

28<sup>th</sup> October 2023

Childcare Inquiry Taskforce  
 Australian Competition & Consumer Commission  
 Level 17, 2 Lonsdale Street  
 Melbourne VIC 3000

Dear Childcare Inquiry Taskforce

ACCC Childcare Inquiry - Submission in response to the September interim report  
 Edge Early Learning (Edge) welcomes the opportunity to make submissions in response to the draft findings and recommendations in the ACCC's Childcare Inquiry second interim report released on 1 October 2023 (Second Interim Report).

**Edge Early Learning**

1. Edge is a for-profit childcare provider that was established in 2017. Edge currently operates 56 government-approved long day care centres across Queensland, ACT and South Australia, offering early childhood education programs and kindergarten programs.
2. Edge has a quest to be Australia's best in early childhood education by empowering its educators and providing them with the environment, resources, and support to create the best learning opportunities for the children in its care.

**Executive summary**

3. Edge sets out in the table below its high-level position in relation to each of the draft recommendations made by the ACCC in its Second Interim Report.

ACCC draft recommendation	Edge position
<p>Draft recommendation 1.</p> <p>The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its childcare policies and supporting measures, including the relevant price regulation mechanism.</p>	<p>Edge supports this draft recommendation, subject to the qualification set out in paragraphs 5 to 7 below.</p>
<p>Draft recommendation 2.</p> <p>The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and existing hourly rate cap mechanism, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:</p> <p>(a) determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could</p>	<p>Edge supports this draft recommendation and refers to its response in paragraphs 8 to 10 below in relation to draft recommendation 2(c).</p>

ACCC draft recommendation	Edge position
<p>include consideration of labour costs as well as the additional costs associated with providing childcare services in remote areas and to children with disability and/or complex needs</p> <p>(b) changing the hourly rate cap to align with the relevant pricing practice for the service type. This could include consideration of a daily fee cap for centre based day care. Consideration will need to be given to setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality</p> <p>(c) removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care</p> <p>(d) including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.</p>	
<p>Draft recommendation 3.</p> <p>The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents’ and guardians’ information needs, and balanced against the costs of collecting and publishing information. This could include:</p> <p>(a) considering the frequency, granularity and accuracy of information collected and published, to ensure currency for parents and guardians</p> <p>(b) focusing on publishing information that assists parents to accurately estimate out-of-pocket expenses and relevant information to assist parents assess quality factors</p> <p>(c) incorporating input and advice from the Behavioural Economics Team of the Australian Government</p> <p>(d) ensuring information is appropriately and effectively publicised to parents and guardians.</p>	<p>Edge supports this draft recommendation and refers to its response in paragraphs 11 to 14 below.</p>

ACCC draft recommendation	Edge position
<p>Draft recommendation 4.</p> <p>The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.</p>	<p>Edge supports this draft recommendation and refers to its response in paragraphs 15 to 21 below.</p>
<p>Draft recommendation 5.</p> <p>The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.</p>	<p>Edge supports this draft recommendation.</p>
<p>Draft recommendation 6.</p> <p>A market stewardship role should be considered for both Australian and state and territory governments, in identifying under-served areas and vulnerable cohorts, along with intervention whether through public or private provision. A competitive tender process is one tool that could be used by governments to facilitate delivery in these areas.</p>	<p>Edge supports this draft recommendation.</p>
<p>Draft recommendation 7.</p> <p>The ACCC supports further consideration of supply-side subsidies and direct price controls. Some changes to the policy settings are likely to reduce the impact of the hourly rate cap as an indirect price control, and may warrant a shift to direct price controls supported by operating grants for regulated childcare providers.</p>	<p>Edge does not support this draft recommendation and refers to its response in paragraphs 22 to 27 below.</p>

### Edge's responses to the ACCC's draft recommendations

4. Edge sets out below its responses to the ACCC's draft recommendations 1, 2(c), 3, 4 and 7.

#### Draft recommendation 1

5. Edge supports the Australian Government reconsidering and restating the key objectives and priorities of its policies for the provision of childcare and supporting measures, including the relevant price regulation mechanism.
6. However, Edge is concerned that the current framing of this draft recommendation suggests that the relevant price regulation mechanism should be used by the Australian Government as a guiding principle to set its objectives and priorities for the early learning and care sector. Edge does not

believe this should be the case. Rather, Edge agrees with the ACCC's finding that the design of the relevant price regulation mechanism necessarily depends on the Australian Government's key objectives and priorities for the childcare sector, and not vice versa.<sup>1</sup>

7. Edge considers that the key objective the Australian Government should seek to achieve in supporting the provision of childcare services in Australia is the provision of highest quality educational and developmental outcomes for all children across Australia. Edge agrees with the ACCC that a single policy approach may not achieve desired outcomes for all children and households, and may involve potential trade-offs and unintended adverse consequences on particular cohorts of children. For this reason, Edge supports consideration and implementation of a mixed policy approach which incorporates different measures and supports to meet the needs of different types of children and households in a range of different circumstances and locations across Australia.

### **Draft recommendation 2(c)**

8. Edge strongly supports the removal of the activity test (as opposed to the relaxation or reconfiguration of it) to allow children to access early learning and care for the number of hours required by their family, without limits being imposed based on parental employment, study or other approved activity.
9. Edge considers that the activity test for the Child Care Subsidy (**CCS**) poses a significant barrier to access to childcare for vulnerable children – including children from single parent families, Aboriginal and Torres Strait Islander families, non-English speaking families, and low-income families. In 2022, *Impact Economics and Policy* reported that the activity test is "*contributing to at least 126,000 children from the poorest households missing out on critical care.*"<sup>2</sup> While the objective of the activity test was to create a stronger incentive for parents to increase their workforce participation, this objective has been pursued at the expense of a focus on the wellbeing and development of vulnerable and disadvantaged children through access to childhood education and care.
10. Edge supports the widely-held view that, in practice, the activity test disproportionately impacts children from lower socio-economic households who have lower entitlements to subsidised care by reason of their parents' having lower overall workforce participation, engaging in casual or intermittent work, or lower participation in other approved activities such as study. These children are therefore deprived of meaningful access to safe and consistent early childhood education and care, and associated long-term developmental benefits. Edge accordingly agrees with the ACCC that the activity test is regressive in effect for low income households.<sup>3</sup>

### **Draft recommendation 3**

11. Edge supports the reconsideration of the information gathered for and reported on StartingBlocks.gov.au.

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<sup>1</sup> ACCC's Second Interim Report, p 27.

<sup>2</sup> Impact Economics and Policy (2022), Activity Test for Child Care: Undermining Child Development and Parental Participation: [https://static1.squarespace.com/static/61e32e62c8c8337e6fd7a1e6/t/630de5c741a8de08ad48d593/1661855185396/Undermining+Child+Development+And+Parental+Participation+Report\\_FINAL.pdf](https://static1.squarespace.com/static/61e32e62c8c8337e6fd7a1e6/t/630de5c741a8de08ad48d593/1661855185396/Undermining+Child+Development+And+Parental+Participation+Report_FINAL.pdf)

<sup>3</sup> ACCC's Second Interim Report, p. 31.

12. Edge agrees with the ACCC's findings that there is limited awareness among families of StartingBlocks.gov.au. In Edge's experience, families tend to rely more heavily on word of mouth, their visceral impressions when visiting a proposed childcare centre, information on providers' own websites, and otherwise general information available on Google to make decisions regarding childcare.
13. Further, Edge agrees with the ACCC's finding that information on the StartingBlocks.gov.au website can be outdated and difficult to compare between services. Edge is aware of a number of instances of StartingBlocks.gov.au displaying outdated, or incorrect information, for its centres. For example, as shown in the screenshot below, the listing for Edge Early Learning Mount Barker – Adelaide Road currently links to the website for Paisley Park (a competing childcare provider, and previous operator of the site).

[Edge Early Learning Mount Barker - Adelaide Rd](#) 0.9 km

**Address**  
 43 Adelaide Rd  
 MT BARKER SA 5251

**Contact**  
[0883175338](tel:0883175338)  
[adelaiderd@edgeearlylearning.com.au](mailto:adelaiderd@edgeearlylearning.com.au)  
<http://www.paisleypark.com.au>

**Service type**  
 Centre-Based Care  
 Long day care  
 Outside School Hours Care - After School  
 Outside School Hours Care - Before School  
 Outside School Hours Care - Vacation Care

**Vacancy** ✖

**Fees**  
 Please choose an age range to see the fees for this service.

**Overall Rating:** 📍 Meeting NQS  
 Quality Area Ratings:

- 1 **Educational program and practice**  
Meeting NQS
- 2 **Children's health and safety**  
Meeting NQS
- 3 **Physical environment**  
Meeting NQS
- 4 **Staffing arrangements**  
Meeting NQS
- 5 **Relationships with children**  
Meeting NQS
- 6 **Collaborative partnerships with families and communities**  
Meeting NQS
- 7 **Governance and leadership**  
Meeting NQS

**Rating issued:**  
 June 2021  
**Service ownership transferred**  
 6 May 2022

Source: <https://www.startingblocks.gov.au/find-child-care#/distance/5km/address/Mount%2520Barker%2520SA%252C%2520Australia/all/all/all/all/all/all>

14. Edge supports improvements and strengthening of StartingBlocks.com.au to include up-to-date information that is relevant to families' decision-making, and also to increase understanding and transparency for families regarding out-of-pocket costs. This may involve the inclusion of a CCS calculator to allow families to easily calculate approximate out-of-pocket fees and compare fees between different providers.
15. However, Edge would be concerned if there were an increase in the cost of complying with its regulatory obligations by reason of improvements and strengthening of StartingBlocks.com.au, without any proportionate improvement in the use by and understanding for families of the information available. Put another way, Edge does not necessarily believe that *more* information is required with respect to StartingBlocks.com.au; rather, *better* information is required.

#### Draft recommendation 4

16. Edge supports the Australian Government's further consideration of how existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.
17. There is a significant shortage of skilled childcare educators in Australia, with continuing labour shortages currently being the most significant challenge affecting the supply of childcare services in Australia. The labour-intensive nature of early childhood education and care means that staffing costs represent a very significant proportion of a provider's cost base – by reason of ratios of educators to children imposed by government regulations – meaning that providers must maintain a certain number of staff members to ensure compliance. This can result in high labour costs with limited ability for providers to reduce these costs.
18. Edge strongly supports the current NQS framework and child-to-educator ratios which it considers to be necessary for ensuring that children receive individual attention and adequate care. In Edge's experience, the current ratios typically result in better quality care. On this basis, Edge would not support any move to relax the ratio requirements in response to workforce shortages. In Edge's experience, a relaxation to ratios would result in dissatisfaction and resentment from families. Any relaxation to the current ratios would, in Edge's opinion, increase pressure on staff and likely result in further exits from the sector, exacerbating the current workforce shortage. In addition, Edge (and all providers), have designed and constructed centres to meet children's needs on the current ratio regulations. Those designs and the construction cannot be undone. One key point that Edge urges the ACCC to consider is that changing the ratios down would not have any positive impact, only negative. If a 1:4 children room was changed to 1:5 in a room and playscape (designed and utilised for caring and educating for 8 babies) that would not alleviate any issues as we would still require 2 staff members in that room. The educators in that room would be under higher pressure with more children to look after and families would inevitably be more concerned about the quality of care those two staff members would be able to provide.
19. However, Edge is particularly concerned that labour shortages have driven a significant increase in the requirement to use temporary staff from specialist employment agencies. These market conditions have fostered intense competition for educators between providers and employment agencies who are ultimately competing for the same talent. The use of temporary staff from specialist employment agencies comes at a very significant cost premium to Edge and other providers, with agencies charging inflated hourly rates to childcare providers such as Edge.
20. Edge welcomes the ACCC's findings in the Second Interim Report regarding issues faced by providers using agency staff to overcome staff shortages. In particular:
  - (a) Edge agrees that labour shortages have led to increased wage demands from potential staff, and a lack of bargaining power on the part of providers when attempting to attract and retain casual staff who are unwilling to forgo their casual loading for permanent roles with providers.<sup>4</sup>
  - (b) Edge also agrees that higher costs associated with using temporary staff from agencies to cover staffing shortages further exacerbate wage-cost pressures.<sup>5</sup> By way of example, a full

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<sup>4</sup> ACCC's Second Interim Report, p. 105.

<sup>5</sup> ACCC's Second Interim Report, p. 105.

time or part time Diploma Qualified Educator (which is either Level 3.3 or Level 4.1 (Lead Educator role) under the Award) employed by Edge would receive on average \$27 to \$31 per hour. However, a specialist employment agency would charge Edge approximately \$65 to \$75 per hour for temporary staff at an equivalent level. Specialist employment agencies are able to offer attractive benefits to casual staff – for example, higher pay rates, pay in advance, increased pay frequency (e.g. weekly pay cycles), and shift flexibility – which significantly hampers Edge's ability to attract and retain permanent staff in its centres (and, thereby, better manage its costs).

- (c) Edge strongly agrees that a sustained, higher use of casual or agency staff, or high levels of staff turnover, could also have consequences for the perceived quality of a service and occupancy rates, as families and children may prefer a service where they get to know and build relationships with educators.<sup>6</sup> In Edge's experience, high staff turnover and the use of temporary staff through specialist employment agencies negatively affects the quality of Edge's services by impacting the stability and continuity of programs provided to children and families. .
21. Edge supports further consideration and investigation by the Australian Government into labour shortages within the childcare sector, with particular focus on the pricing and practices of specialist employment agencies, and issues faced by providers using temporary agency staff as set out above.
22. Edge strongly agrees with the ACCC that issues such as low salaries, conditions and lack of professional recognition and opportunities for professional development in the sector are compounding to cause workforce attrition among educators.<sup>7</sup> Edge strongly supports measures to address these issues, including:
- (a) partnering with providers to fund an ongoing pay rise for the early learning and care workforce;
  - (b) targeted initiatives aimed at increasing pathways into early childhood education and care (such as discounted HECS fees and free vocational education and training), and also initiatives to support existing staff to upskill and progress their career within the sector; and
  - (c) building awareness and recognition of the importance of early childhood education and care, including promoting it as a valued and impactful career option.

## **Draft recommendation 7**

### **Supply-side subsidies**

23. As detailed in response to draft recommendation 4 above, the cost of labour is a key factor which impacts Edge's financial viability. In recent times, labour costs have increased significantly, and this has been coupled with staff shortages across the sector. For these reasons, Edge welcomes consideration of the introduction of supply-side subsidies – including labour subsidies for providers with the objective of decreasing labour costs.

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<sup>6</sup> ACCC's Second Interim Report, pp. 150.

<sup>7</sup> ACCC's Second Interim Report, p. 44.

24. However, Edge believes that further consideration is required before these types of measures are recommended to the Australian Government. In particular:
- (a) it is unclear how a labour subsidy would be designed – for example, would the subsidy be paid to the provider or directly to the employee? Edge considers that if a subsidy were paid directly to the employee, this would have an immaterial impact on Edge's cost base;
  - (b) supply-side subsidies will not address some of the fundamental issues impacting the provision of childcare services – in particular, labour shortages; and
  - (c) Edge is concerned that, without bi-partisan support, there is a high risk that supply-side subsidies may be removed by future governments, thereby creating further uncertainty for providers.
25. In Edge's experience, more and more children presenting with additional needs. Edge recommends that investigation is urgently required into the Inclusion Support Funding regime. In Edge's experience, access to ISS funding desperately needs to be made easier and quicker to navigate so that providers are able to access funding for children with additional needs. This would help alleviate the pressures on our educators and providers' cost bases.

#### **Direct price controls**

26. Edge does not support further consideration or the introduction of direct price controls.
27. While direct price controls may temporarily lower fees for some households, direct price regulation is very likely to result in material adverse consequences to the childcare sector including supply shortages, reductions in quality of care and decreased investment and innovation.
28. Edge sets out below what it considered are a number of key risks associated with the implementation of direct price controls.
- (a) **Deterioration in the quality of childcare services.** Direct price regulation prevents providers from using flexible pricing to maintain profit margins in response to market conditions (e.g. inflation). Therefore, in order to maintain or increase economic viability in the face of direct price regulation, providers may instead seek to reduce variable costs. For example, providers may seek to employ lower-paid staff (such as low-qualified or trainee staff), reduce staff benefits or incentives (including training), provide less teaching and care resources to educators, use lower quality consumables, or decrease places for complex needs children. These cost-cutting initiatives may result in long-term adverse effects such as:
    - (i) reduced quality of care provided to children;
    - (ii) high staff turnover; and
    - (iii) loss of confidence by families in childcare services offered.
  - (b) **Lower (or capped) operator margins will discourage investment and initiatives to improve services, and new entrants in the market.** The introduction of direct price controls would remove a critical price signal for new investment and new entry of providers into the childcare sector. Childcare providers are also likely to be disincentivised from expanding



service provision (e.g. by opening new centres, or increasing approved childcare places) or improving existing services (including through the training and development of staff) as their focus shifts to preserving current margins.

- (c) **If price caps are set too low, direct price regulation could lead to market exit.** The ACCC acknowledges<sup>8</sup> that direct price regulation may cause the provision of childcare services to become economically unviable for some providers if the price cap is set too low such that a provider is unable to cover its costs. This may in turn lead to the exit of providers from the market which may result in a lack of competition and long-term supply shortages.
- (d) **Encourages providers to recoup lost fee income through other means.** Childcare providers may seek to impose additional costs on families outside of the direct price controls in order to maintain or increase profits (e.g. for additional activities, programs or hours). The ACCC has acknowledged this risk, noting that Ireland, the United Kingdom, the Netherlands, Canada and New Zealand have each had to introduce regulation to prevent providers circumventing direct price controls through excessive charges for additional offerings.<sup>9</sup>
- (e) **Difficulty in calculating appropriate fee cap.** It is not clear from the ACCC's draft recommendation how a price cap would be calculated – for example, would it account for differences in provision costs between for-profit providers and not-for-profit providers or cost variations associated with the location and type of centres? There is also an open question as to how the cap would be indexed over time. Childcare providers charge different fees in different locations due to a variety of factors, including the local cost of living, the availability and cost of suitable facilities, the availability and cost of qualified staff, and the level of demand for childcare services in the area. For these reasons, Edge considers that a flat price cap across all providers in the market, or across the whole business of each provider, would be unworkable. However, there are also risks associated with adopting a price cap that varies across different geographic areas, different providers, or within parts of the business of each provider. For example, the ACCC refers to the locally/regionally differentiated price cap in the Netherlands which has been criticised for incentivising services to open or relocate to regions where there is higher funding.<sup>10</sup>
- (f) **Sets a standard price for the market.** Setting a price cap may encourage existing childcare providers to price at or near the maximum price, which will have the effect of removing price competition or the potential for price competition.
- (g) **Removes the ability and incentive for childcare providers to tailor services to parents' individual preferences and differentiate their services in order to compete.** Childcare providers are disincentivised from differentiating their services by offering unique programs or activities such as music classes, yoga classes and language classes because providers are restricted by the price cap from seeking premium prices for these services. This is likely to lead to homogenous service offerings between providers that are not tailored to specific community priorities.

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<sup>8</sup> ACCC Second Interim Report, p. 198.

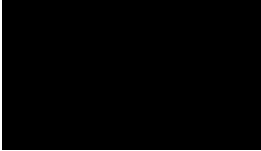
<sup>9</sup> ACCC Second Interim Report, p. 202.

<sup>10</sup> ACCC Second Interim Report, p. 202.

**Conclusion**

29. Edge appreciates the opportunity to provide feedback on the ACCC's draft recommendations and findings in its Second Interim Report. If the ACCC wishes to discuss any of the matters outlined in this submission further, please do not hesitate to contact Annie Bryce (CEO, Edge Early Learning) on [REDACTED] or [REDACTED]

Yours faithfully



**Annie Bryce**  
**Chief Executive Officer – Edge Early Learning**