

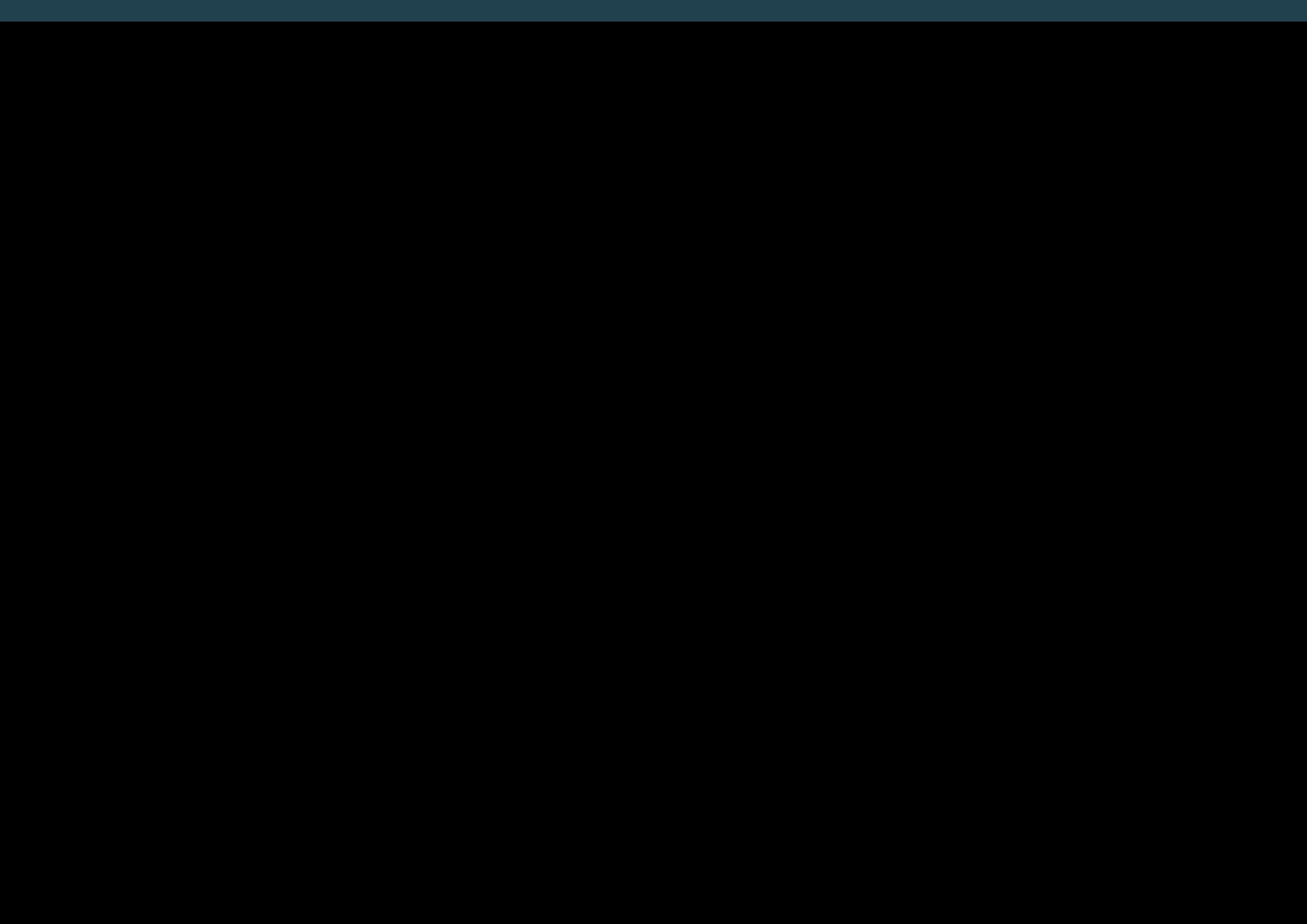
Bankwest Future of Business: Focus on Childcare

2019 release



bankwest 

FOR BUSINESS



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Key insights

Foreword

Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Childcare Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia's childcare sector, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

Increased youth population aged 12 and under, greater government expenditure, and rising female participation rates drove a 12.3% increase in childcare revenue in the year to June 2018.¹ Despite growth reaching a three-year high, opportunities remain for providers to introduce high-value service offerings such as language, art, and recreational classes.

Growth in Australian childcare is being driven by an increasing number of services and more flexible options for parents. Average hours of attendance increased by 2.8% in the year to June 2018,² while the number of providers offering care in non-standard hours increased by 3.2%. Ensuring services are flexible enough to respond to new, innovative

working arrangements will be critical for childcare providers to achieve business growth in the future.

Western Australia continues to expand both in the number of services and children attending childcare. The number of approved childcare services in WA grew by 27.2% in the last four years, close to double the national average of 15.4%. Despite more children attending childcare in WA, vacancies in areas where there are many competing providers and rising costs, require centres to be responsive to the needs of customers in their local market.

Looking ahead, strong industry growth is expected, underpinned by consolidation and a greater number of children attending childcare. Revenue is forecast to grow by 16.2% over the next five years, faster than expected establishment growth of 13.0% as providers focus on servicing their local areas through existing centres. Demand will increase naturally, with the number of children aged 12 and under projected to increase by 6.8% over the same period.³

Changes to government policy will likely stimulate demand for childcare services in coming years. The new Child Care Subsidy introduced in July 2018, and a possible rise in female superannuation contributions, will make it more financially attractive for women to return to the workforce.

¹IBIS 2018

²Productivity Commission 2019

³ABS 3222

Industry overview

Throughout Australia there are almost 1.3 million children attending government-approved childcare services, of which over 64.3% were below the age of 6 years old.⁴ Growth in the sector has been supported by an increasing number of parents requesting childcare services, as female labour force participation increases.

Snapshot of the sector*

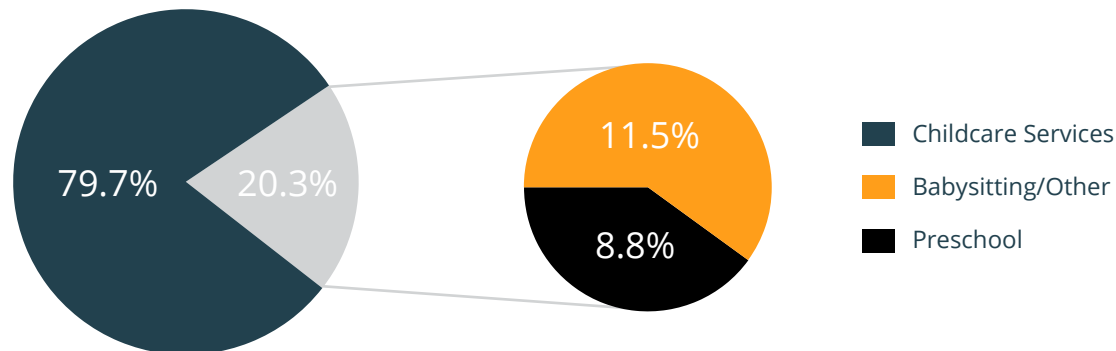
	2017	2018	Growth
Industry revenue (\$m)	15,172.2	16,747.5	10.4%
Number of establishments	33,253	34,137	2.7%
Number of employees	187,688	192,662	2.7%

Source: IBIS 2018

*Snapshot refers to broader childcare industry consisting of babysitting, personal childcare, preschool education and childcare services

This report covers the childcare industry, including; government approved childcare services (long day care, family day care, vacation care, occasional care, in home care, and out of school hours care (OSHC)), preschool education, and babysitting/other personal services. Government approved childcare services is the largest segment of the industry, earning 79.7% of total industry revenue.⁵

Childcare industry revenues, 2018



Source: IBIS 2018

⁴Productivity Commission 2019

⁵IBIS 2018





What's driving industry growth?

Increased government expenditure on subsidies and childcare services is fuelling growth in the industry. Government expenditure on childcare fee assistance is expected to rise by 11.4% to \$8.0 billion in the year to June 2019, and by 32.7% over four years to \$9.5 billion in 2022.⁷

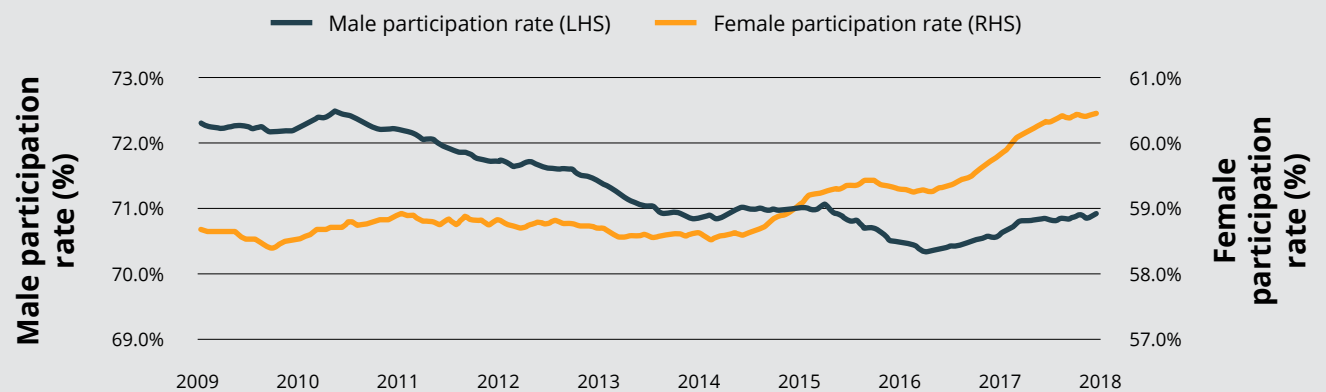
Childcare fee subsidy estimates (\$ millions), Australia, 2017 - 2022



Source: Australian Federal Budget 2018

Female participation in the labour force has risen 1.8 percentage points nationally to 60.5% in the last five years, increasing the demand for childcare services. Government initiatives touted, such as increasing female superannuation contributions, would raise the opportunity cost of females abstaining from the labour market.

Male and female labour force participation, 2009 - 2018



Source: ABS 6202

⁷Australian Federal Government 2018

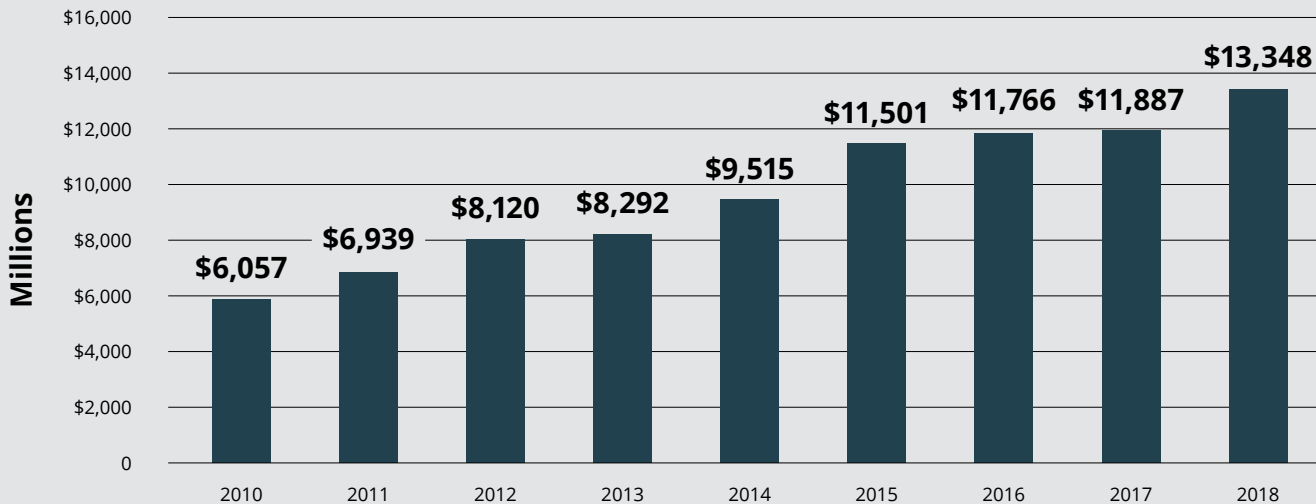
The population aged 12 or under is rising and will boost future demand for childcare. Over the next five years, the growth rate for the population under the age of 3 is expected to outpace the growth rate of the total population (9.9% and 8.5%).⁶

⁶ABS 3222

Spotlight on Australia

The childcare industry is performing well across Australia. Revenue has increased across all sectors of the industry⁸ over the last five years, with total industry revenue growing by 57.0% to reach \$16.7 billion in 2018.⁹ Childcare services, the largest sector in the industry, performed particularly well with revenue growing by 61.0% over the five years to June 2018 to \$13.3 billion.

Childcare services sector revenue, 2010 - 2018



Source: IBIS 2018

Greater regulation around employee qualifications and carer to child ratios, coupled with high real estate costs, are contributing to substantial increases in the cost of providing childcare services. The cost of doing business for childcare providers increased by 5.2% and 28.5% in the last one and five years respectively.¹⁰

⁸Refers to childcare services, preschool education and babysitting services

⁹IBIS 2018

¹⁰ABS 6427

Higher fees not deterring demand

While the cost of accessing childcare services is rising, the incidence of childcare services use is also increasing. Across Australia, in the year to June 2018...

Median weekly cost of 50 hours of childcare services

↑ 3.7%

Number of children attending childcare

↑ 1.8%

Childcare services

↑ 2.1%

Source: Productivity Commission 2019

WA fertility rate highest among mainland states

Western Australia has the highest fertility rates (children per women) of all mainland states, a solid indication that demand will remain strong for childcare services in the state. A high fertility rate will bolster demand for childcare services in the future and likely lead to further growth in establishment numbers.¹¹

1.74

National average



1.87

WA fertility rate

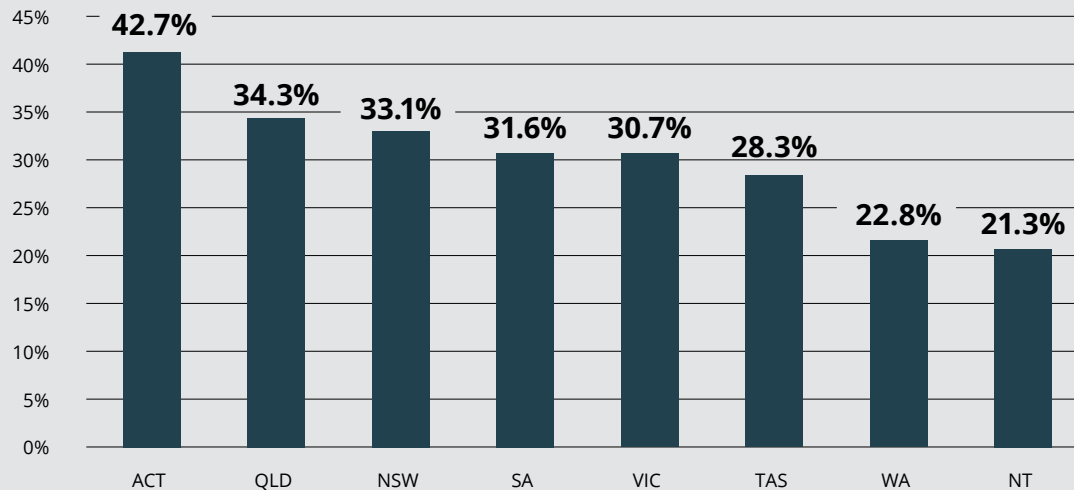
¹¹ABS 3301

Spotlight on Western Australia

The childcare industry in Western Australia is less mature compared to other states. This presents opportunities for the industry to expand as consumer preferences change and more people take up new services. WA has experienced the largest rise in government-approved childcare services in the four years to June 2018, increasing by 27.2%, compared to 15.4% across Australia.¹²

However, WA has among the lowest proportion nationally of childcare uptake, with just 22.8% of children in childcare, compared to 31.4% across Australia.

Proportion of children attending childcare services, 2018



Source: Productivity Commission 2019

Public expenditure on childcare services has been increasing in WA. In the 10 years to June 2018, state government expenditure on childcare services has quadrupled, increasing by 299.8%, more than double the national increase (128.6%). The government also invested strongly in the state's childcare sector, with capital expenditure increasing by 26.5% in the year to June 2018.

¹²Productivity Commission 2019

What does the future hold?

Growth in the Australian population aged 12 and under will fuel growth in the childcare services industry. Over the next 20 years, the population aged 12 and under is expected to increase by 25.5%.¹³

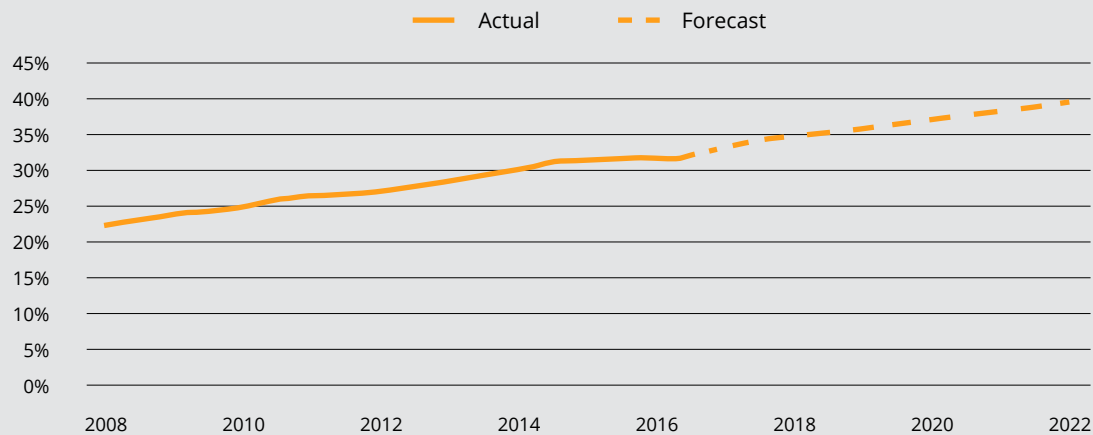
Australian population change estimates 2018

Change	TOTAL	≤ 12	≤ 6	≤ 2
5 year	8.5%	6.8%	7.2%	9.9%
10 year	16.6%	13.8%	15.6%	16.8%
20 year	31.5%	25.5%	25.0%	25.5%

Source: ABS 3222

The proportion and number of children attending childcare services is also expected to increase. At current rates, by 2024, the number of children in childcare services across Australia is estimated to be more than 1.6 million.¹⁴

Proportion of children attending childcare services, 2008 - 2022



Source: CoreData, Productivity Commission 2019

¹³ABS 3222

¹⁴CoreData, Productivity Commission 2019



The childcare services industry continues to expand, however the market is beginning to become saturated. Childcare businesses have been considered solid investment opportunities due to government subsidies, but a survey conducted by Community Early Learning Australia found 70% of members reported a fall in enrolment in 2018, when compared against 2017.¹⁵

¹⁵ABC 2018

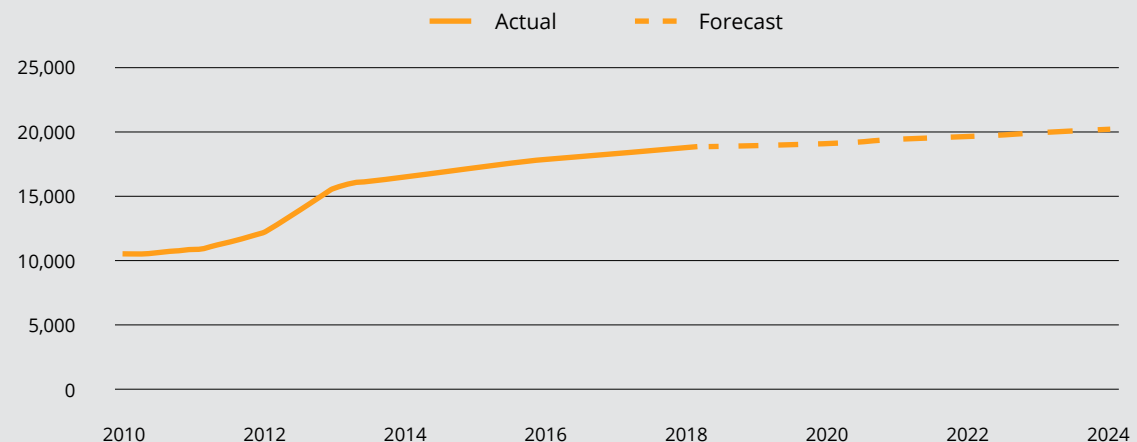
More Western Australian providers are meeting the National Quality Standards (NQS) standards for childcare, with the proportion meeting or exceeding the NQS rising 6.1 percentage points to 67.6% in 2018. The remaining 32.4% of childcare providers in the state are working towards the NQS, with none requiring significant improvement.

What challenges does the industry face?

Recent reports of vacancy rates and policy proposals by the Federal Opposition could create a more challenging environment for childcare centres. In the last decade, the number of childcare establishments has increased by 80.5%.¹⁶ A change in government at the next federal election has the potential to see 15 hours of free pre-school available for three-year olds, directly competing with childcare centres.

Increased competition is forcing establishments to diversify their services, innovate, and compete on price. Many centres are now offering more flexible services such as half-day care and vacation care, as well as educational programs such as language courses.

Childcare service establishment numbers, 2010 - 2024

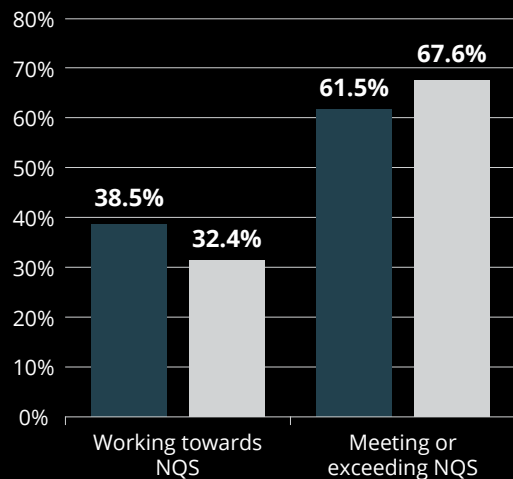


Source: IBIS 2018

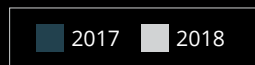
Increased scrutiny and regulation could increase costs and create a more challenging environment for childcare service providers. Childcare services occupancy rates of less than 60% were reported in regional areas during 2017. Increasing attendances and retaining qualified staff will continue to remain a challenge for regional childcare providers.

¹⁶IBIS 2018

Western Australia NQS Performance, 2017 vs 2018



Source: Productivity Commission 2019



Where do the opportunities lie?

Australia's childcare industry is expected to continue growing over the next five years. Female workforce participation is one of the largest determinants of demand for childcare services. Over the past five years, female labour force participation has increased by 1.8 points, and this is expected to continue to rise.¹⁷

Diversification and innovation in the provision of childcare services provides opportunities for growth. Examples of new services being offered include:



Language classes



Formal academic classes



Recreational activities such as sports, cooking, etc.

Changes in government policy are also likely to impact future growth in the industry and create new opportunities for providers. The Federal Opposition has announced plans to dedicate \$400 million towards bolstering female superannuation if elected.¹⁸ The current government has also rolled out an increase to childcare fee assistance, estimating that over the next four years, childcare subsidies will increase by 32.7%.¹⁹

Potential in WA market

There are substantial business opportunities in the WA childcare sector due to demographic factors, fertility rates, and attendance numbers.

Population (% of population aged 2 and younger):

WA 4.0%

AUS 3.8%

Children attending childcare:

WA 22.8%

AUS 31.4%

Source: Productivity Commission 2019, ABS 3101

¹⁷ABS 6202

¹⁸ABC 2018

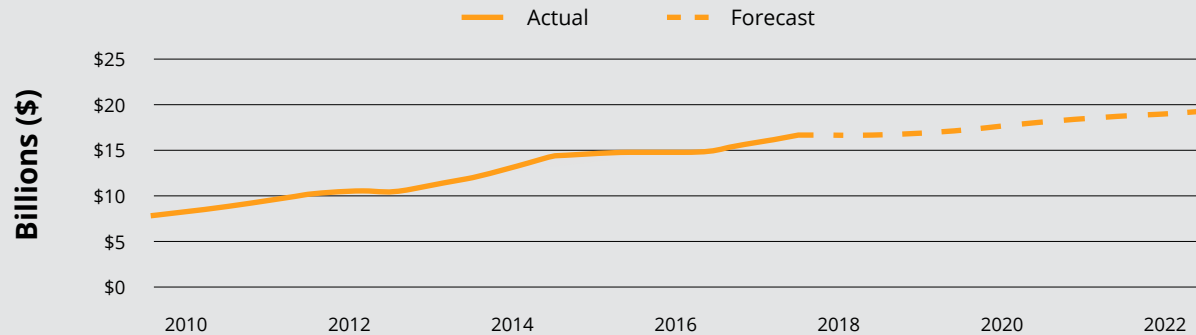
¹⁹Australian Federal Government 2018



Forecasted industry growth

Revenue in the childcare industry is expected to reach \$19.5 billion by 2023, an increase of 16.2% from 2018.²⁰ Drivers of this revenue growth in the next five years include more women in the workforce, a higher number of children under the age of 12, and an expected increase in Federal Government assistance with childcare fees.

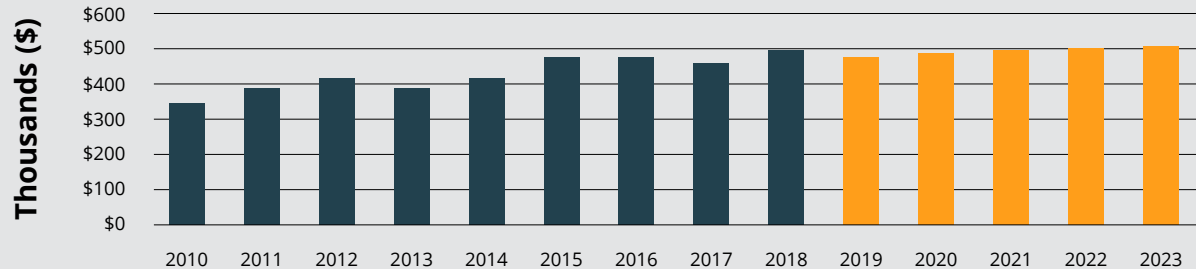
Childcare industry revenue (\$ billions), 2010 - 2023



Source: IBIS 2018

Growth in the number of establishments is expected to somewhat limit the profitability of individual businesses. However, at current rates, it is estimated that revenue per establishment will increase by 2.7% over the next five years, bringing the average revenue per establishment to around \$504,000 by 2023.²¹

Revenue (\$'000') per establishment, 2010 - 2023



Source: IBIS 2018

²⁰IBIS 2018

²¹IBIS 2018

- sleep
- eat a balanced diet
- keep clean
- wash / brush teeth



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