

Preliminary Decision about Council's Early Learning Centres

Challenges to Achieve Economies of Scale and a Viable Childcare Service

Introduction

The review of Council's Childcare Services concluded that we provide quality care and have excellent educators. However, the review found that our buildings are outdated, do not meet contemporary building standards and make it challenging to operate the childcare services without the economies of scale only larger, more modern centres can achieve.

Families have requested further information about these findings, in particular the factors that contribute to a childcare service being financially viable. Information relating to the key issues is provided below.

Some Key Insights

- The average childcare centre ranges from 90-100 licenced places with a number of larger providers choosing to build centres for over 100 places.
- Providers of viable childcare services often operate more than one centre of this size and as a result are able to lower unit costs and create greater efficiencies relating to management, supervision, systems and regulatory compliance.
- Providing childcare for children aged 0-2 years costs roughly double compared to children 3-5 years of age because of the legislated requirement for child:staff ratios and mandatory staff qualifications.
- Most 3–5-year-old playrooms are a minimum of 22 places up to a maximum of 33 places in contemporary facilities. This maximises the capacity to fully utilise child:staff ratios and use income to offset staff costs.
- Recent regulatory changes mean larger centres are more financially viable than smaller centres.
- A [design guide](#) for contemporary Victorian children's services is available on the [Play Australia](#) website.

Viability of Council's Early Learning Centres in a competitive market

Council operates its childcare services in a competitive market. The viability of a childcare business is primarily driven by three factors:

1. **Ability to compete** in the childcare marketplace by offering contemporary services that meet the needs of current and prospective families. This is critical in maintaining and increasing utilisation levels to ensure a reliable and sustainable income to meet operational costs over time.
2. **Relative affordability** by setting childcare fees and deriving income at competitive market rates. Fees must be set at a price point that represents the perceived value of the service by families in comparison to competitors in the market. This is critical in attracting and retaining families to enrol and stay enrolled as a reliable source of income for the business.
3. **Infrastructure** (buildings and assets) must support quality service provision and achieve economies of scale. Infrastructure and buildings must also be designed such that they meet the current regulatory requirements that allow a provider to achieve and maintain a licence and meet legislated quality standards to operate a childcare service.

Ability to compete in the local childcare marketplace

Competition within the local childcare market has increased significantly since the three small Early Learning Centres were established in the 1990s.

The number of childcare places in Glen Eira has doubled since 2010 and increased from 3,966 places to 5,731 places since 2019 – an increase of 44 per cent. There are a further nine centres now in the planning phase that will have the capacity to offer 919 more places. Council's three small centres account for just 2 per cent of the 5,731 childcare places in the municipality.

Many new centres have kitchens that can provide cooked meals for children, nappies are provided, and the centres have larger more flexible spaces to accommodate changing needs and offer additional educational activities. Larger more modern centres that provide these services have opened within close proximity to the Council centres, in direct competition with Council centres.

The three small Council centres are not equipped with kitchens that can provide cooked meals, nappies are not provided as part of the service and the three small centres do not have flexible spaces. Council childcare services are no different to any other centre run by other providers because they must meet local market conditions, competition and client expectations to remain viable into the future.

While it is understood that some families currently using Council centres are willing to accept that the smaller, older Council centres are unable to provide the breadth of services offered by larger modern facilities, other families seeking more contemporary childcare want these services.

Due to the increased competition, Council centres are now operating at 78% capacity with no signs of this low utilisation changing.

The annual loss to Council for the delivery of the service is approx. \$570K per annum and a projected loss of approximately \$3.1M over the next five years.

Every childcare service relies on a pipeline of families deciding to enrol at a particular site as each year 4-year-olds leave to attend primary school. Without this constant stream of enrolments, service viability quickly declines, and this is especially relevant for smaller services with limited options to respond to downturns in enrolments.

Council's three small Early Learning Centres that are more than 30 years old must now compete against 55 other centres in the municipality, many of which are larger more modern buildings that provide a broader range of services for families and children. The utilisation of Council's centres is now 78% with no signs of this changing.

Relative affordability and childcare fees

Income for childcare operators and the viability of childcare centres is primarily driven by utilisation rates and the childcare fees paid by parents.

The annual loss to Council for the delivery of the service is approx. \$570K per annum. To recover the losses for Council's three Early Learning Centres, fees would need to rise significantly.

For example, in the 2023-24 budget year, the daily fees would need to increase to an estimated \$179.50 per day (a \$33.50 increase). As outlined in the Childcare Discussion Paper this would make the Council childcare services one of the most expensive in the municipality.

Childcare operators set pricing points based on many factors, however a key factor is associated with the range of services and the operational costs of those services.

The range of services available at each childcare centre varies, but it is clear that most centres with higher price points offer cooked meals, nappies and additional educational activities in flexible spaces.

Council's three small centres were established in the 1990s and are not equipped to provide cooked

meals, nappies and additional educational activities and as such, are unable to effectively compete for enrolments from prospective families who are seeking contemporary services.

While it is understood that some families may be willing to pay higher fees for the centres to remain open while they currently attend the service, others have indicated that they are not willing to pay the higher fees now or into the future. Pricing must also be set at a competitive rate and in line with the service offering to attract prospective families to ensure the ongoing viability of the centres.

The three Council Early Learning Centres are operating at a loss of \$570k per annum. A way of recouping that loss may be to increase fees families pay for the service from an average of \$146 per day to \$179.50 per day. Most other centres in the municipality at the \$170-\$180 per day price point offer services the Council centres cannot provide because of the outdated buildings.

Infrastructure – childcare buildings and assets

Australia's system for regulating early childhood education and care is the National Quality Framework. As an Approved Provider of children's services, Council is bound to abide by the National Law and Regulations and the National Quality Framework.

Key regulations and standards that influence childcare buildings and assets and influence service viability are as follows:

- Legislated, unencumbered space of 3.25m² per child indoors which determines how many children can occupy each playroom.
- Legislated play space of 7m² per child outdoors which determines how many children can play outside at any one time.
- Legislated child:staff ratios means that:
 - 1 staff member is required for every 4 children under the age of 3 years and
 - 1 staff is required for every 11 children over the age of 3 years.
- Legislated qualifications mean at least 50% of staff employed in a centre must have a minimum Diploma qualification, and,
- Any centre with more than 25 children enrolled must employ a full-time Degree Qualified Early Childhood Teacher. Centres that have more than 60 children must employ a second Degree Qualified Early Childhood Teacher.

How the National Law, Regulations and National Quality Framework have impacted Council childcare buildings

When Council commenced as a childcare provider in the 1990's the smaller centres were renovated to match the legislation required at the time to operate a licensed children's service. Since that time, the legislative requirements for childcare services have changed significantly.

Since the 1990's, additional clear floor space is now required for each child in both the playroom and playground, resulting in a decrease in the total number of children who can be enrolled in each room. This factor directly impacts on the available income to a service.

Whilst larger centres have opportunities to manage licensed spaces more flexibly, smaller centres feel the impact of legislative changes immediately, as fewer children can be enrolled in the same small playroom space than prior to the changes being implemented.

When the three small Early Learning Centres were established, children being cared for between the ages of 0-3 required one staff member for every 5 children (1:5). The legislated child:staff ratio for children older than 3 years of age was 1:15. There were fewer staff qualifications required, and there was no requirement for degree qualified staff to be present in the service at all.

In 2023, the child:staff ratios have not only changed in the number of children per staff member, but staff members are now required to have minimum qualifications, with at least 50% of staff members holding a Diploma of Children's Services. In addition, a full-time Degree Qualified Early Childhood

Teacher must now also be employed at each centre to deliver kindergarten programs.

The impact of the changing requirements is demonstrated in the table below.

Year of Operation	Age of children in the room	Legislated child:staff ratio	Sample playroom licenced capacity	Number of staff required	Comments
1990s	0-3 years	1:5	10	2	10 children paying fees towards the cost of 2 educators.
2023	0-3 years	1:4	10	3	Room is now capped at 8 children. Additional 2 children fees do not adequately offset additional educator cost. Capacity now reduced.
1990s	3-5 years	1:15	15	1	The cost of 1 Diploma qualified educator offset by fees from 15 children.
2023	3-5 years	1:11	15	2	Relatively small room size for this age group. The cost of 2 educators must now be covered by 15 enrolled children. A Degree Qualified Early Childhood Teacher is required for the funded kindergarten program. Higher costs per child.

Whilst larger centres have the capacity to maximise staff and child:staff ratios and spread the cost of educators with larger group sizes, this is more challenging for smaller, less flexible services.

The three small Council Early Learning Centres were built at a time when space and ratio requirements were different to what they are today. This restricts the number of children that can be enrolled in the three small centres which in turn has reduced the level of income for the three centres since the time the centres were established.

Economies of scale

Small centres have higher costs to ensure the centres can meet both the day-to-day operations required to meet legislated operational and quality requirements, and support family enquiries at each site. There are no additional staff available to come off the floor to carry out management and administration roles on site.

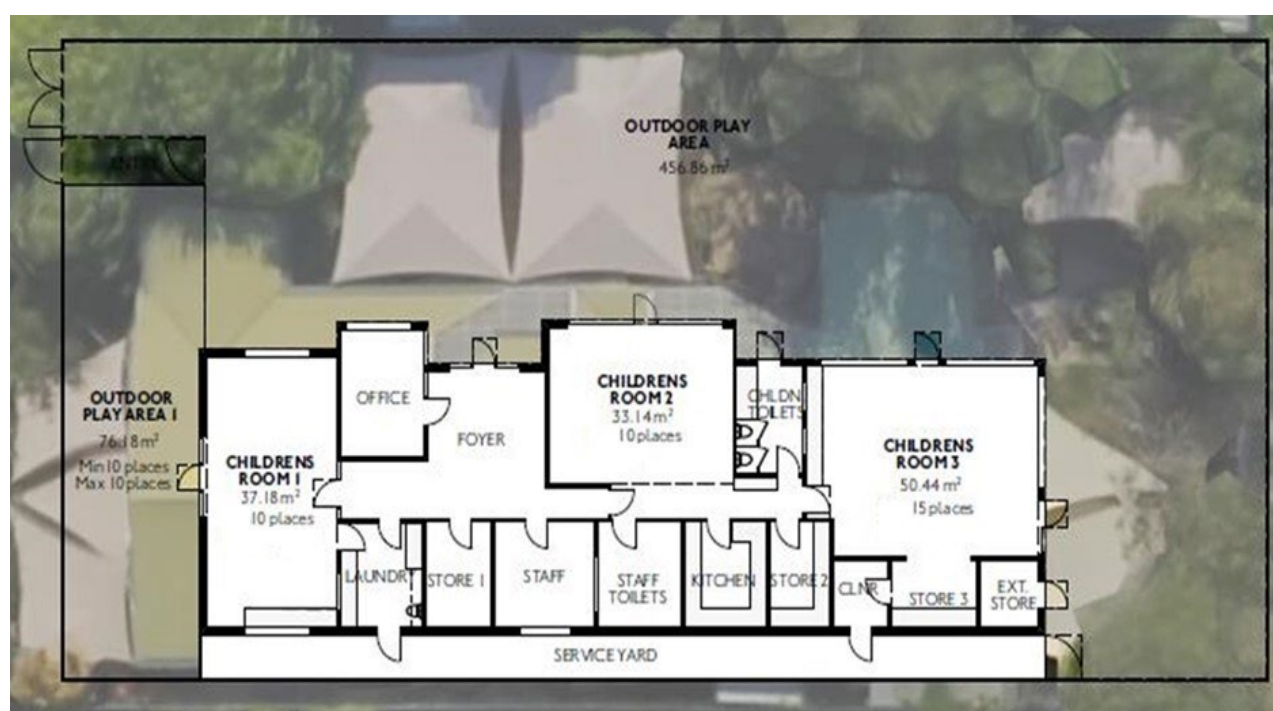
Each small centre must have a Centre Coordinator, Educational Leader and Degree Qualified Early Childhood Teacher, with oversight of less than 45 children in each centre.

By comparison, larger more modern centres employ a Centre Coordinator, Degree Qualified Early Childhood Teacher, an Educational Leader and a second in charge or administration officer with oversight of between 100-120 children.

The result is the overall cost to deliver the services to children is lower in larger centres because they have greater economies of scale. This means the unit cost per child for service delivery is lower in larger centres.

The legislated National Quality Framework requires effective leadership and service delivery from suitably qualified staff who must be available in each centre. The larger the centre, the more these costs can be apportioned across a greater number of children, which in turn increases viability through a reduction in the cost of service delivery per child.

Case Study - Carnegie Early Learning Centre



Floor plan – Carnegie Early Learning Centre

Room Number	Age Group	Room Capacity	Offered Places	Child:Staff Ratio	Number of educators working in playrooms
Playroom 1	6 mth – 2 yrs	10*	8	1:4	2
Playroom 2	2 - 3 yrs	10	8	1:4	2
Playroom 3	3 - 5 yrs	15	15	1:1.1	2
Total		35	31		6

* Playroom 1 also has cots in the room because separate sleep/cot rooms are no longer permitted.

- Only 31 out of 35 places can now be offered at the service because to offer an additional 4 places in the rooms for babies and toddlers would disproportionately increase the cost of staffing compared to the income received from 4 additional children.
- A Degree Qualified Early Childhood Teacher is now required in Playroom 3 to run the 3 and 4-year-old kindergarten program.
- The higher child:staff ratios must be in place at all times the service is operating. Educators 'on the floor' must be covered for short breaks, lunch breaks and planning and programming times. The Team Leader assists in supporting staff breaks and program planning time to ensure child:educator ratios are maintained if there are no other staff available. In addition, Team Leaders support the service by ensuring compliance with National Quality Guidelines, take family tours and provide management and support to staff working at the centre.
- However, the costs of the Team Leader, Educational Leader and Degree Qualified Early Childhood Teacher required for the Carnegie Early Learning Centre are only distributed across 31 children enrolled in the centre compared to larger services where this cost would be distributed across 100-120 enrolments depending on the size of the service.
- The small domestic kitchen does not enable the provision of cooked meals for the 31 places.

- The small rooms (less than 50m²) restrict the ability to accommodate changing needs and offer additional educational activities.
- There is limited space for educators to undertake planning and programming work.
- Staff amenities are old and outdated which impacts on recruitment of new staff seeking a modern well-equipped workplace.

Changes to Commonwealth Government standards for childcare services that have improved quality have heavily impacted the viability of the three small Council run centres that were established in the 1990s. Should a Not-for-Profit or Parent Run Committee take over the running of these facilities, they would also face the same challenges with the older outdated buildings that were established in the 1990s.