Early Learning & Care Council of Australia

ELACCA submission to ACCC September Interim Report

October 2023

The Early Learning and Care Council of Australia (ELACCA) welcomes the opportunity to submit our response to the ACCC's September Interim Report, including draft findings and recommendations.

About ELACCA

The Early Learning and Care Council of Australia (ELACCA) was established to promote the value of quality early learning and care as an integral part of Australia's education system. Our 19 CEO members include some of the largest early learning providers in the country, representing both not-for-profit and for-profit services.

ELACCA members operate 1,984 long day care services, 310 preschool/kindergarten services and 92 OSHC services, covering every state and territory. They offer one-quarter of all the early learning places in Australia. Together, our members serve 369,776 children and their families, and employ more than 56,708 staff.

As well as promoting the value of quality early learning and the need for greater public investment, ELACCA advocates for the right of all children to access quality early learning and care, particularly children facing disadvantage. We do this by drawing on the knowledge and practical experience of our members and representing their views to decision makers in government, the media and the public.

Overview of ELACCA submission to ACCC Interim Report

ELACCA welcomes the opportunity to submit our response to the ACCC's September 2023 interim report, including draft findings and recommendations.

Introduction

As a peak body in the early learning and care sector, ELACCA represents large providers of high-quality early learning and care within a mixed market. ELACCA works to leverage our reach and scale to lead exceptional early learning outcomes to all young Australians.

ELACCA members, CEOs of large providers of early learning and care, represent multiple operating models, across and within jurisdictions with both State and Commonwealth funded services. Our members comprise for-profit and not-for-profit providers, and offer services including long day care, preschool/kindergarten, outside school hours care, family day care and in-home care.

As large providers of early learning and care, ELACCA members leverage their scale to offer high quality programs, greater inclusion support, and the ability to operate in otherwise non-viable markets through the cross-subsidisation of services. Services are supported by head office teams that help drive the delivery of high-quality learning and care, and investment in workforce development and pedagogy.

ELACCA's objective is to lead exceptional early learning outcomes for Australian children, and aspire to:

- progress the quality of early learning and care and outcomes for all children.
- enhance the development and professionalisation of the early learning workforce.
- improve equity of access to early learning for all children.

This submission provides high-level responses to the ACCC's September 2023 Interim Report formed following targeted engagement with ELACCA's Board and CEO Members.

ELACCA engagement with the ACCC

ELACCA and our members have been active participants in the ACCC's inquiry into the price of childcare, including through:

- Targeted meetings with Inquiry Executive General Manager and Commissioner
- Compliance with compulsory requests for data and information
- Invitational roundtable/s
- Voluntary information, including survey participation
- ELACCA submission responding to ACCC's June 2023 Interim Report

Data in this paper

An overview of the dataset that informs this analysis, comprises input from 17 ELACCA members.[1] Note the following features and limitations of the dataset:

- The data covers 2,268 services (although we only received substantive time series data for about 2,219 services, and session-level data for 2,105 services)
- All providers gave some provider-level information (i.e. filled in at least one variable we requested) for the years 2021 and 2022. Only 4 providers could give data going back to 2016 or 2017
- Only 2 providers filled in every variable requested, and only for the periods in 2022.
- No member provided every service-level data variable requested for every period – note that charts have been built with the providers / services that were able to submit data for that variable.

Context of large providers at ELACCA

As noted in our submission responding to the June interim report from the ACCC, we have found important information relating to the advantages of large providers of early learning and care. Our early analysis demonstrated while large providers generally charge higher fees, they are also more likely to be higher quality.

Specifically, our data found:

- *Higher quality of providers*: larger providers generally had higher National Quality Standard (NQS) ratings.
- *Higher quality and fees*: Among ELACCA members, providers with higher quality ratings charged higher fees.
- *Staff salaries and quality*: ELACCA member services with higher NQS ratings also tended to spend more on staff salaries and training.

Our previous submission also provided that fees at an individual service level vary to reflect local market conditions, and multiple cost drivers. Analysis of ELACCA-held data also showed that:

- On average ELACCA services change their fees 1.46 times per year.
- The most that any individual service at ELACCA changed their fees in 2022 was three times.

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[1] Please note that dandolo partners has been engaged, under a non-disclosure agreement, to support the analysis of data. At all times, data security and strict SharePoint data protections have been implemented to ensure no member had access to another member's data.

From the perspective of large providers, fees vary between individual services and broadly reflect local market conditions and cost drivers. This includes conditions, such as demand, competition, demographics of the community and other factors, such as occupancy, age and condition of infrastructure.

Local cost drivers that contribute to differences in fees charged across services also include property and staffing costs. Large providers generally set fees at a service level with a view to maximising affordability for families, and responding to local market competition and service viability.

Among our membership, cross-subsidisation will often occur across a service, with the birth-under three age group often costing a service more to run than the three-under six preschool age group. Lower fees charged for preschool aged children reflect lower adult:child ratios and, in states like Victoria and NSW, lower out of pocket costs for families may reflect investments made by their state governments in supporting the costs of preschool.

Key findings in September 2023 Interim Report

ELACCA notes the 18 key findings in the September Interim Report. Specifically, at a high-level we contest four of the key findings:

Key ACCC findings in September Interim Report	ELACCA response
Costs 4. Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.	ELACCA contests this finding. Among our members there is significant variation in costs within major cities and across all locations. The 'major cities' definition used by the ACCC is too broad and does not capture huge variation in costs between inner city, outer suburbs and some regional centres (for example Wollongong, Newcastle, Tewantin and Geelong are all classified as major cities under the current definition). We also query the methodology used to underpin this finding - cost per charged hour. Booked (enrolled) hours, for example, would be more optimal methodology.
Price regulation mechanisms 14.Childcare providers are optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.	ELACCA members design session lengths with the deliberate, primary purpose of affordable early learning and care that meets the needs of their community/family demographics.
16. More information is important for parents and guardians, yet the comparator website StartingBlocks.gov.au is not widely used by parents and guardians and can contain outdated information.	ELACCA questions the accuracy of this finding – we are informed that StartingBlocks.com.au is updated daily, using CCS data from Services Australia. We value the importance of independent rigour in reporting.
International childcare costs and price regulation mechanisms 17.Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.	ELACCA queries the accuracy of this finding, which does not appear to take into account recent reforms to affordability in Australia, including reduced fees for second and subsequent children, and additional affordability investment through the *Cheaper Child Care Act*.

Overview of ELACCA response to Draft Recommendations

ELACCA has considered the seven draft recommendations proposed by the ACCC in the September 2023 Interim Report. Our high-level positions are in the table below:

ACCC Draft Recommendation	ELACCA position
Draft recommendation 1 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.	Support
Draft recommendation 2 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: (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 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 (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 (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 (d) including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.	Support – note support for 2(d) is conditional
Draft recommendation 3 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: (a) considering the frequency, granularity and accuracy of information collected and published, to ensure currency for parents and guardians (b) focusing on publishing information that assists parents to accurately estimate out-of-pocket expenses and relevant information to assist parents assess quality factors (c) incorporating input and advice from the Behavioural Economics Team of the Australian Government (d) ensuring information is appropriately and effectively publicised to parents and guardians.	Support
Draft recommendation 4 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.	Support
Draft recommendation 5 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.	Support
Draft recommendation 6 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.	Support
Draft recommendation 7 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.	Conditional support for supply-side funding. Consideration of price controls requires further information and negotiation.

Detailed ELACCA responses to ACCC draft recommendations

Draft Recommendation 1

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

ELACCA supports the Australian Government restating the key objectives and priorities for the early learning and care sector, to inform Government investment in early learning and care. ELACCA would welcome these objectives being enshrined in legislation, with non-partisan support, to provide ongoing certainty for the sector. This would recognise our sector as vital social infrastructure for families and communities.

All reform to Australia's early learning and care system should be primarily focused on a child's development and learning objectives. Enabling parents and carers to participate in the workforce is an important, secondary benefit of early learning and care. Maintaining a focus on the rights, needs and safety of the child in all policy design, implementation and investment will maximise long term social and economic benefits for all Australians.

Key principles ELACCA supports in the development of policy and supporting measures, relating to early learning and care, include:

- Child-centred in all facets of design and implementation
- Enables maximum workforce participation for parents and carers – particularly for women
- Culturally safe and informed
- Efficient for Government/s, providers and families
- Nationally consistent in accordance with the *Education and Care Services National Law and Regulations*
- High-quality and inclusive provision
- Affordable, accessible and equitable conditions

Assuring children's safety is paramount across all parts of the sector and a vital consideration in setting policy and investment priorities. Maintaining quality provisions in keeping with the National Quality Standard (NQS) must not be compromised, including current qualifications, adult:child ratios, and line of sight protocols for all staff. Further, implementation of a nationally recognised working with children or vulnerable people check, a register of educators and recommendations that come from the Review of Child Safety Arrangements being overseen by ACECQA are a priority.

In collaboration with State and Territory Governments and the sector, and in support of Recommendation 6, we recommend strengthening the role of the Australian Government in nationally consistent stewardship of finance, planning, data transparency and workforce sustainability to deliver on high quality, affordable and inclusive early learning and care for all children and families. A stronger stewardship role at a national level can lead investment in early learning market growth so it is directed to high-quality provision and to geographical areas where it is most needed.

Further, ELACCA encourages alignment of policies across jurisdictions for national consistency and to minimise administration and compliance burden and increase efficiency, especially for large providers offering services across multiple states and territories, with differing funding and reporting requirements and timelines.

ELACCA notes complexity in balancing different objectives for early childhood education and care, but maintains a focus on children's learning, development and safety as the highest priority.

Draft recommendation 2

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:

(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 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

ELACCA supports tying indexation of hourly rate caps (HRCs) to input costs, if indexation is appropriate and sufficiently agile to reflect the diverse contexts and conditions across the country. ELACCA queries the interaction between this recommendation and the proposal for supply-side subsidies at Recommendation 7, but recognises that appropriate indexation of HRCs is an achievable, short-term measure that could contribute to a more effective system.

Consistent with the ACCC's findings, our analysis shows that early learning and care salaries have increased at a much higher rate than the Wage Price Index (Chart 1). Salary increases have aligned with increased expectations for the workforce (i.e. the 2018 changes to the NQF), regulatory changes (i.e. additional staffing requirements introduced in 2020), wider labour market pressures (i.e. responding to workforce shortages in the sector and across the economy), and with ongoing changes over time to Award rates. This clearly indicates the inadequacy of CPI or WPI as an indexation measure.

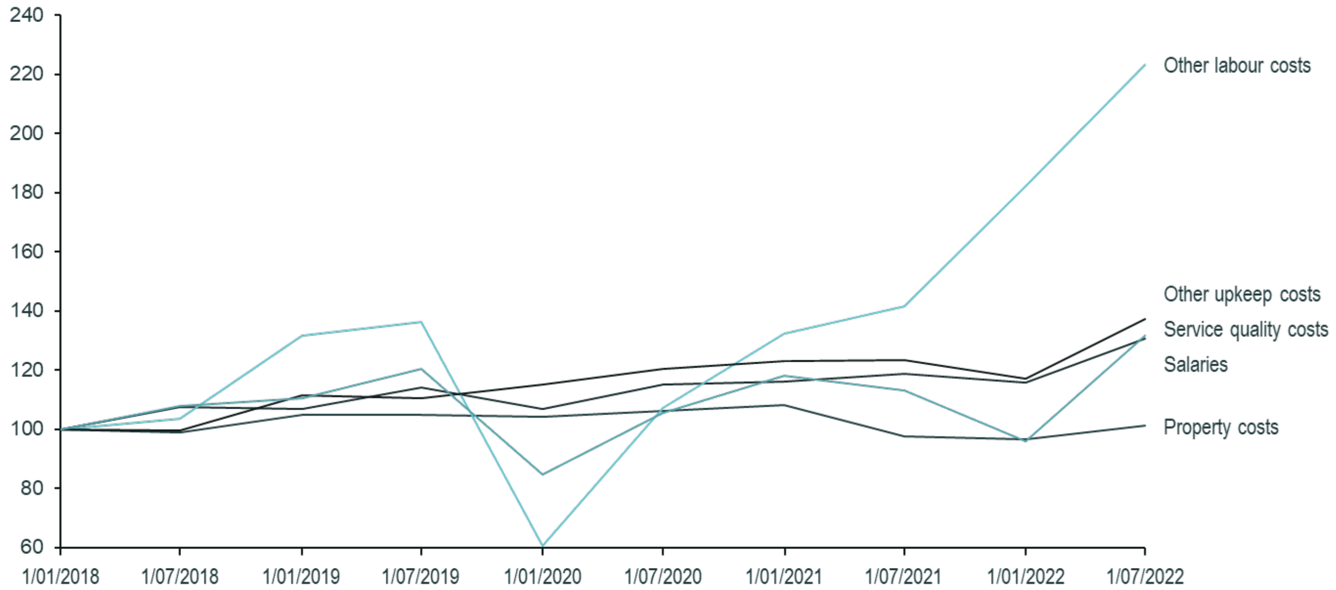
Chart 1: Median salary cost per configured place 2018-2022

However, wages alone may not provide a sufficient basis for adequate indexation. Chart 2 demonstrates there have also been sustained increase in other key cost categories, including costs relating to property, quality and upkeep (and other labour costs, which includes agency staff, investments in wellbeing and learning and development). Salary costs for human resources, finance, IT, compliance, direct support for services and management has also grown considerably, reflecting larger investments in people to support quality, and to reduce pressure on services.

The approach to resetting an appropriate base for the hourly rate cap must be sufficient to cover costs of delivery, including recent wage increases. Indexation to wage costs should be established at a minimum, so that funding settings keep pace with anticipated future wage rises, but other key considerations include:

- The feasibility of including other key cost categories. Although property costs have increased at a slower rate than salary costs, collectively they make up a median 15% of the total costs of delivery and provide a reasonable benchmark. Another key issue for providers is that leases are indexed at a fixed percentage or CPI (whichever is greater), therefore, market mid-term reviews can result in significantly increased costs.
- The geographic variation in both salary and property costs.
- The additional costs of delivering quality. Across ELACCA services, those with higher NQS ratings also tended to spend more on staff salaries and training. As a proportion of daily delivery costs per licensed place, those rated Excellent spent 86% on salaries and training, Exceeding services spent 81%, while Meeting services spent 78% and Working Towards services spent 73%.

Chart 2: Median service-level costs per configured place 2018-2022 (not including head office costs). Indexed to 2018 costs



While there is merit in indexing HRCs to input costs, it’s also important to understand that input costs are not consistent across all services, contexts or communities. This means improved indexation alone will not improve challenges with affordability and accessibility.

ELACCA notes the ACCC's position that costs are largely consistent for most services, with the exception of some inner metro areas and remote Australia.[2] However, our experience differs considerably, in that additional costs, especially labour costs, are not limited to remote areas and inner metro services.

The variation in fees across the country partly reflects local market conditions, but also reflects differences in cost drivers. The full cost of delivery includes a range of factors including pay and conditions, level of demand, competition, demographics of the community and other factors, such as occupancy, age and condition of infrastructure. For example:

[2] ACCC (2023) *Childcare Inquiry: Interim Report*, September 2023, Commonwealth of Australia, p.28

- In various locations, additional investment is needed to attract staff to locations (for example, we are aware anecdotally through our membership that Rose Bay in Sydney is as expensive to staff as the most remote town). These costs impact supply and access.
- As noted in greater detail in ELACCA's previous submission to the ACCC, rental costs of up to $9000 per licenced place are being incurred by providers in some metropolitan areas, with services becoming unviable. Rents are variable and influenced by more than geography. We found that they are generally higher in postcodes where there is a high concentration of services. The median ELACCA service in high concentration area was paying $2,756 in rent per licensed place, compared with $2,569 in medium concentration areas and $2,467 in areas with low concentration (which is a 12% difference between low and high concentration). Refer to Chart 8 for the full range in NSW.
- Occupancy is also lower in many regional and remote areas, making it much harder to fill places and be a cost effective and viable option for providers. As noted in our previous submission, occupancy in the early learning and care sector is different to other commodities, as our staffing costs are not linear and a high proportion of costs are fixed. Staffing ratios, of which ELACCA is very supportive under the National Quality Framework, can have a significant impact on staffing costs, where one extra child in a service can equate to an additional staff member, depending on the ratio requirements and physical configuration of that room.

ELACCA suggests that the ACCC's analysis has missed some of the key variation in cost of delivery in part because the 'major cities' definition currently being used by this ACCC is too broad and does not capture huge variation in costs between inner city, outer suburbs and some regional centres (for example Wollongong, Newcastle, Tewantin and Geelong are all classified as major cities under the current definition).

ELACCA is also concerned that the inclusion funding loading described in the report is unlikely to be sufficient to cover costs. In addition to indexing HRCs, reforms to the Inclusion Support Program (ISP) should ensure the inclusion of all children by increasing and indexing the ISP additional educator hourly rate and providing greater flexibility in hours of support to match patterns of children's attendance. The current rate is close to minimum wage and insufficient to cover costs of appropriately qualified inclusion support educators, which is a barrier for inclusion.

ELACCA recommends inclusion to be adequately funded and supported with a tiered model to provide the child, service and community level funding entitlements.

(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

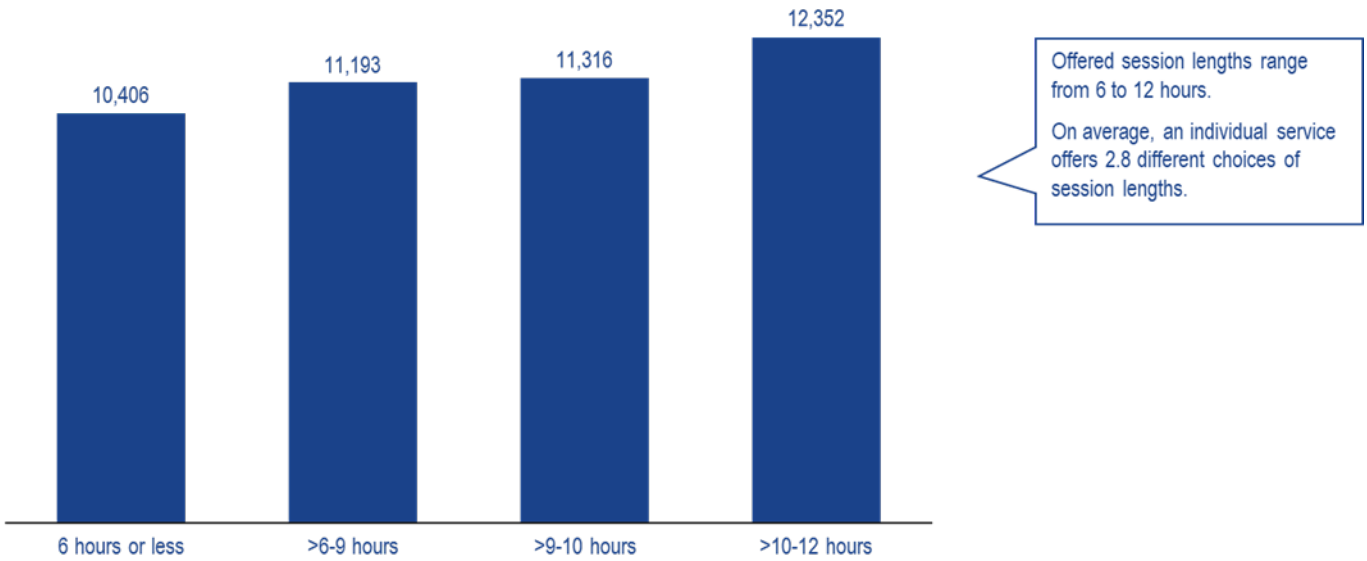
ELACCA supports this recommendation, where due consideration is given to the varying requirements of settings and locations, and the need to maintain flexibility and quality. The introduction of a daily fee cap would need to reflect the fact that services offer different operating hours to meet differences in community need, and must not create incentives to operate shorter days (for example, by setting the daily cap at a level that's sufficient for services running 8am-6pm but not those operating 6 or 7am to 6 or 7pm). To ensure services are not over-subsidised on balance, ELACCA suggests consideration of a loading fee in setting daily fees. The loading determined must take into strong consideration equity and higher cost contexts.

ELACCA refutes the ACCC argument that providers are using different session lengths to 'game the system' and creating burden for taxpayers.[3] Services across the country offer a range of session times, with virtually all services providing multiple offerings (Chart 3). A key objective of the CCS legislation was to create more flexibility for families and enable greater levels of participation – and providers use different session lengths to ensure the fixed costs of delivery are able to be met while minimising out of pocket costs for families and tailoring service offerings to different family and community circumstances. For example, many providers offer 6-hour sessions to low income families to enable their children to access preschool programs within their entitlements, while also offering 12 hour sessions to

[3] ACCC (2023) *Childcare Inquiry: Interim Report*, September 2023, Commonwealth of Australia, p191

families that may have lengthy commutes or need greater flexibility around pick-up / drop off times. Differences in session length is an indicator of the legislation working as intended and achieving its objectives of increased affordability, accessibility and days of participation of ECEC. The fact that there are more full-time families, and that CCS expenditure has not increased beyond what was anticipated in forward estimates, proves the policy is working.

Chart 3: Distribution of session lengths across all services (June 2022)



A daily fee model that covered the fixed costs of delivery but gave families the ability to use the number of hours of early learning and care that meet their needs and circumstances would – if well-designed – further strengthen accessibility and flexibility for families, with particular benefits for families experiencing vulnerabilities. It would help make the CCS easier for families to understand and better equip them to understand price differences between services, although there is still considerable complexity involved in understanding each family's entitlement to the CCS and this change would not fully resolve those challenges. If properly reflective of the cost of delivery, and indexed appropriately, a daily fee model would also create more stability for providers and enable greater investment in the workforce (including enabling more permanent roles and full-time positions).

There are two key considerations for the ACCC in considering a daily fee arrangement:

- **The interactions with Recommendation 7 and the work currently being undertaken by the Productivity Commission to review funding for the sector**: It may be that moving to a daily fee model is too complex to be an effective short-term fix while another funding model is being designed. There's likely to be considerable complexity in implementation for providers, in communication to families, and to make changes to the operation of the CCS ITS and third-party IT providers.
- **Setting a daily fee appropriately**: Given differences in cost of delivery and diversity what elements of delivery are included within fees, there's considerable risk that a blunt or insufficient daily fee would create viability issues in some communities, drive lower quality or push other costs on to families. As noted, it could also create incentives to operate shorter days even when this does not align with community need.

Case study 1 below demonstrates the impact that different session times and opening hours can have for family out-of-pocket fees, and illustrates why services offer different sessions for different family and community circumstances.

Case study 1 – Changes in out-of-pocket costs for different session lengths

A service charging $155 a day open for 10.5 hours a day (7.30pm – 6pm) has an hourly fee of $14.76, above the hourly fee cap.

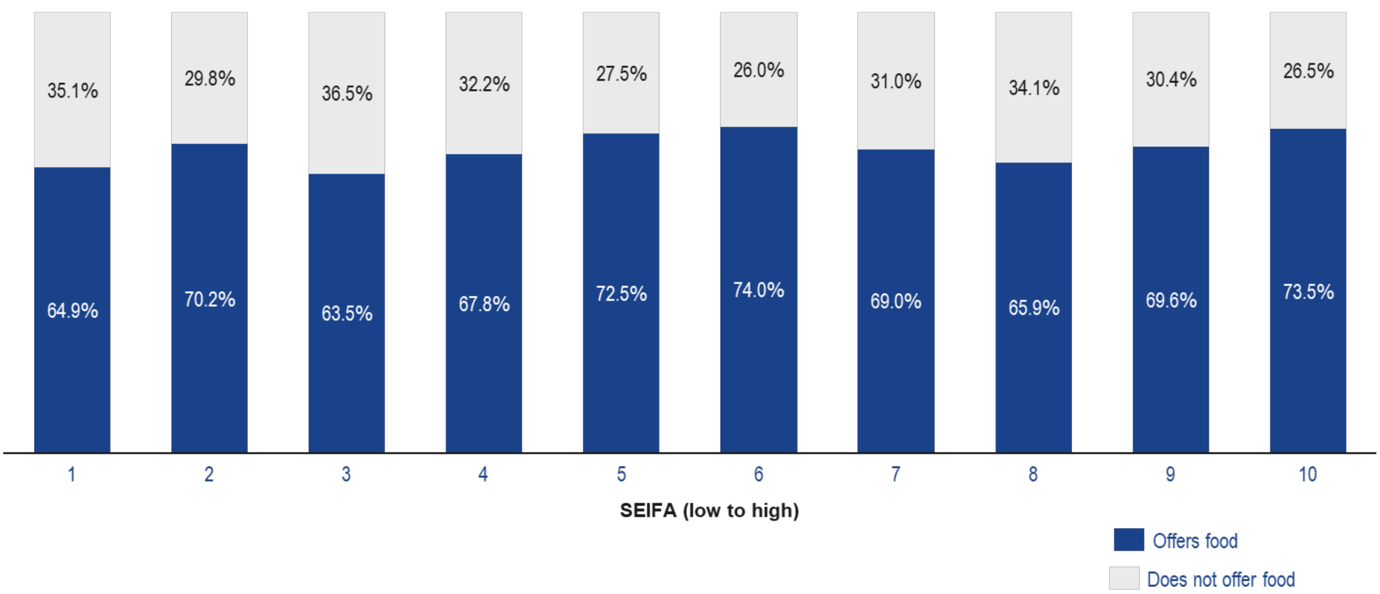
A family with a 75% CCS rate would have an out-of-pocket cost of $46.88 per day. If the service extended its opening hours to 12 hour a day, minimal staffing costs would increase and fees would need to be increased by around $2 a day to $157 a day. But the average hourly fee would fall to $13.08, below the hourly fee cap, and the family's out-of-pocket cost would fall to $38 a day.

A daily fee would need to take into account the variability of what's included in the core service offer and where families are charged for additions. For example, for 70% of ELACCA members food is included in their core offer, while 30% offer a variety of education-focused incursions like art, music or STEM programs within their fees – and on average, services including food, incursions and nappies charge higher fees.

The provision of food and incursions is reasonably consistent across geographies and socio-economic status (Chart 4), indicating these offerings are not confined to particular communities or types of services. It's important not to disincentivise services from offering additional services that meet the needs of their community, or to create incentives to pass on the cost of core products like nappies onto families. The provision of meals and food should not be considered an optional extra. This is particularly important for children attending services located in lower SEIFA areas, and/or for families experiencing disadvantage or vulnerability. Similarly, clothes washing and adult / child bathing facilities are imperative in very remote communities and should not be considered 'extras'.

It is worth noting that some states require all costs to be included in fees to be eligible for State Government funding, for example in Queensland's 'Free Kindy' program.

Chart 4: Share of services offering food, by SEIFA (2022)



(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.

ELACCA supports abolishing the activity test, rather than a relaxation or reconfiguration of it. The activity test acts as a barrier to access to early childhood education and care, particularly for children from families experiencing vulnerability and/or disadvantage. Arguably these are the cohorts who have the most to gain from early childhood education and care. Research of an Abecedarian early years program targeted at highly disadvantaged cohorts found a return of 7%, a conservative estimate which did not factor in a range of wider potential benefit sand impacts This study adds to the evidence that early education for children in low-income families is a very good public investment.[4]

ELACCA supports the removal of the current activity test within the CCS so that children can attend early learning and care for the number of days required by their family, with no minimum number of hours of parental employment, study or other activity required. Children's familiar and safety in an early learning environment is a prerequisite the supports families, particularly women, to engage in the workforce.

(d) including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.

> "…while margins are highly variable between providers in Australia, margins for large providers do not appear excessive in aggregate over the period 2018 to 2022".[1]
>
> ACCC September Interim Report, p191

ELACCA's support for recommendation 2(d) is conditional on further information around the price and outcomes monitoring mechanism and design, and more clarity about the problems it is intended to solve.

From the findings by the ACCC in the September 2023 Interim Report, no compelling case that price controls are required has been made. The Report finds that margins for large providers aren't excessive in aggregate over the period 2018 to 2022.[5] It's clear that the costs of delivery – particularly salary costs – have been over and above indexation, and in line with policy and regulatory changes, and that fee increases are broadly reflective of these changes in cost of delivery.

The comparative analysis of the cost of early learning and care between Australia and other OECD countries does not take into account the *Cheaper Child Care* legislation or the introduction of reduced fees for second and subsequent children, and with these reforms it's unlikely that the cost of early learning and care in Australia is significantly higher than peer countries. Further, it's not clear that price controls have been successful or have worked effectively in cited jurisdictions.

While there's merit in government playing a stronger stewardship role in understanding the cost of delivery, monitoring prices and understanding if its policy settings are delivering their intended outcomes, there's also risk in intervention if its poorly informed or based on incomplete or inadequate data. A highly nuanced understanding of cost base and local market contexts is required by Government to make appropriate and informed assessments of whether fee increase are reasonable, as well as the broader economic context (for example, lower unemployment, inflation, etc).

Further, while there is an important role for government in monitoring system outcomes, it is important to emphasise that the proposed Preschool Outcomes Measure (POM) must not be used as an accountability tool for providers or be tied to funding decisions in any way. Its primary purpose is – and should remain – informing the pedagogy and practice of teachers and educators. A wider set of system outcomes may be appropriate for ongoing monitoring.

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[4] W.S. Barnett, Leonard N. Masse *Comparative benefit–cost analysis of the Abecedarian program and its policy implications* National Institute for Early Education Research, Rutgers University, 120 Albany Street, Suite 500, New Brunswick, NJ 08901, USA Received 1 March 2005; accepted 26 October 2005

[5] ACCC (2023) *Childcare Inquiry: Interim Report*, September 2023, Commonwealth of Australia, p191

ELACCA members support transparency and would be interested in engaging with Government in the consideration and potential development of outcomes monitoring, and data used to inform policy and investment decisions.

Draft recommendation 3

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:

(a) considering the frequency, granularity and accuracy of information collected and published, to ensure currency for parents and guardians

(b) focusing on publishing information that assists parents to accurately estimate out-of-pocket expenses and relevant information to assist parents assess quality factors

(c) incorporating input and advice from the Behavioural Economics Team of the Australian Government

(d) ensuring information is appropriately and effectively publicised to parents and guardians.

ELACCA supports this recommendation, and recognises the importance of Starting Blocks as a Government-run, outward-facing point of truth and transparency for families and providers. Free and reliable information for families should be accurate, easily navigable, and easy to interpret.

ELACCA notes and understands through our engagement with ACECQA, that Starting Blocks is updated daily, derived from data collected by Services Australia on behalf of the Federal Department of Education.

ELACCA supports ACECQA continuing to work with the Department of Education on ensuring the CCS calculator is as comprehensive as it can be. There are significant benefits in increasing the transparency and understanding for parents and families with regard to out-of-pocket fees – often a confusing and complicated calculation – and current quality ratings across services.

Accurate and timely information available on Starting Blocks is useful for providers to understand local market fees, and to support increased transparency of the sector. ELACCA welcomes the increased transparency and reporting requirements for large providers have come into effect under the Australian Government's *Cheaper Childcare Act* and support this being extended beyond large providers, to all providers.

ELACCA welcomes input and advice from the Australian Government's Behavioural Economics Team, in any redesign or targeted improvements to the Starting Blocks website. Improvements to the user experience of the website are welcome, and is a necessary investment to enhance and future proof the technology and functionality.

To ensure efficiencies, it would be beneficial to minimise any administration or compliance burden for large providers, for example, the use of automation in the implementation design would be worthy of strong consideration.

ELACCA supports targeted funding for ACECQA to actively promote, and raise the profile of Startingblocks.gov.au, following improvements being implemented.

Draft recommendation 4

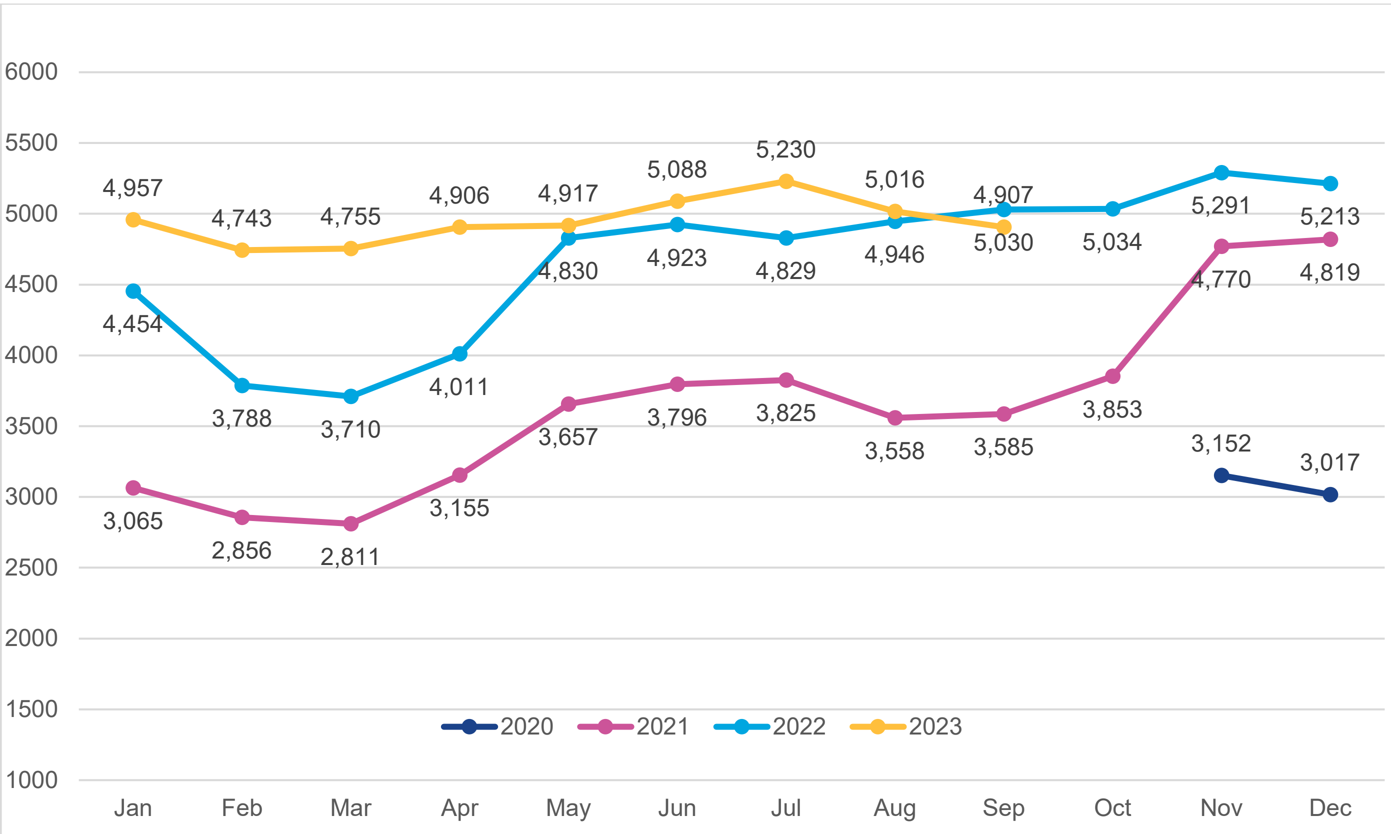
The ACCC recommends that governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.

ELACCA stands for quality early education and care, supported by a quality, qualified and appropriately valued workforce. We support the recommendation that government considers mechanisms to support the attraction and retention of our workforce, and building the esteem of the profession. However, ELACCA is strongly supportive of the current NQS framework, and ratios – we would not support any move to water down the current, very necessary adult:child ratio or qualification arrangements, in response to workforce shortages. The NQS ensures the quality and safety of Australian children attending regulated services within our sector.

It is widely understood that our sector is facing a workforce crisis. A recent survey from the United Workers Union found that of the 1000 centres surveyed, families couldn't access the days they need in about 80 percent of centres.[6]

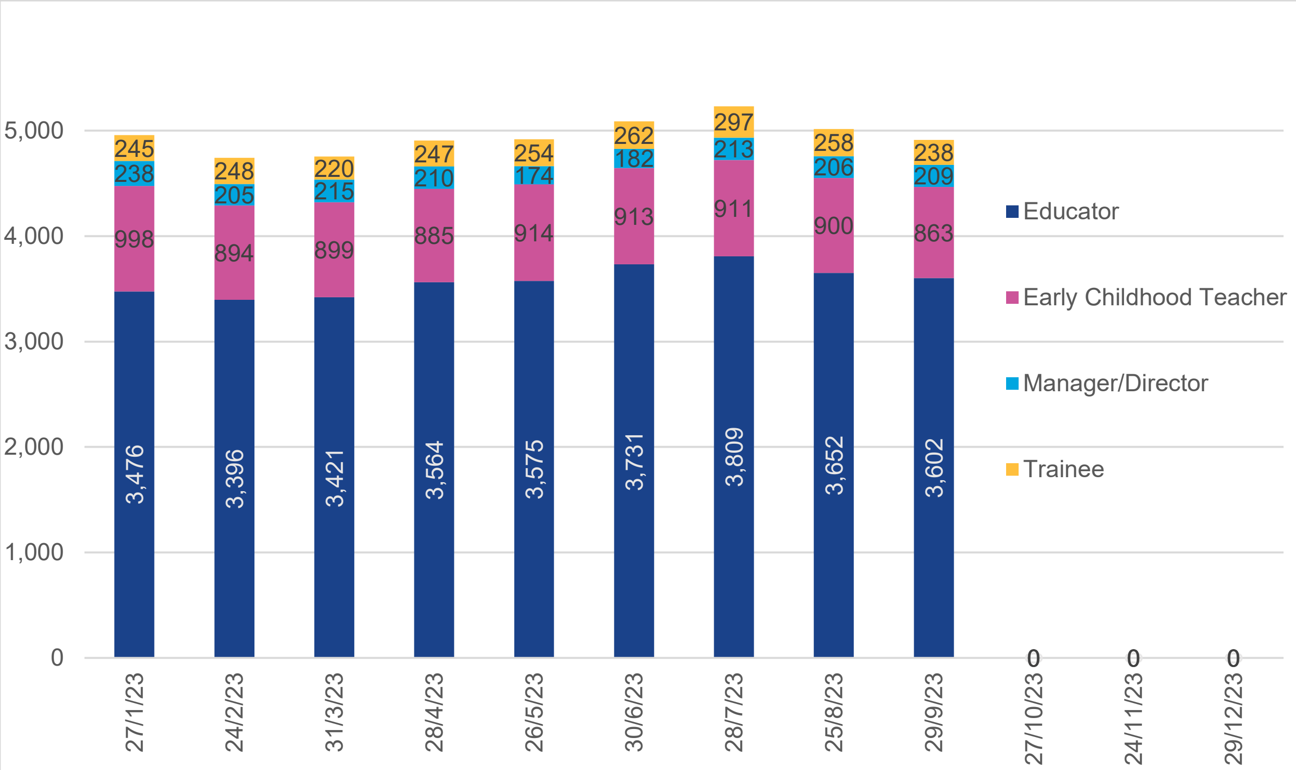
Chart 5 demonstrates the overall increasing number of vacancies in our sector, as reported by ELACCA members monthly since November 2020. Chart 6 shows the number of vacancies by qualification type as reported monthly by ELACCA members in 2023, to date. The total number across our membership hovers just under 5000 vacancies, the bulk of which are consistently the vital role of early childhood educators. Noting that ELACCA members comprise 26% of licensed places across Australia, this suggests that current vacancies across the sector are around 20,000.

Chart 5: Total ELACCA Vacancies by Year and Month (November 2020 - September 2023



6 Omoh Bello (SBS News), *Parents bear the brunt as early educators leave the sector*, https://www.sbs.com.au/news/podcast-episode/parents-bear-the-brunt-as-early-educators-leave-the-sector/nsvsorxmj, 23 October 2023

Chart 6: ELACCA Centre-Based Number of Vacancies by Position as at September 2023



There are vacancies in services across all parts of the country, in all roles. This needs to be addressed by a suite of long-term measures and investment, including an immediate and ongoing pay rise for educators and teachers, building the skills and training pipeline, a targeted skilled migration strategy and retention and uplift programs to keep our current workforce in the sector.

We know anecdotally through our membership, in order to adequately staff services in some geographical locations (including the Eastern suburbs of Sydney), several providers pay for staff transport to get to and from work by Uber, taxi or fleet cars. Travel time is included in the wages of some of these staff members.

The Case Study 2 on following page highlights a familiar situation for many providers in our sector, attempting to keep a service running in a rural community during severe shortage of qualified staff.

Case study 2 – Hard to staff service in rural Victoria

Context: Rural Victorian Early Learning Service

64 licensed places, open 51 weeks of the year, Monday to Friday from 7.30am – 6.00pm.

Service rated as Meeting NQS.

Assistant Director role vacant for 18 months.

- Previous assistant director relocated due to getting married and moving townships.
- Role continually advertised, with an offer made to one suitable applicant, which was declined due to their current employer offering above award payment that our provider could not sustain.
- Role remained vacant until service internally upskilled replacement in January 2023.

Centre Director vacancy role since January 2023

- Two applicants, but neither demonstrated the skills/experience necessary to undertake role.
- Reason for vacancy is that the previous Centre Director had a personal injury preventing her from returning to the role in 2023.
- Provider does not believe this role is vacant due to a poor culture.
- Three-year-old ECT resigned in December 2022 to take up a job at local primary school, and the service was advised that this was due to better industrial conditions. Despite advertising for six months and working with State Government, access to an external recruitment agency and a $50,000 relocation incentive, nil applications have been received.
- Provider applied for a waiver and currently have in place an internal educator enrolled and studying their Bachelor of Education (Early Childhood) – waiver granted in July 2023 to fill vacant role.

Educational Leader vacancy, 6 months vacant in 2022 and 2023.

- Despite advertising, nil applications were received.
- An internal staff member returned from Parental Leave in 2023 and now taken on this role.

Impact on service provision

- Number of service closures: 9 in 2023 (to date) / 38 in 2022, due to lack of relief / casual educators.
- Nursery room is capped at 12 (instead of 15) on a Friday due to lack of requisite staff.
- Current wait list sits at approximately 100 requests.

ELACCA calls for Government to partner with providers to fund an ongoing pay rise for the early learning and care workforce, to achieve and enshrine in legislation pay parity of the early childhood educators and teachers, with equivalent staff in primary schools.

Adequate release from face to face for planning and reporting, and expansion of the current government professional development opportunities to all services, would have a positive impact on the wellbeing – and ultimately retention – of our existing early learning workforce. An essential and short-staffed sector, carrying less experienced staff, urgently require more time off the floor and mentoring from more experienced teachers. Any opportunity to reduce administrative burden for educators, teachers and directors should also be actively and regularly considered. Teachers and educators play a significant support role for families to navigate the overly complicated CCC system and other administrative requirements relating to their children.

In addition, ongoing co-investment in targeted workforce initiatives to attract, retain and reattract quality early childhood educators and teachers, including:

- Targeted tertiary scholarships and discounted HECS fees, free vocational education and training and school-based traineeships.
- Careers education initiatives that promote the value and importance of the early learning workforce from secondary school onwards and provide opportunities for school-based traineeships
- Increasing opportunities to engage and develop supernumerary trainees in the workforce

- Opportunities for Certificate III and Diploma-qualified staff to be supported to upskill and progress career within the sector.

Skilled migration is an important piece of the workforce puzzle. Recent changes in student visa arrangements following the pandemic, and in response to migration review, such as lifting Temporary Skilled Migration Income Thresholds have resulted in a negative impact on the sector. Noting that our workforce should be appropriately valued and renumerated. ELACCA members remain keen to work with Government to develop a targeted skilled migration response to current workforce challenges, to increase the supply of qualified early childhood educators and teachers, and ensure Australia is an attractive destination for qualified teachers and educators, internationally.

As noted in the September 2023 Interim Report,[7] building awareness and esteem of the importance of the workforce within and outside of the early learning and care sector is vital. This can be supported through:

- Ongoing investment in wages
- Fully funding and escalating implementation of our national workforce strategy *Shaping our Future*
- Promotion of the sector as a valued, attractive and impactful career option, including through a targeted and funded national campaign (like ELACCA's *Big Roles in Little Lives* initiative[8]).

A career in the early learning sector can be an incredibly rewarding one, and we want all members of our workforce to be valued and recognised for the critical role they perform, and to attract and grow a pipeline for a strong and stable future workforce.

[7] ACCC (2023) *Childcare Inquiry: Interim Report*, September 2023, Commonwealth of Australia

[8] ELACCA (2022), *Big Roles in Little Live.com* (accessed October 2023) https://elacca.org.au/big-roles-in-little-lives/

Draft recommendation 5

The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations (ACCOs) that provide childcare and additional support services for First Nations children, parents and guardians.

ELACCA supports supply-side support options for Aboriginal Community Controlled Organisations providing early learning and care for First Nations children, where invited by First Nations families and communities.

We know that the CCS, demand-driven model does not work for remote communities, including communities with high First Nations populations. The activity test is also an unnecessary barrier in many remote communities, hence our unqualified support for it to be abolished as at Recommendation 2(c).

ELACCA supports additional investment by Government, and a bespoke policy response that supports progress against the *National Agreement on Closing the Gap*. Improved early childhood development outcomes and lifting engagement of First Nations children, are best supported by tailored, wrap-around services co-designed with local communities, families and ACCOs.

ELACCA supports direct and culturally sensitive engagement with First Nations families and communities, and First Nations-controlled organisations. This includes ongoing dialogue with SNAICC – National Voice for Our Children, as the peak body that represents First Nations children and families, in the development and implementation of policy and funding settings for First Nations children.

Implementation of expanded supply-side funding for First Nations children should be co-designed by relevant ACCOs – and include consideration of targeted place-based and language group options in First Nations communities.

Draft recommendation 6

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.

ELACCA supports a strengthened role for the Australian Government, and State and Territory Governments, in the stewardship of finance, regulation, planning, and workforce sustainability to deliver on high quality, affordable and inclusive early learning and care for all children and families. The focus of this recommendation and through the interim report appears to be on thin markets, which we believe is one of several important roles for a Steward – oversupply is also an issue for consideration.

Stewardship should be considered beyond a role in monitoring prices and intervening in thin markets. Government can and should play strong and effective value-add role in market design and functioning, including limiting new entrants to markets with lower occupancy (which can put unnecessary pressure on competition for staff, for example).

It is also important to note:

- Thin markets exist both in regional and remote areas, as well as in areas with low employment. Some sophistication is needed to determine where and when it is appropriate to intervene in the market.
- The importance of high-quality provision in under-served and vulnerable cohorts is critical and should inform the development of any funding models. Families and children experiencing vulnerability and/or disadvantage have the most to gain from access to early learning and care, and investment in high-quality services will result in a greater benefit for children and increased return on investment for government.
- Government needs to be supported by the sector to deepen its understanding of why providers aren't operating in thin markets. Building an understanding and awareness about the different costs of provision in different markets is also imperative to ensure an appropriate funding model for these services. Some ELACCA members already operate in thin markets, and cross-subsidise across their network to manage viability to ensure access to quality early learning in areas that need it most.
- There is inadequacy in current approaches to capital funding. The current funding levels do not reflect the actual investment required by providers to undertake a new build, even where land costs are excluded, and acts as a significant barrier to growth in thin markets.

ELACCA supports enhanced governance and targeted funding programs, including through select, competitive tender, to ensure investment in early learning market growth is:

(a) directed to high-quality provision

(b) to areas of greatest need, and

(c) prioritises capital expenditure for approved providers that can demonstrate a record of high-quality service provision in like markets.

Draft recommendation 7

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.

ELACCA offers qualified support for the introduction of supply-side funding. However, given the ACCC's clear finding that margins for large providers are not excessive, ELACCA finds insufficient information and rationale for the introduction of direct price controls.

ELACCA proposes that additional information and consideration is required by the ACCC before supply-side subsidies are recommended to Government. There are potential benefits to supply-side funding, if designed well, but considerable risks from overly blunt assumptions about the cost of delivery and inappropriate design decisions.

Key risks include:

- Inadequate levels of funding, for example, set rates based on an assumption that the cost of delivery is relatively consistent across services (see discussion below)
- Inadequate indexation that means the value of the subsidy decreases over time and does not keep pace with the changes in input costs, and/or
- Prescriptive approaches that reduce flexibility to:
  - Invest in the workforce (including investments in workforce quality, incentives to attract valuable staff or the ability to compete on conditions) and pedagogy.
  - Put additional resources into inclusion, to ensure the needs of children are met and that teachers and educators receive the support they need to work in more complex contexts.
  - Cross-subsidise within and between services, which is necessary to achieve equity objectives and support services in transition (including new services still building occupancy).

Further, we note the objective of price controls, including price caps, is to ensure providers do not drive up prices, and that value for money is achieved by Government. However, the setting of price caps in the NDIS market has created issues that we would be keen to avoid in the early learning and care sector, including:

- The blunt way price caps are set is not helping providers respond to the needs of participants or encouraging innovation. Some NDIS providers have noted this also makes it hard to invest in the capability of their workforce.
- While price caps are slightly higher for participants with higher and/or complex needs, the current price caps still are not sufficient to support access for participants with complex needs.[9]

Cost of delivery can vary significantly, so blunt cost assumptions are likely to create viability, quality and equity risks. The September 2023 Interim Report argues that property and labour costs are relatively consistent across the country, but our more granular analysis indicates this is not accurate, and there is much more significant variability. If just considering median costs, there's relative consistency in salary and property costs between metro, inner regional and outer regional areas. However, when examining the distribution of costs within these geographies, it's clear that costs are far from homogenous. A supply-side funding model based on median costs will not cover the cost of delivering *quality* education and care for a high proportion of services.

A deep dive into the distribution of salary and property costs of ELACCA members in NSW bears this out. Looking at just the difference between the 25th and 75th percentile of services in major city postcodes:

- Salary costs vary from $13,400 per configured place to nearly $19,600 (Chart 7)
- Property costs vary from $2,200 per configured place to $4,500 (Chart 8)

For both salary and property costs, there are significant outliers that sit well beyond the median cost. (Note that the significant property costs incurred by large providers are discussed in greater detail in our previous submission to the ACCC).

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[9] NDIS Review Secretariat (2023), *The role of pricing and payment approaches in improving participant outcomes and scheme sustainability* https://www.ndisreview.gov.au/resources/paper/role-pricing-and-payment-approaches (accessed October 2023), Australian Government

Chart 7: Distribution of service-level salary costs per configured place across NSW postcodes ($ per configured place)

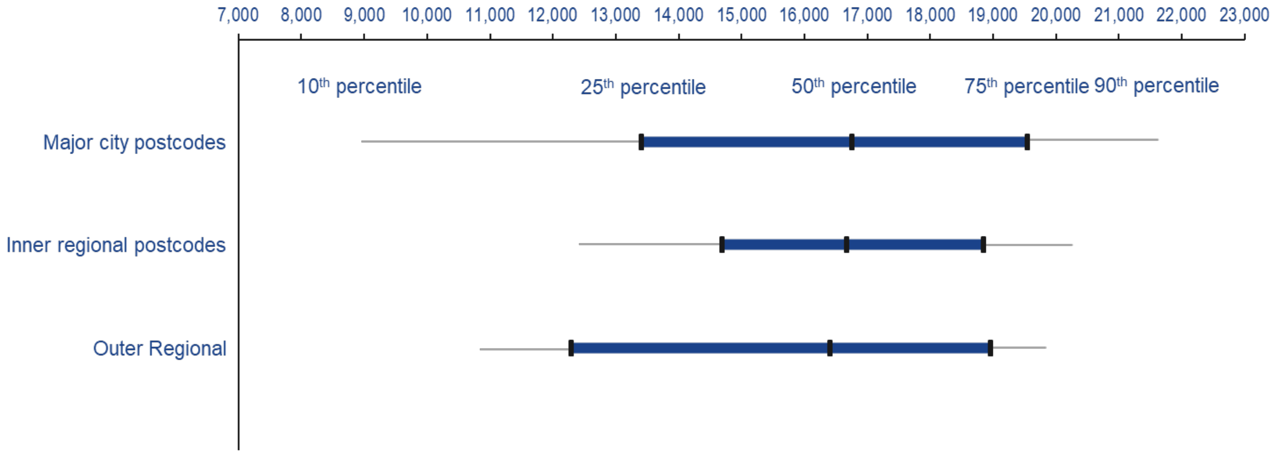
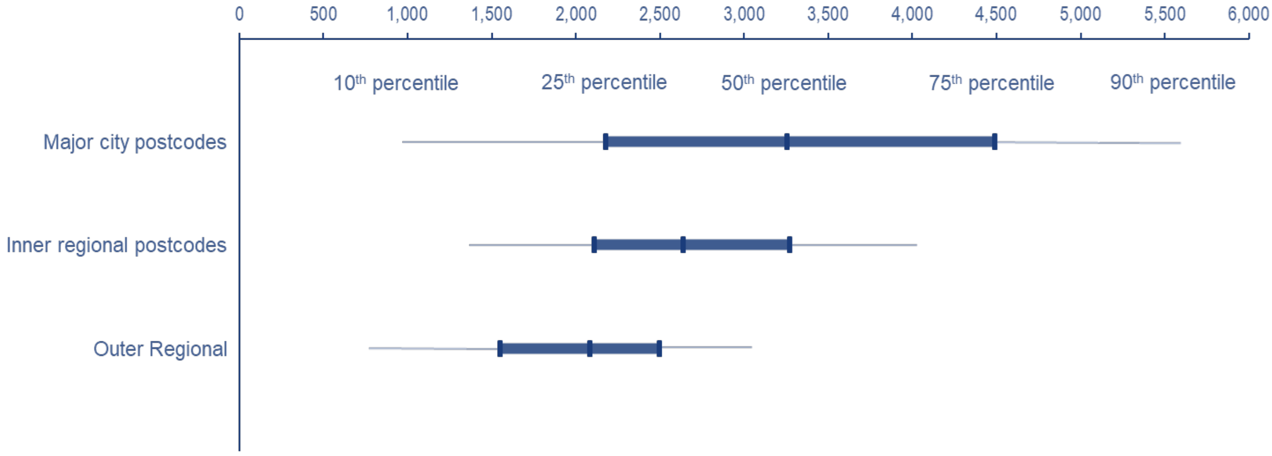


Chart 8: Distribution of service-level property costs per configured place across NSW postcodes ($ per configured place)

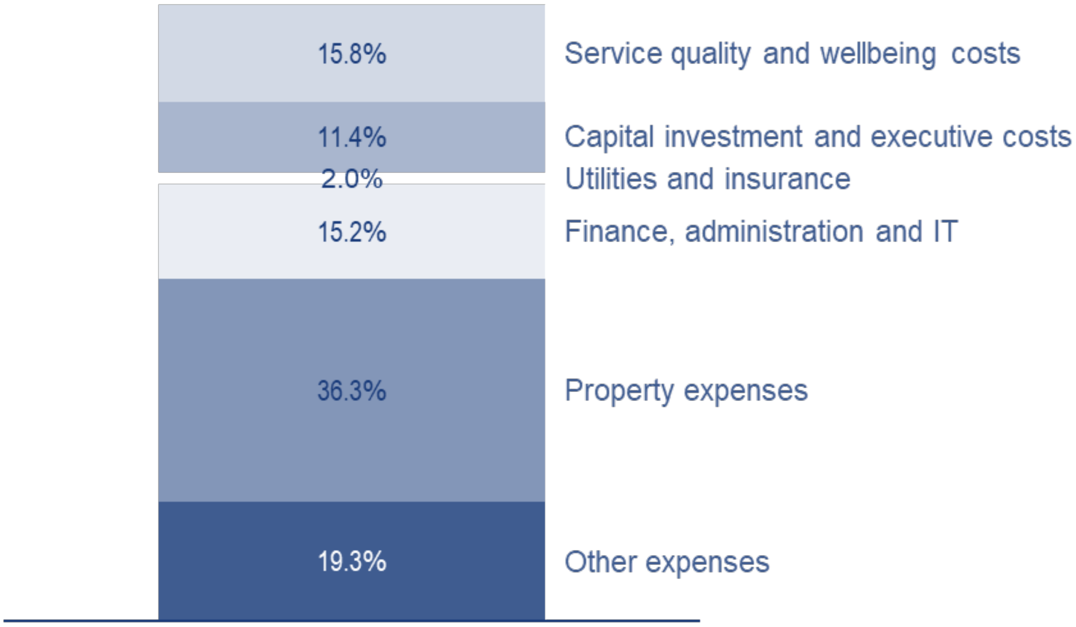


If the funding model is not set appropriately, it could create viability risks for services with higher salary or property costs, lead to a 'race to the bottom' on quality and/or more homogenous service offerings that aren't responsive to community needs / priorities.

Further, as the ACCC September 2023 Interim Report recognises, large providers make additional investments – over and above service level costs. While some head office costs centralisation of operational functions (like finance, property and other costs like marketing, vehicles, and administration) others represent direct investments in support to services, investments in quality and staff wellbeing.

Nearly a fifth of head office costs include investment in human resources, support with compliance and quality support, professional learning, workplace environments and travel out to regional services. These all represent critical investments in quality, inclusion and workforce attraction and retention – costs that are likely to continue to grow in the current operating environment and with ongoing workforce shortages.

Chart 9: Share of head office costs by category (% of median head office costs)



The sector would need to be heavily engaged in the design, development and implementation of any proposed supply side funding model. Further, additional information and deep analysis is required on the success or otherwise of the jurisdictions cited by the ACCC in Chapter 5 of the September 2023 Interim Report, for example, anecdotally we are aware the implementation of the system in Canada has been problematic.

ELACCA recommends a consultative, staged and targeted approach to any proposed supply-side funding, that prioritises both thin and thick markets and remote locations, where there is a more urgent need for intervention to improve access and quality.

Conclusion

ELACCA appreciates the opportunity to provide feedback on the draft recommendations in the ACCC's September 2023 Interim Report. To this end, we would be happy to host a consultation session with the ACCC and our CEOs to share their insights in greater detail.

For further information, or to arrange a consultation session, please contact:

Elizabeth Death, Chief Executive Officer – ELACCA
[redacted] [redacted]

or

[redacted]

Thank you for considering our submission.

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