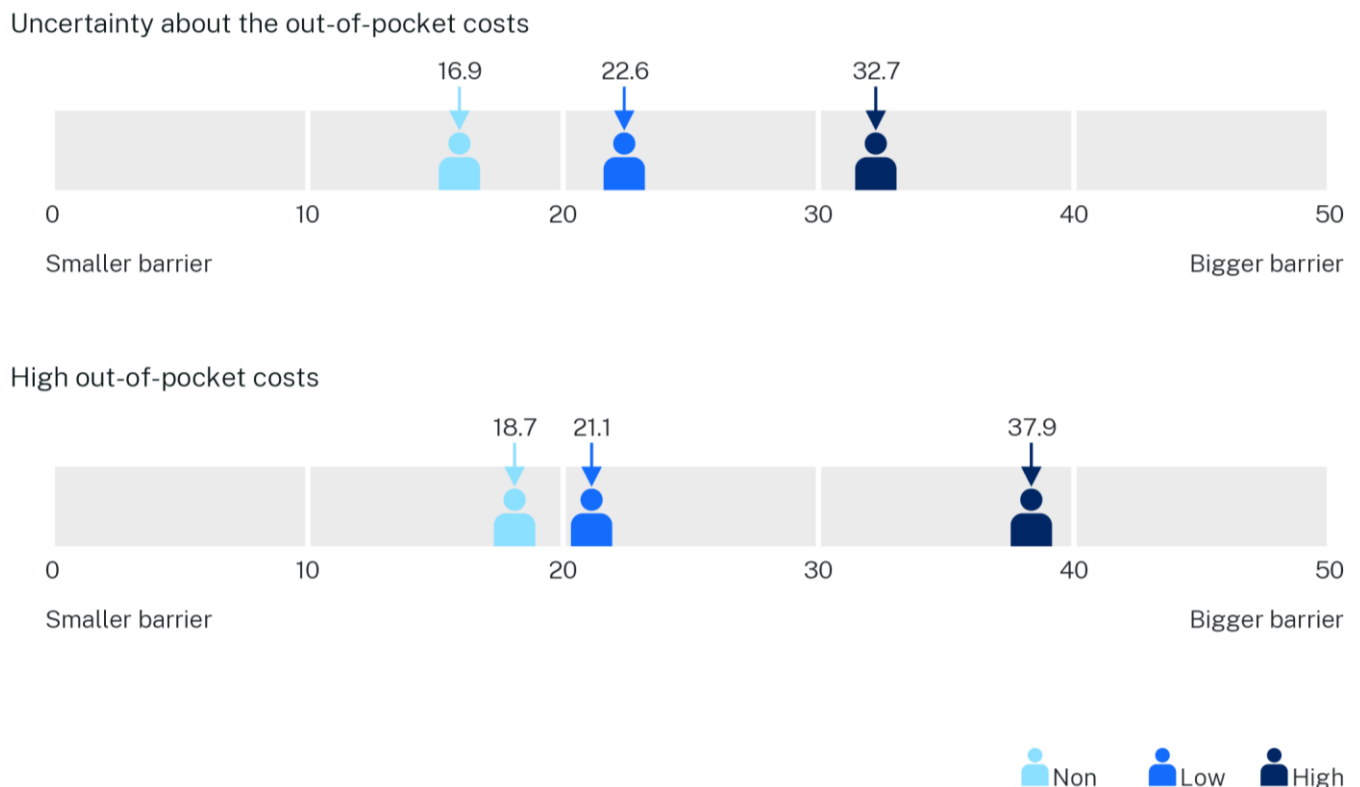
Our survey confirms that access to clear and accurate information is a barrier to using ECEC. This is partly due to the complexity of childcare subsidies. These subsidies have varying eligibility criteria, and depend on forecasting household income, which makes it more difficult for households to factor childcare costs into their budgeting decisions.

4.1 Information on ECEC costs is hard to understand

Our survey results show all parents struggle with uncertainty around their out-of-pocket costs. In fact, parents told us that the *uncertainty* of cost was almost as large a barrier as the *level* of cost.

Figure 10 presents the BWS results for the ‘uncertainty about out-of-pocket costs’ and ‘high out-of-pocket costs’ barriers (see Technical Appendix, Section 5 for further details). We can see that *uncertainty* about out-of-pocket costs is almost as big a barrier as the *level* of out-of-pocket costs for non-users. And it is even more of a barrier for low users. If households using ECEC are struggling to understand their out-of-pocket costs, then presumably prospective parents would have even greater difficulty in trying to determine whether they can afford to use ECEC services.

Figure 10: Uncertainty of cost is almost as important as cost itself



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

These findings align with qualitative research from the Smith Family (2021), which states that:

‘Families often do not understand their out-of-pocket expenses for ECE, which impacts their ability to make an informed choice’

The Smith Family 2021, p. 7

Understanding how ECEC costs will impact the household budget is no trivial matter. This can hinder the ability of parents to make informed decisions regarding childcare and employment trade-offs.

Several issues make it difficult for families to estimate the out-of-pocket cost of ECEC.

Firstly, the national Child Care Subsidy (CCS) is complex. The amount received by a household will depend on the family’s income, the hourly rate cap based on the type of approved childcare used and child’s age, hours of activity of parents, and the number of children in the household. Estimating the CCS is difficult when there is significant uncertainty in a family’s income, which may be particularly pressing for parents who are self-employed or shift workers. CCS rates also change over time. This adds another layer of complexity on top of the challenges in navigating the Centrelink application process to access the CCS.

Secondly, state-based subsidies are also provided to some households, and the size and eligibility criteria have changed over time. For example, NSW parents who have children attending a preschool program at a long day care provider are eligible for funding, additional to CCS, under the Start Strong for Long Day Care 2023 program. This provides an annual allocation per enrolment for eligible children as a weekly reduction to their session fee after the CCS has been applied.

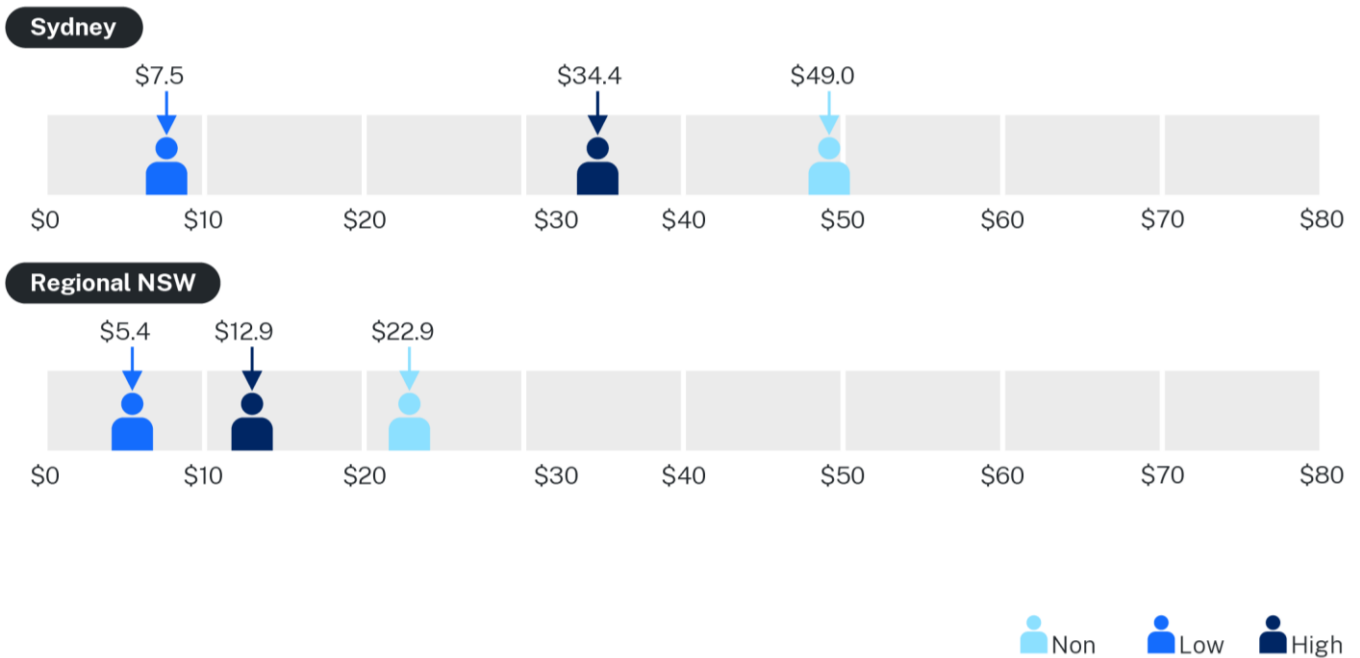
4.2 Families would benefit from online comparison tools

Online tools can help to identify and compare availabilities, waitlists, and costs of ECEC providers, among other things. Our survey results show that parents, particularly those in Sydney, value such online tools.

Figure 11 shows the DCE results by ECEC usage level for creating and increasing awareness of such tools (see Technical Appendix, Section 4 for further details). It shows that non-users and high users in Sydney would be willing to give up \$49 and \$34 respectively in daily out-of-pocket subsidies in exchange for an online comparison tool.

Figure 11: Parents value online tools to help identify and compare costs and availabilities of ECEC providers

The amount parents are willing to pay per day to have online tools that help identify and compare availabilities and costs of different ECEC



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 4 for modelling details)

The strong demand for online tools that Sydneysiders exhibit likely reflects the broader array of nearby services, meaning parents need to process more information and face more contingencies. In comparison, the valuations of regional respondents were more modest. This may reflect the fact that fewer ECEC services in regional areas limit the usefulness of comparison tools.

Better online tools may help alleviate ECEC access issues if they enable parents to identify available places more easily. In addition, online tools may help reduce the uncertainty regarding the out-of-pocket costs of ECEC, by providing parents with simple, accurate, and timely information.

The high willingness to pay for online tools aligns with our findings during the household interviews. In these interviews, parents expressed interest in tools offering simplified information and giving greater transparency of costs and availability of childcare centres. Participants indicated they were not aware of any online tools or that they were often out of date or difficult to use.

5 Some families have specific needs and preferences

The survey results remind us that some parents have specific needs based on their cultural background, family circumstances, and personal beliefs. While some of these may be addressed through policy, others reflect inherent preferences or barriers that are difficult or costly to overcome. The results indicate that there is still an important role for home-based care options.

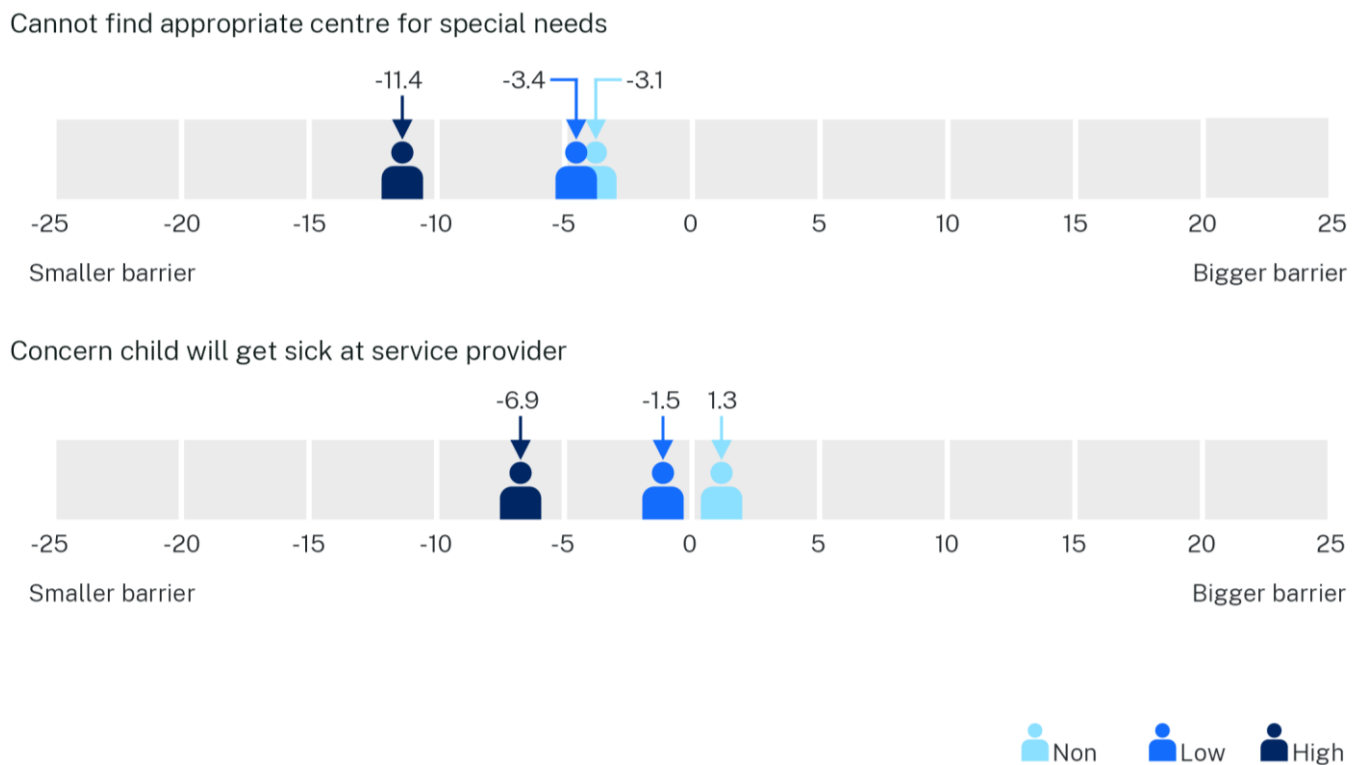
5.1 Families with children with serious health issues may struggle to find suitable ECEC services

Parents who have children with serious health issues and additional needs, like developmental disorders or other disabilities, may also struggle to engage in ECEC services.

Our survey results show that major health issues occurred more often in children of non-users (3.5 per cent) and low users (4.2 per cent) than in children of high users (2.2 per cent) (see Technical Appendix, Section 3.3 for further details).

Figure 12 presents the BWS results by ECEC usage levels for the ‘accessing an appropriate centre for a child with special needs’ and ‘concern child will get sick at service provider’ barriers (see Technical Appendix, Section 5 for further details). Relative to high users, non-users and low users rank ‘accessing an appropriate centre for a child with special needs’ and ‘concern child will get sick at service provider’ as bigger barriers to ECEC.

Figure 12: Families can struggle to access ECEC services for children with special needs



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

This also came through in our willingness-to-work results (see Chapter 7). Parents who do not use ECEC services told us addressing their concerns that their child will get sick at an ECEC provider would have a significant impact on their willingness to work or to work more hours.

As one mother explained in the household interviews:

‘I’m currently looking after my child with a complex health condition. I would like to get back into the workforce but there are no centres that provide the appropriate care that he needs.’

Regional New South Wales, father works full-time, mother not working

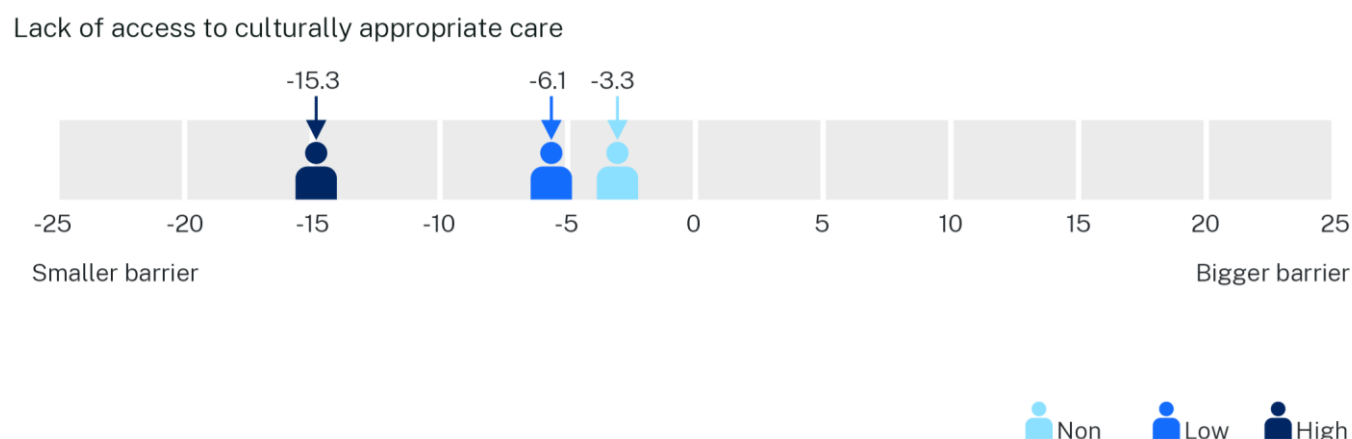
5.2 Access to culturally appropriate care is one of many barriers faced by families

A lack of access to culturally appropriate care may be a barrier to ECEC use for some Aboriginal and Torres Strait Islander and Culturally and Linguistically Diverse (CALD) families.

Our survey results show that 16 per cent of non-users and 15 per cent of low users identify as Aboriginal and Torres Strait Islanders, compared to 10 per cent of high users. Similarly, 20 per cent of non-users speak languages other than English at home, compared to 16 per cent of low users and 14 per cent of high users (see Technical Appendix, Section 3.2 for further details).

Figure 13 displays the BWS results by ECEC usage level for the ‘access to culturally appropriate care’ barrier (see Technical Appendix, Section 5 for further details). We see that non-users and low users rank a lack of access to culturally appropriate care as a bigger barrier than high users. However, the negative scores suggest that while this issue is relatively more important for non-users and low users, it is not generally at the front of parents’ minds when they consider the barriers to ECEC usage.

Figure 13: Non-users and low users are more likely to view a lack of access to culturally appropriate care as a barrier



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

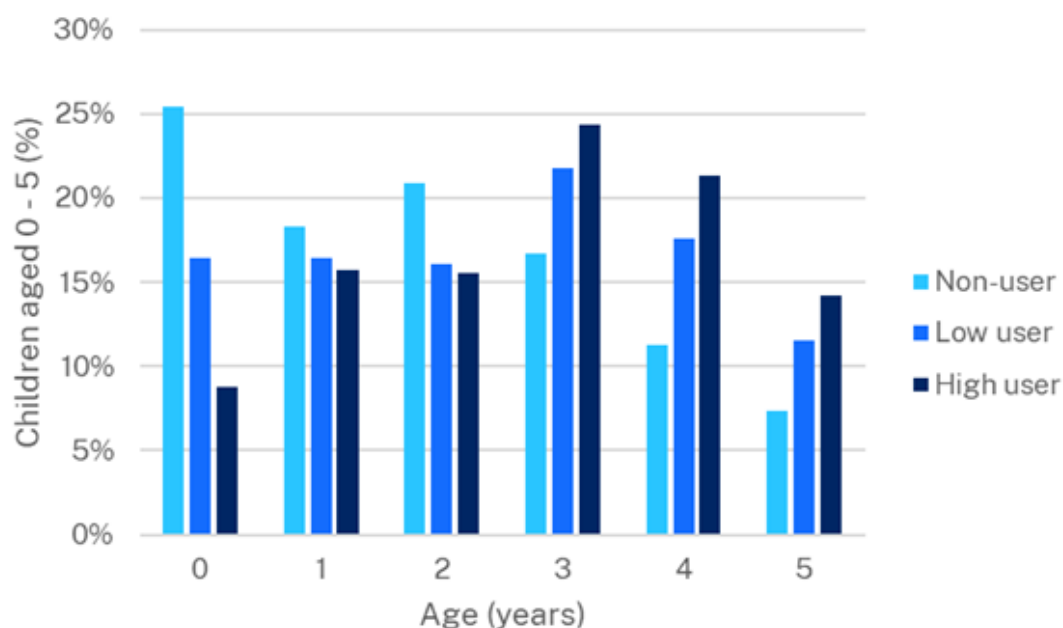
Looking specifically at First Nations respondents, we find that cultural concerns are indeed a larger barrier than for non-Indigenous parents (see Technical Appendix, Section 6.3 for further details). However, what emerges as the primary barrier for First Nations families is gaining access to the right type of childcare. As such, while attention should be paid to the provision of culturally appropriate care, First Nations families will also benefit from measures that promote flexibility and choice in ECEC services more broadly.

5.3 Some families prefer not to use ECEC services

Some families are less likely to use ECEC services – even if barriers to access are removed – because they prefer to take care of their children themselves. Women are more likely to take on the caring responsibilities of their children (Tan et al. 2022).

For some parents, this is because one or more of their children are infants and they are on parental leave, meaning they are unlikely to be interested in using ECEC services. Our survey results show that non-users are more likely to have younger children, compared to low and high users (Figure 14) (see Technical Appendix, Section 3.3 for further details).

Figure 14: Non-users have younger children



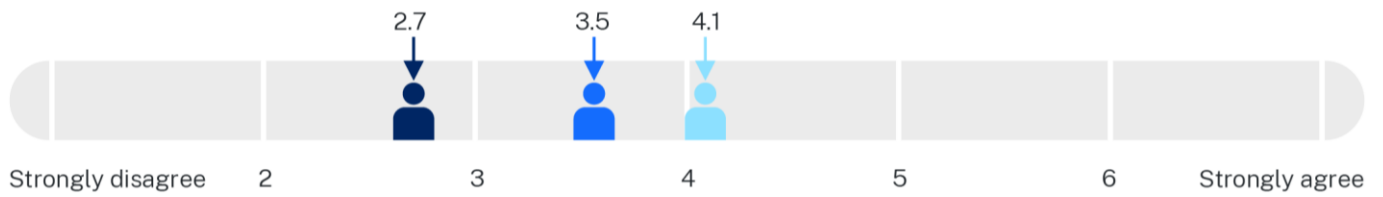
Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 3.3 for summary statistics)

For non-users with older children, the results may reflect that they hold more traditional views around parental roles, and/or that they view ECEC use as an inferior option.

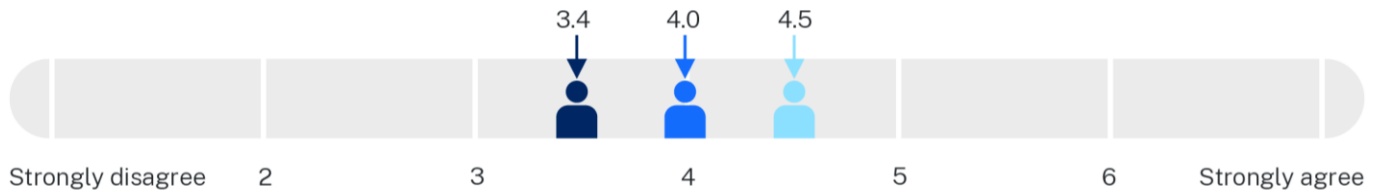
Figure 15 presents the results of a section in the survey on parental role perceptions (see Technical Appendix, Section 3.4 for further details). We asked parents how strongly they agreed or disagreed with a series of statements, where 1 meant ‘strongly disagree’ and 7 meant ‘strongly agree’. We can see non-users tend to hold more traditional views; they are more likely to agree that a woman’s role is in the home; that a child will suffer if both parents work full-time; and that they prefer to look after their child themselves. Correspondingly, 16 per cent of non-users report they are not working due to home duties or other commitments, compared to 12 per cent of low users and 6 per cent of high users.

Figure 15: Non-users have more traditional views around parental roles

I believe that it is better for everyone involved if the man earns the money and the woman takes care of the home and children



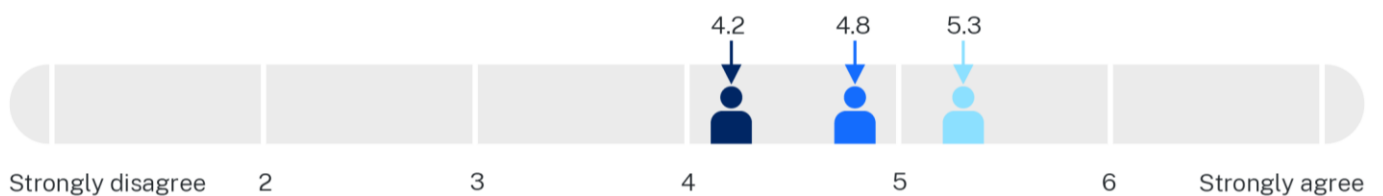
A preschool child is likely to suffer if both or only parent work full-time



I and/or my partner prefer to look after child(ren)



My preference is for family to look after child(ren)



Non Low High

Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 3.4 for modelling details)

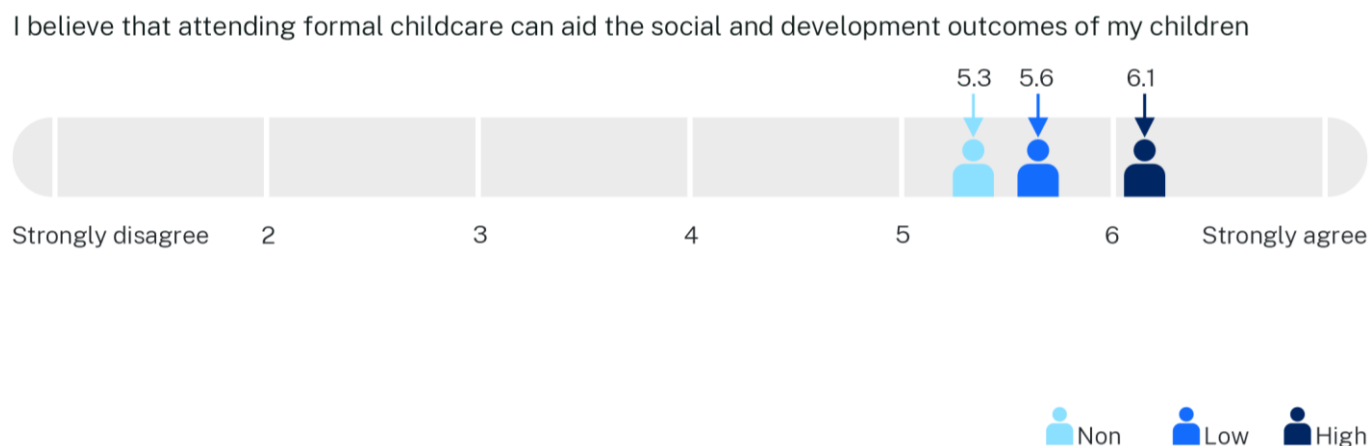
These views also came through in our household interviews. As one mother explains:

‘My child goes to day care three days a week. I would prefer my family to be looking after my child; formal day care is my last resort.’

Sydney, single mother working full-time

Non-users are also more sceptical about the benefits of ECEC. Our survey shows non-users are less likely to agree that attending formal childcare can aid in the social and development outcomes of their children (Figure 16) (see Technical Appendix, Section 3.4 for further details).

Figure 16: Non-users are less likely to agree that attending formal childcare can help their children’s social and development outcomes



Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 3.4 for modelling details)

These results indicate attempts to increase ECEC usage may be constrained by the personal values and preferences of non-users and low users.

This is of note, given that these groups tend to have lower incomes and levels of educational attainment compared to high users (see Section 1.3), meaning their children may benefit more from ECEC usage in the long-term. Many studies have reported on the benefits of ECEC use for children from disadvantaged populations (Campbell et al. 2002; Hanh et al. 2016). For example, Campbell et al. (2002) reported on the long-term outcomes of the Abecedarian Project. The study found preschool gave long-term benefits to children from low-income African American families by raising their intellectual performance, academic skills, self-sufficiency, and social adjustment. On the other hand, for children from advantaged backgrounds, it is harder to disaggregate the benefits of ECEC use, given household income and a parents’ educational attainment also play a part (Idris et al. 2020; Dahl and Lochner 2012). This tells us that both ECEC use and family circumstances could play a part in a child’s educational, social, and health-related outcomes. Potential policy implications are discussed in Chapter 8.

6 Families are satisfied with the quality and location of care

Our survey shows that the quality and location of ECEC services are generally not a barrier to usage. Compared to other barriers, parents rate the quality of the provider, facilities, and staff as low barriers to ECEC use. Parents generally do not have an issue with the location of ECEC services, rating this as a low barrier across the board.

6.1 Quality is not a major barrier to ECEC use

Parents need to have confidence that ECEC services will provide a safe and nurturing environment for their children. We asked parents about how a range of aspects of ECEC quality – like the quality of the provider, facilities, and staff – influenced their decisions.

Figure 17 displays the BWS results by ECEC usage levels for the quality of provider, facilities of childcare provider, and staff and teaching barriers (see Technical Appendix, Section 5 for further details). It shows that all scores are close to or less than zero. This indicates that quality is not as big a concern to parents as other barriers, such as finding the right provider.

We can also see that, relative to other measures of quality, parents are least worried about the quality of facilities and most concerned about the quality of the provider. The latter includes understaffing, bad community feedback, insufficient clean and/or safe environment, and inappropriate food choices.

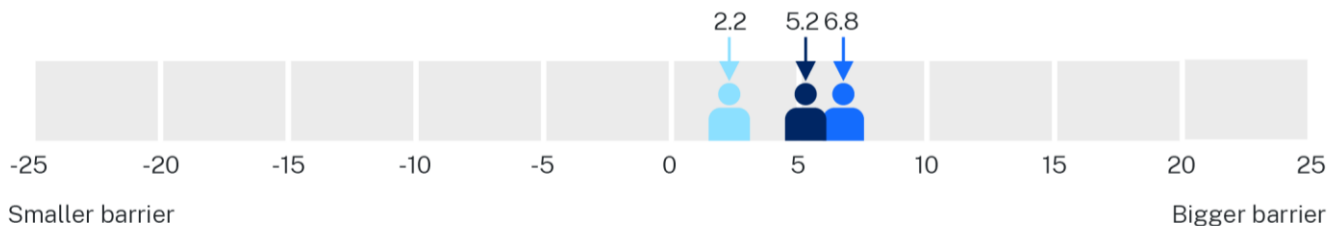
We also asked parents about the value they place on more qualified and trained educators. We found that parents are willing to pay to increase formal qualification requirements and formal training support for staff. But we also found that the amount they elect to give up is, in most cases, lower than their willingness to pay to remove other barriers (see Technical Appendix, Section 4 for further details). This indicates that quality is likely not a priority for them, and suggests regulation is sufficient – and could potentially be streamlined. Given quality is generally a lesser concern, there may be scope for the government to enact measures to reconfigure staffing regulatory and qualification requirements to address the current shortfalls in the ECEC workforce (see Chapter 8).

6.2 The location of services is the smallest barrier to ECEC use

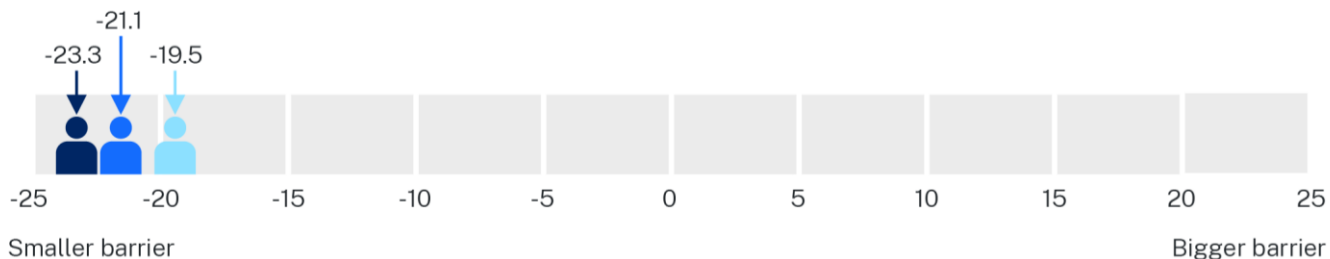
Parents do not appear to have issues with the location of ECEC services in aggregate. Our survey results show that the location of childcare – which includes inconvenient/long travel time and no access to suitable transport to/from childcare provider – is the smallest barrier to ECEC use for all users. We also find that parents are willing to pay relatively low amounts across the board for more ECEC centres close to transport hubs, such as major train stations. However, we acknowledge that the location of ECEC services is a barrier for some parents.

Figure 17: Quality of provider is the most important aspect of ECEC quality

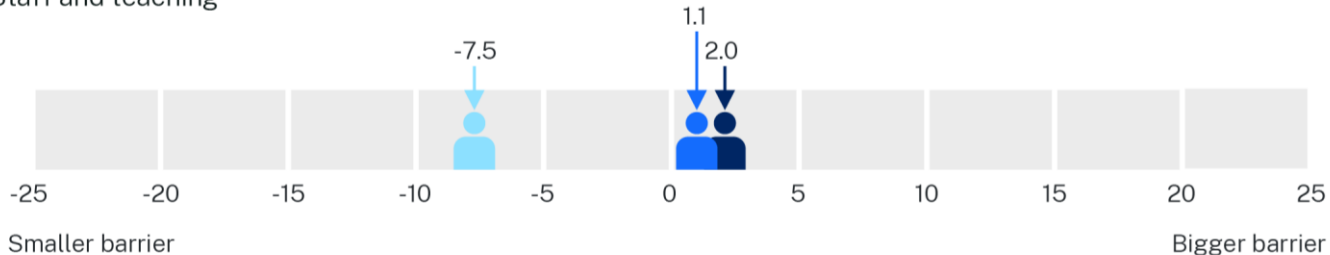
Quality of provider



Facilities of provider



Staff and teaching



Non Low High

Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 5 for modelling details)

7 Addressing ECEC barriers may only modestly boost workforce participation

Improving parents access to affordable ECEC is often cited as a key policy lever that can support workforce participation, particularly for women (2021-22 NSW Intergenerational Report; Tan et al. 2022).

We asked parents to tell us how the barriers to accessing ECEC services are affecting their *willingness to work* (see Technical Appendix, Section 3.6 for further details). While financial considerations are at the front of parents' minds, a lack of choice and flexibility can also be a handbrake for non-users and low users. At the same time, the results reinforce the importance of family circumstances and parental preferences in shaping workforce decisions.

Collectively, the willingness-to-work results are broadly consistent with other survey results, which suggest that addressing the barriers to ECEC usage would make it easier for parents to continue working. But given the relatively high usage of ECEC in New South Wales, when taken together, the survey results suggest that addressing barriers may only modestly increase workforce *participation*.

A data caveat is that we did not ask parents how addressing barriers would impact their actual employment decisions, because this would be difficult to do reliably. A parent's willingness to work is unlikely to have a one-for-one mapping to actual workforce decisions, which are determined by a range of other factors.

7.1 Financial considerations are front of mind for parents with young children

We asked respondents to select which barriers to accessing ECEC services, if sufficiently addressed, would impact their willingness to work or work more hours.

In Table 1, we then calculated the percentage of respondents who selected each barrier. A higher percentage indicates the barrier was reported more frequently as impacting respondents' willingness to work. Table 1 shows:

- Out-of-pocket cost is important to parents. This is consistent with previous research that has asked parents similar questions.
- Choice and access challenges may impact on parents' willingness to work, particularly for those in regional New South Wales. These challenges include the inability of parents to find a provider of a preferred type, and inability to find a place at the service provider of choice. The workforce participation of parents may also be constrained by the inability to find providers with suitable operating hours.
- The quality of providers was reported by a high share of parents as a barrier that constrains their ability or willingness to work more hours. While many parents may consider quality as a barrier, the weight placed on them is generally small. This is reflected by parents ranking quality low relative to other ECEC barriers, and ranking the value placed on policy options to increase quality as low relative to other policy options.

However, when considered in light with our other survey results, we identified some limitations in linking parents' reported willingness-to-work to policy solutions:

- High users tend to report costs are a bigger drag on workforce decisions than for low or non-users. Yet it is not a high enough barrier to actually discourage them from using childcare in practice. And many high users have less capacity to increase their participation as they are already in the workforce. The large portion of high users reporting cost as a barrier may also reflect the high workforce disincentive, as some parents can take home as little as 25 cents for each additional dollar earned from working (Tan et al. 2022). This reflects parents' take-home pay being reduced by taxation, net childcare costs, and loss of or reduction in Australian Government transfer payments (such as the Family Tax Benefit).
- The exercise considers each barrier in isolation. When we ask the same parents to decide between price and other factors, the DCE shows that parents' care decisions are less influenced by out-of-pocket costs than by other factors (see Chapter 2). The BWS scores also show that access issues can be as important as out-of-pocket costs, if not more important.

Table 1: Ten largest barriers to workforce participation

Barrier	Non-user	Low user	High user
High out-of-pocket costs	51.2%	60.2%	68.8%
Uncertainty about the out-of-pocket costs	31.1%	31.3%	30.9%
Cannot find providers with suitable operating hours and/or can accommodate flexibility in required days	23.9%	34.0%	34.3%
Understaffed	26.6%	32.8%	32.7%
Concern child will get sick at service provider	30.4%	27.6%	25.5%
High staff turnover/inconsistency in carers	20.8%	27.7%	31.5%
Unqualified carers/educators	24.5%	24.2%	25.4%
Cannot access a place at the service provider of choice (i.e. long waiting list)	21.0%	22.9%	29.8%
Lack of bond formed between child and carer	23.0%	25.1%	22.9%
Insufficiently clean and/or safe environment	23.4%	23.8%	22.7%

Source: ECEC Survey 2023, NSW Productivity Commission (see Technical Appendix, Section 3.6 for modelling details)

7.2 ECEC-related issues are not the only determinants of parental workforce decisions

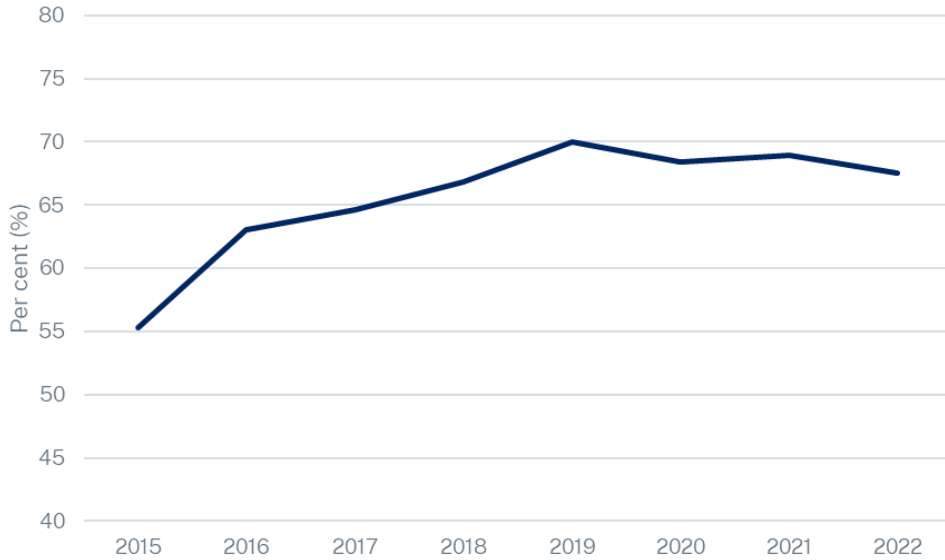
Our survey results show that not all parents are out of the workforce due to ECEC service-related reasons. Some parents may simply prefer to look after their children, may perceive their children as too young for ECEC, or may be on maternity/paternity leave. The survey also shows that concern that a child will get sick is a large barrier on parents' willingness to work more hours across all users (Table 1). The results may also reflect the reality that parents will have to take time out of work to care for their sick children, and that the perceived risk of this happening increases when children attend ECEC. These concerns are difficult for policymakers to address.

The survey results are consistent with data from the Australian Bureau of Statistics (ABS). The ABS data shows most parents report that they are out of the workforce because they prefer to look after children. In New South Wales in 2021, around 70 per cent of parents who were not working because

they were caring for children did so for reasons that are not ECEC service-related (Figure 18). This proportion has increased over time.

Figure 18: More parents are out of the labour force for non-childcare reasons

NSW parents not in the labour force for non-ECEC-related issues (including personal preference), as a proportion of all those not in the labour force due to caring for children

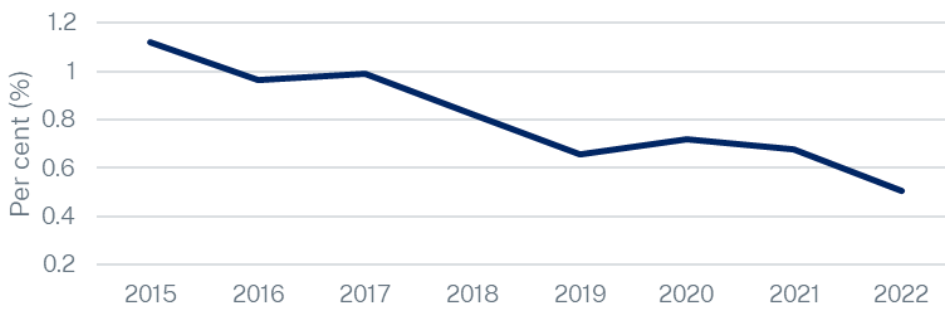


Source: Commonwealth Productivity Commission (2023b) using data from ABS (unpublished) *Participation, Job Search and Mobility, Australia, February 2022 (and previous years)*

Collectively the results suggest that the capacity to increase workforce participation of parents by addressing ECEC-related barriers has declined over time (Figure 19), as ECEC utilisation rates have increased. If every parent who reports that they are currently out of the labour force for ECEC-related reasons was able to find and secure employment, the NSW labour force would expand by around 0.5 per cent (equivalent to around six months of employment growth). While the workforce participation benefits are likely to be larger for women, and parents may also increase their working hours if ECEC barriers are reduced, the capacity to increase hours further is also likely constrained given the average hours of attendance in long day care centres in New South Wales has already increased above 30 hours per week.

Figure 19: Fewer people are out of the NSW workforce for childcare-related reasons

Share of persons out of labour force mainly for childcare-related reasons, as a proportion of total NSW labour force



Source: ABS (2023a); Commonwealth Productivity Commission (2023b) using data from ABS (unpublished) *Participation, Job Search and Mobility, Australia, February 2022 (and previous years)*

8 Policy implications

Early childhood education and care clearly provides a range of educational and developmental benefits to children. It also has benefits for the wider NSW economy, because it allocates labour more efficiently across the economy.

At the same time, regulation and government spending come at a cost, and different policy options will have different impacts on the ECEC *decisions* made by households. By identifying the preferences and barriers for different types of households, our survey and analysis shed light on what types of government intervention may be more or less efficient:

- Expanding broad-based subsidies at the state level may not be the most cost-effective means to improve ECEC participation, as subsidies are valued least by non-users.
- Streamlining planning and staffing rules could be effective in providing parents in New South Wales with the same access to more flexible service offerings available to parents in other states.
- Supporting smaller and more flexible ECEC supply options, such as family day care, would promote access in regional areas.
- For both non-users and users, it is important to make it easier to estimate their out-of-pocket costs for ECEC and find where there are ECEC vacancies.
- Building upon initiatives underway to help ease the shortage of ECEC workers is important to ensure the sector can provide the supply options that parents want.
- We could ensure public and private ECEC providers operate on a level playing field, because parents value diversity in ECEC offerings.

When considering these implications, readers should note that:

- Survey results reflect the preferences and barriers of parents at a point in time. The increase in Child Care Subsidy Rates in July 2023 may help parents afford ECEC, and yet at the same time make it harder for parents to access ECEC. Many parents are already finding this. While the survey results deepen our understanding of what parents want from ECEC, policy should also consider what children need from ECEC and what the ECEC market is actually capable of offering.
- The analysis only looks at parents who are currently raising at least one child aged 0-5. By design, it does not consider how ECEC cost, access, or quality affects a household's decision to *start* a family.

8.1 Consider alternatives to broad-based subsidies

Further broad-based subsidies from state governments may not be the most cost-effective means to increase ECEC usage and workforce participation. This is because such subsidies:

- are not valued highly by non-users relative to other policy levers, reflecting the importance of access issues
- may not even reduce the out-of-pocket costs for families in the long run, particularly if ECEC demand exceeds supply

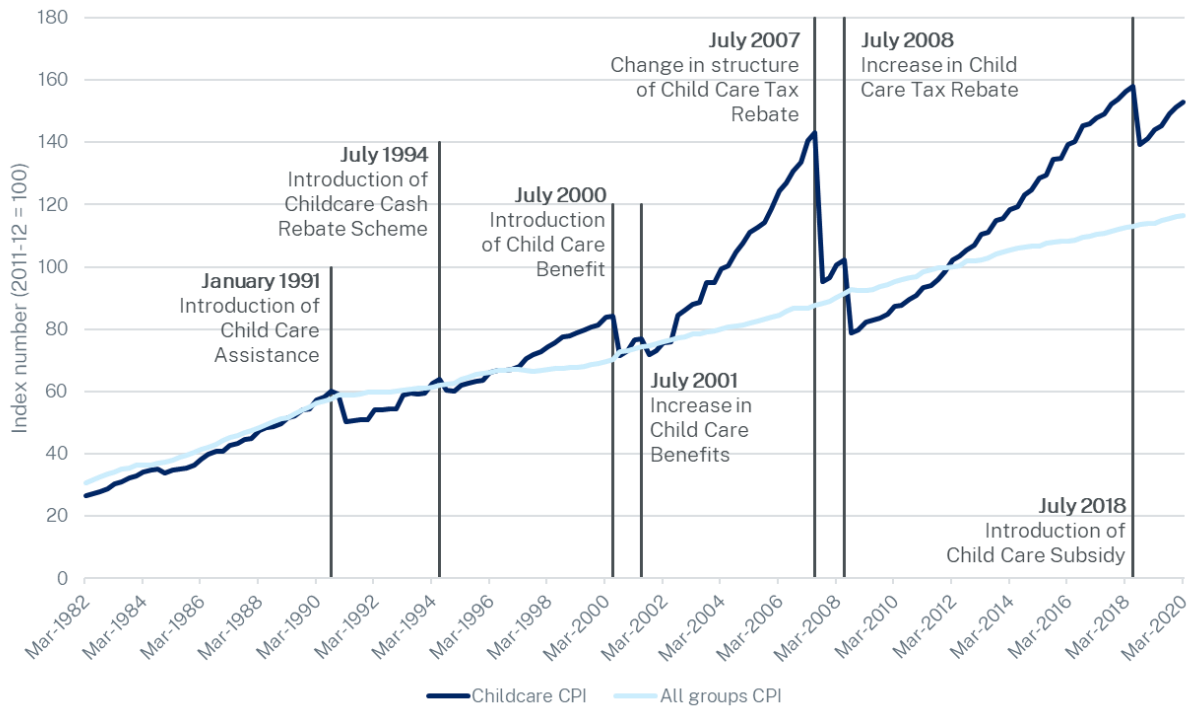
- exacerbate ECEC access challenges in the short-term, particularly for non-users who do not have their foot in the door with an ECEC service
- may not substantially increase ECEC take-up, even in a world without supply shortages, given ECEC attendance rates and hours have increased substantially
- may have limited workforce participation benefits, because over time we have seen a decline in the proportion of parents who are out of the workforce to care for children for ECEC-related reasons
- complicate the uncertainty in ECEC costs which is a barrier to ECEC usage.

The survey results show that many non-users perceive additional subsidies as a cost relative to other policy levers. This implies that ECEC utilisation rates may be better supported by measures that address the factors most important to non-users, such as ECEC choice and access issues.

Further measures to reduce the cost of ECEC can aggravate access challenges in the near-term. This reflects the limited spare capacity in ECEC services, and the constraints on supplying it. The sector faces limits on how fast it can expand, especially when demand rises strongly. The increase in ECEC access issues is likely to be felt most by non-users who do not have their foot in the door with an ECEC provider. Access issues can also make it more difficult for parents who really need ECEC to secure a place or enough hours of ECEC for their children.

Previous experience also suggests that any fee relief from higher subsidies is short-lived. Figure 20 plots the growth in average out-of-pocket costs for childcare, net of government subsidies. It shows that each time the level of government support is increased, there is a temporary drop in prices before prices rapidly increase above the pre-subsidy levels. This outcome is consistent with a market facing supply constraints, whereby price reductions do not sustainably flow through to parents. Historical experience highlights that policy measures aimed at improving ECEC affordability need to work in tandem with those that improve ECEC access.

Figure 20: In practice, childcare fee relief does not provide lasting price cuts



Source: Bray et al. (2021); ABS (2023b)

Further broad-based subsidies may increasingly act as a form of financial assistance payment as more families secure access to their desired amount of ECEC hours. There is reduced scope to increase ECEC take-up further in either older or younger age groups:

- For children aged 4, ECEC attendance rates are already 85 per cent and average hours of care have already increased beyond 30 hours per week.
- For children aged 0-3, future usage rates will increasingly reflect parental preferences (as parents of this age group are more hesitant about sending younger children to ECEC) rather than ECEC-related issues.

NSW's ECEC sector has grown as more parents have begun using it. One effect of this change in ECEC participation has been to alter the profile of those who are still *not* using it. This group now contains more parents whose choice not to use ECEC reflects personal preferences about ECEC, rather than reflecting economic barriers. More than 70 per cent of those parents currently out of the labour force because they are caring for young children do so out of personal preference, rather than reflecting ECEC-related barriers (see Section 7.2).

As a result of these changes, there is diminishing scope to improve the workforce participation of parents by addressing ECEC-related issues. That may reduce the cost-effectiveness of further broad-based subsidies. Our analysis suggests that the labour force benefits in addressing ECEC-related issues could – at most – help expand the NSW workforce by 0.5 per cent, which is equivalent to around six months of employment growth.

The introduction of broad-based subsidies from state governments would add further uncertainty to the out-of-pocket cost of ECEC. The uncertainty would be compounded by further confusion over the respective roles of the state and federal government, given that the federal government has been the main provider of broad-based ECEC subsidies.

8.2 Reduce regulatory barriers to expanding ECEC supply

Reviewing ECEC planning regulations and approval processes can also help identify reform opportunities that would encourage more ECEC services to open, or existing ECEC services to expand. In addition, amendments to planning regulations may be required to enable ECEC services to provide the flexibility in operating hours that parents value.

The process to open a new (or expand an existing) ECEC service is complex, costly, and can take at least two to three years to complete. The complexity in part reflects ECEC planning regulations span across all levels of government. The National Quality Framework stipulates national standards for ECEC facilities. The national standards are embodied in state guidelines, which also include additional requirements, such as criteria to ensure buildings are aligned with the streetscape and minimise any adverse impacts on surrounding areas. Finally, local councils review ECEC development applications against state guidelines and often impose additional requirements through Local Government Development Control Plans (DCPs). The following steps could be considered to lower the upfront costs of providing ECEC services:

- Review the location and site considerations within NSW's Child Care Planning Guideline (2021). The Child Care Planning Guideline establishes the assessment framework for the development of ECEC facilities in New South Wales. For example, the current traffic and noise criteria in these guidelines discourage ECEC in residential areas and encourage it in industrial areas. Any guidelines need to strike the right balance of supporting the wellbeing of children, parents, staff, and surrounding property owners, without unduly hindering the supply of ECEC.
- Identify opportunities to simplify ECEC planning regulations across councils. Local councils impose varying regulatory requirements outlined in DCPs. These include car park requirements, which can be more burdensome than state guidelines. Implementing state-wide development standards could reduce the uncertainty created by councils having varying requirements.
- Provide a single government touchpoint that coordinates the approval requirements for ECEC services, which would simplify the ECEC planning process.
- Improve ECEC development application processing times in some local government areas. Processing time varies substantially between local councils, with a 270-day difference between the quickest and the slowest councils.⁴ On average, ECEC development applications take around 240 days to be approved, and 19 per cent of applications take more than one year to approve, which also suggests there is scope to improve processing times.
- Development application processing times could also be reduced by allowing some ECEC applications to be determined through the complying development pathway⁵ (which is more straightforward than the current local development pathway) and allowing regulatory approvals to be completed at the same time, rather than sequentially. This is an attractive option for two reasons: firstly, current state planning guidelines are already fairly prescriptive; secondly, many planning regulations (such as those governing open space and facilities) are addressed through the National Quality Framework requirements.

⁴ NSW Productivity Commission analysis of data from the NSW Department of Planning covering development application data over the period April 2019 to March 2023.

⁵ Complying development is a combined planning and construction approval for straightforward development that can be determined through a fast-track assessment by a council or an accredited certifier.

8.3 Address barriers to the flexibility of ECEC services

As outlined in Chapter 3, NSW ECEC centres tend to operate with less flexible opening hours. Less than 20 per cent of NSW ECEC centres offer flexible hours, compared to more than 50 per cent in Victoria, Queensland, South Australia, and Western Australia. This can make it more difficult for NSW parents to manage work commitments and care arrangements for multiple children.

The NSW Child Care Planning Guideline (2021) suggests the hours of operation should be confined to 7.00am to 7.00pm on weekdays for ECEC centres in predominantly residential areas. In addition, some local councils restrict ECEC operating hours further depending on the weight they place on the amenity impact on neighbours. Strengthening state planning guidelines to be more prescriptive on ECEC operating hours could enable more ECEC providers to offer extended hours of care.

8.4 Support flexible ECEC models in regional areas

Parents in regional areas face greater ECEC access challenges because these areas have small and dispersed populations, as well as a greater need for longer ECEC operating hours. There may be scope to improve ECEC access by encouraging flexible ECEC models, such as family day care. Family day care can have lower setup costs, and it generally provides greater flexibility in the hours of care offered. Both things are highly valued by parents in regional areas.

Flexible ECEC models could be supported by identifying and removing any undue regulatory and financial burdens on family day care operators. This could involve reviewing qualification and environmental requirements and reducing any fees related to the application and approval process. Given the small size of most family day care operations, a single touchpoint could help potential family day care operators to navigate the specific requirements and responsibilities.

8.5 Minimise informational barriers

In several areas, better information could help parents make better decisions for their kids, and better understand out-of-pocket costs for ECEC. And better information could also help potential ECEC providers to find out where parents need more supply.

The NSW Government could consider expanding online tools that help families understand which ECEC providers have availabilities and respective waitlists. Parents in the interview stage of the survey project suggested that current online tools were often out of date and difficult to find. The government should ensure the online tools do not impose an unnecessary burden on ECEC providers. ECEC providers with spare capacity could then – in their own self-interest – advertise places to prospective customers via the government’s online tools.

One option for the NSW Government is to consider collaborating with the federal government to develop a timely online vacancy tool; this could use ECEC usage data from the Child Care Subsidies program.

The uncertainty of out-of-pocket ECEC costs is a large barrier, reflecting the complexity of government subsidies. These uncertainties could be mitigated by simplifying subsidy design, improving online tools, and improving the coordination in national and state subsidy schemes.

The NSW Government could also request that the federal government publish timely information on ECEC vacancies within each local government area. In addition, the NSW Government could make it easier for ECEC providers to identify where new ECEC centres are opening, and existing ECEC providers are expanding, by amending the NSW Department of Planning's online tools to allow them to filter for ECEC-related development applications. Collectively, these measures can help ECEC providers better assess where more supply is needed.

8.6 Support the ECEC workforce

A shortage of ECEC workers risks constraining the sector's growth. This, in turn, can hinder parents' choices and their ability to access ECEC services. There is scope to consider enacting a range of measures to help ease the shortage of ECEC workers which are discussed below. Some of the measures are recognised in the *Shaping Our Future* report (Education Services Australia 2021).

Firstly, use evidence-based policy to decide regulatory requirements for staff numbers. Overall, the quality of NSW ECEC services is not a notable area of parental concern. While that may reflect the stringency of existing regulations, it raises the possibility that further regulation to improve staff ratios, for instance, may be of little value to parents. New South Wales now imposes stricter staffing ratios and qualification requirements than national standards require – NSW ECEC centres must operate with staff-to-child ratios of at least 1:10 compared to the national standard of 1:11 for children aged 3-6 and must employ more degree-qualified early childhood educators than centres elsewhere in Australia. Previous work by the NSW Productivity Commission highlights that the costs of the stricter regulatory requirements exceed the benefits (NSW Productivity Commission 2022). Imposing stricter regulatory requirements than necessary makes ECEC less available, costing parents and the government more. Stricter regulatory requirements do not always translate into higher educational and developmental outcomes for children. For example, the costs may impose a greater restriction of the supply of ECEC in regional areas, which are more likely to have disadvantaged households that benefit more from improved ECEC access.

Secondly, review qualification requirements to make it more attractive for students to undertake ECEC-related qualifications. This could involve expanding on recognition of prior work experience and qualifications. The NSW Government can also examine ways to overcome the financial barriers imposed on students by ECEC courses requiring extended work placements. These extended work placements are often unpaid and may result in financial hardship on students, making them natural barriers to undertaking or completing ECEC qualifications. Governments can also continue work to subsidise the costs of ECEC qualifications.

Thirdly, work with the Australian Government to review and streamline existing application and approval processes for overseas-trained educators and teachers. This could help alleviate acute ECEC workforce shortages in the near-term.

8.7 Ensure public and private sector ECEC providers operate on a level playing field

Parents value choice in ECEC services, such as community preschools (predominately government-owned and operated) and long day care centres (predominately privately owned). There is no one-size-fits-all approach to ECEC. This means that ECEC investment and regulatory frameworks should consider promoting the expansion of all types of providers. In practice, the right mix of providers will

be best achieved by promoting competitive outcomes by adhering to competitive neutrality and procurement policies. Applying these policies will ensure that government businesses do not enjoy competitive advantages over their private sector competitors by virtue of their public sector ownership.

8.8 Targeted measures for those from disadvantaged backgrounds may be warranted

Those from disadvantaged backgrounds and those where children have long-term health conditions face larger than usual barriers to using ECEC. They may require targeted measures to improve the affordability and access of ECEC. This requires further analysis to identify the costs and benefits of various policy levers across different types of households.

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