

Submission to the ACCC Childcare Inquiry 2023

## **Second Interim Report**

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**G8 Education Ltd**

29 October 2023



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Ms Gina Cass-Gottlieb  
Chair  
Australian Competition and Consumer Commission (ACCC)  
23 Marcus Clarke Street  
Canberra ACT 2601

Dear Gina,

I am writing on behalf of G8 Education Ltd, Australia's largest for-profit provider of quality early education and care. We have a strong commitment to corporate responsibility and public engagement and welcome the opportunity to provide input into this Inquiry.

Our organisation believes that our sector expertise and insights can be a valuable resource for this Inquiry.

As an organisation deeply invested in providing accessible and affordable early education, we are committed to contributing constructively to the discussion.

Enclosed with this letter, you will find our formal submission, which offers a detailed analysis of the issues we wish to address, along with recommendations and data supporting our perspective. We hope that this submission will be a valuable resource.

We appreciate the opportunity to engage with the ACCC as part of this process and are standing by to contribute and assist however required.

If you have any questions, require further information, or would like to discuss our submission in more detail, please do not hesitate to contact me at [REDACTED] or [REDACTED].

Sincerely,

[REDACTED]  
Pejman Okhovat  
CEO & Managing Director  
G8 Education

## Executive Summary

G8 Education Ltd (**G8**) welcomes the opportunity to contribute to this inquiry into childcare services (the Inquiry) centred on understanding costs and prices and their impact on viability, quality and profits for all providers. Our team are committed to providing the best possible outcomes for children and families. We have invested significant time and resources to be able to provide the best possible support to the ACCC in this Inquiry.

We are a leading provider, supporting 44,000 children each week through early childhood education, early intervention and disability services – both in our centres and in their home. This context gives us a unique perspective to provide relevant feedback on the ACCC's interim report.

As an organisation we are guided by a set of values and a united purpose. G8 has a sustainable business model that ensures we will be a long-term, leading participant in the sector, delivering an essential service for families across Australia. We are thought leaders in the sector, driving policy change and proactively working towards finding long-term solutions to sector challenges. Further, transparency is a core value, and we consistently seek to go above and beyond to ensure openness in our operations. Our response has been developed with these guiding principles in mind.

The ACCC interim report is comprehensive and has shed light on many aspects of the sector. There are many important findings and recommendations with which we agree with, however, we do not support all of them. The ACCC report has demonstrated that whilst there is complexity in regulatory factors, they have by and large assisted in maintaining fees and supporting family affordability. Furthermore, the ACCC report does establish the fact that providers are neither profiteering nor price gauging. Certainly, in the case of G8, our financial results have been disclosed publicly over a significant period and show that we operate at the lower range of profit margin within the sector.

G8 is proud to be part of a sector that has diversity of providers (a mixed model) within it, as our collective provides vital service across the country and has improved quality standards and pay and employment conditions for educators across both for-profit and not-for-profit providers. We encourage the ACCC and the Government to recognise the importance of all providers within the sector, understand their contributions, understand their different operating models and different cost structures, well before making any decision based on very high level aggregated numbers.

It is vital that the Government ensures any changes to regulations will assist removing complexity out of the sector for all stakeholders, improve workforce shortages, improve accessibility for vulnerable children and those in very remote areas, and overall affordability for families. At the same time, it is important any regulatory changes considered do not have adverse effect on quality standards, and that they take into account all costs associated with delivering high quality education and care for all providers.

G8 asserts that just like the National Disability Insurance Scheme (NDIS), to maintain a sustainable sector, a combination of for-profit and not-for-profit operators are essential to meet the growing need for early education.

Our response has been divided into two sections, with the first providing some general observations on the draft key findings. We then offer our views on some selected draft recommendations. At a thematic level, our response captures:

<b>Matter</b>	<b>Summary</b>
Draft findings	<ul style="list-style-type: none"><li>• Many findings have been made that G8 supports.</li><li>• The fundamental finding that margins are not excessive should be given prominence.</li></ul>
Draft recommendations	<ul style="list-style-type: none"><li>• G8 supports most of the draft recommendations proposed.</li><li>• Some support is conditional on proving no unintended consequences that compromises quality or financial sustainability.</li><li>• G8 does not support any form of direct price controls. The need for such is not proven. Any potential mechanism would be highly complex and may contain major risks to outcomes for children.</li></ul>

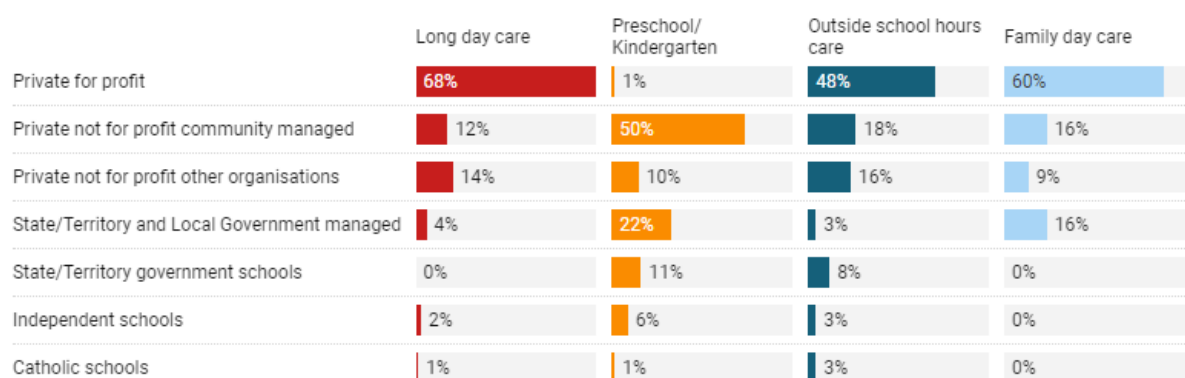
Please do not hesitate to reach out for clarification on any matters raised in our response. We would also welcome the opportunity to meet to discuss our response with your team.

## General observations on draft findings

There are a number of useful findings that materially align with G8’s internal analysis on the sector. The following commentary provide some observations, at a general level, on the draft findings.

### 1. Both for-profit and not-for-profit organisations are essential to the provision of education and care services to children in Australia.

#### Proportion of services (centres) by service sub-type



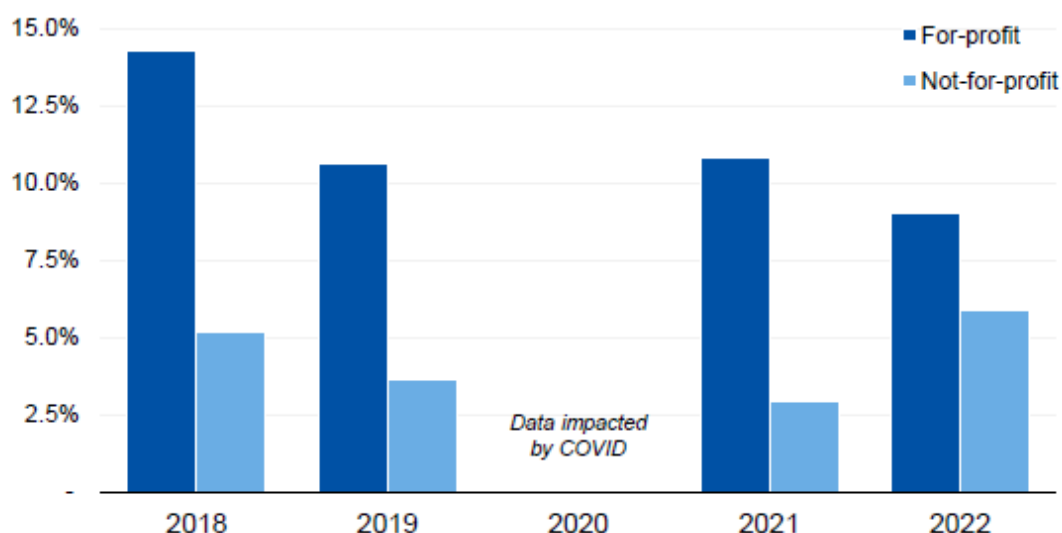
Source: ACECQA NQF Snapshot Q2 2023

Like the National Disability Insurance Scheme (NDIS), a mixed market of for-profit and not-for-profit providers is crucial to meet the capacity needs of Australian Families.

### 2. While highly variable between providers, margins do not appear excessive in aggregate.

This conclusion is fundamental to the formulation of recommendations and particularly relevant to exploring any form of regulatory changes.

#### Avg. profit margin (provider-level) for large providers of CBC (%)



It is noted that the profit margins of for-profit providers have fallen over the Inquiry period. G8 considers the most appropriate way to assess profitability is to calculate the return on capital employed and compare this to the cost of capital. Presently, G8's return on capital employed is below its cost of capital and we suspect this observation would extend on average across all providers. G8 believe it is important for the ACCC to consider alternative methods for analysis to ensure different operating models and cost structures are taken into account and to confirm our hypothesis on low levels of profitability.

***G8 suggests that the conclusion that margins earned by providers are not excessive is significant and should be included as a formal key finding in the report.***

**3. At G8 we strive to deliver high quality and affordable education and care to children every day, despite structural disadvantages.**

This is a key strategic focus area for G8 and we are proud of the progress we are making to reduce vacancy levels (to allow us to provide services to more children) and to improve team retention. We are seeking to achieve these outcomes despite some structural disadvantages we must navigate in comparison to other providers, including:

- Incurring relatively higher property and land costs.
- Having to pay payroll tax. For G8 this is a significant additional cost and is paid in all States and Territories at a blended rate of approximately 5% of G8's total payroll cost.
- Being unable to access a series of funding schemes provided to support attraction and retention of team, because of for-profit status.

Collectively these disadvantages impact upon G8's ability to afford to spend more on its valued team. These disadvantages are also experienced by other providers. We recommend that these structural disadvantages are taken into consideration when accessing relative wage levels between providers.

G8 highly value our Early Childhood Educators and believe they deserve a pay rise. To show our strong commitment to our team, we were the first provider to sign on to the Multi-Employer Bargaining process. G8 and are committed to working with Unions and Government to get the best outcome for all.

The process is designed to materially increase the level of wages paid across the Early Learning sector to educators to support their attraction and retention. Further, it is hoped that the Government will become a party to any negotiated agreement and will fund a contribution to the increase in wages through some form of direct subsidy. This macro development is important to acknowledge in future recommendations pertaining to wages.

We would welcome these observations taken into consideration during the process to produce the final report.

## **Data sharing opportunities**

Through the Inquiry process, the ACCC have had the unique opportunity to collate significant data on all sector participants. It is our understanding that this is the first time an extensive sector wide data gathering exercise has been undertaken. This is a valuable data asset that could usefully support the analysis and planning efforts of all providers to make better strategic and operational decisions to improve service, access, quality and cost for Australian families.



G8 believe there is community merit to the ACCC considering making the data available to providers, having been collated as a series of relevant databases in an appropriate anonymised form.

## Detailed response to selected draft recommendations

G8 supports a number of the draft recommendations. During this section we provide our views on those few draft recommendations that we conditionally support or do not support.

**Recommendation 2(a)** Determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of child care services. This could include consideration of labour costs as well as the additional costs associated with providing child care services in remote areas and to children with disability and/or complex needs.

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G8 position	Conditional support
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- The rise in the number of providers charging fees greater than the hourly cap is not led by a fundamental failing of that mechanism but rather by the material increase in costs experienced by the sector. Unfortunately these costs need to be passed onto families to support providers generating sustainable margins to continue operating.
- G8 welcomes recommendations to revisit the cost base upon which the hourly cap is modelled. This should support the cap moving in line (and not behind) the cost inflation being experienced by the sector.
- G8's support is conditional upon an appropriate basis for indexation being formulated that accurately reflects changes in the cost base of all providers.
- Further, consideration should be given to accommodating permanent differences in the costs base of providers, that have been highlighted in the report. This includes higher rents across certain regions and additional labour costs to attract and retain team members.
- G8 believes that broad sector engagement and extensive modelling is needed to ensure accuracy and effectiveness before implementing this recommendation.

**Recommendation 2(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 child care providers to reduce flexibility or quality.

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G8 position	Further analysis required
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- We consider that adopting a daily fee cap is potentially appropriate and warrants further exploration. We would welcome further engagement on the concept.
- Any daily fee cap would need to reflect the cost of delivery and should be indexed appropriately (see previous comments on recommendation 2(a)). Failure to account for the cost of delivery could result in quality being compromised as providers may be forced to lower operating costs bluntly.

- Further, flexibility is required to cater for differing family needs and those of our team. The daily fee cap needs to avoid any incentives for operators to offer shorter hours that does not match the requirement of families. For example, setting a daily cap from 8am- 5pm, while families need a service operating between 7am-6pm.
- In the lead-up to the increase of the Child Care Subsidy rate, we created a calculator to help our families optimise their affordability and accessibility. G8 does not support the notion that the current hourly capped system is purposely being “gamed”.

**Recommendation 2(d)** Including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.

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G8 position	Further analysis required
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- We are supportive of the recommendation if there are no unintended consequences that impact the quality of services provided or financial sustainability of providers.
- We do note that:
  - Fee increases over the Inquiry period can be rationally explained as a response to a faster increasing cost base.
  - There are differences in cost drivers between different geographies and situational settings. Any intervention must properly consider these factors.
  - There is a need to be mindful of unintentionally lowering quality standards to manage costs and subsequently lower price levels.
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**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.

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G8 position	Supportive as long as no impact on quality
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- G8 is very supportive of all measures designed to improve the attraction and retention of educators and teachers.
- G8 would welcome the removal of regulatory complexities between States such as teacher recognition/registry, that would encourage the attraction and retention of educators and teachers within our sector.
- However, G8 does not support any measure, that involves a lessening of quality, as contained in the National Quality Standards (NQS) to achieve this objective.



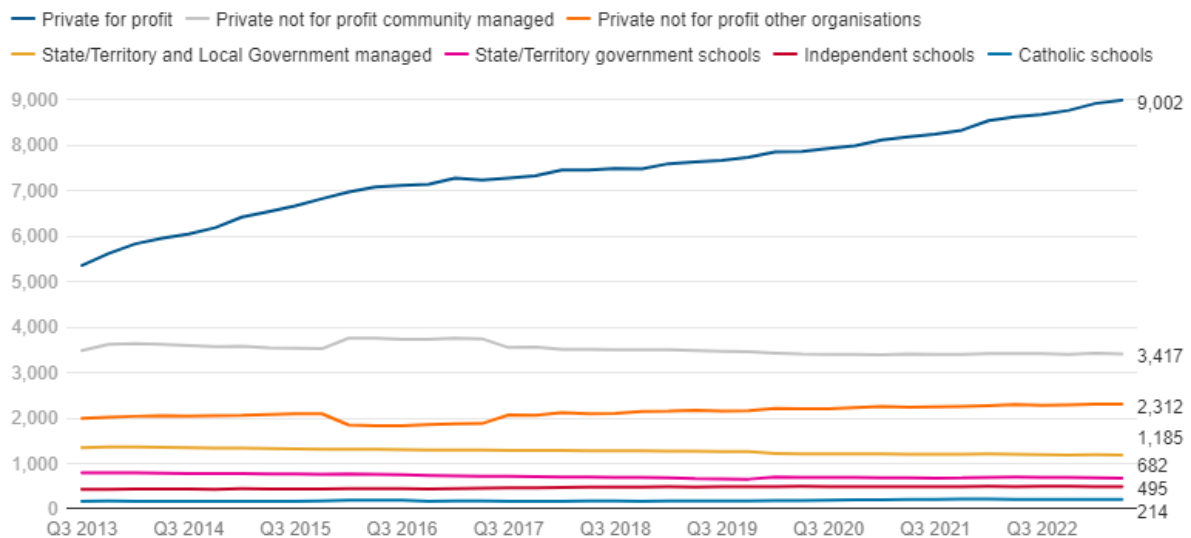


**Recommendation 7** The ACCC supports further consideration of supply-side subsidies and direct price controls. Some changes to the policy settings are likely to reduce the impact of the hourly rate cap as an indirect price control, and may warrant a shift to direct price controls supported by operating grants for regulated child care providers.

G8 position Does not support any form of price regulation

- G8 does not consider that the case for price controls or regulation has been proven. This is particularly relevant considering the ACCC have found fee increases are lower than the rise in costs and that margins earned are not excessive.
- G8 also notes on the 25 October 2023, Minister for Education, Jason Clare, and Minister for Early Childhood Education, Anne Aly, released a press statement highlighting the success of the increased Child Care Subsidy under the current hourly cap scheme has been successful in cutting child care costs by 13.2% nationally and putting downward pressure on inflation.
- As described earlier, the current market mix of providers is vital to the delivery of quality early learning and care services to children.

**Number of services by provider management type and quarter**



Source: ACECQA NQF Snapshot Q2 2023

- The above chart also highlights the role of for-profit providers to privately fund (with no reliance on Government funding) an expanded reach of services to economically viable areas. The threat to this continued expansion is poorly conceived intervention that limits growth, which price control is likely to do.

**Complexities**

- The intricacies of designing a robust price regulation mechanism that operates as intended through time would seem enormously complex. This would need to be based on a deep and thorough understanding of the costs of delivery, drivers of variability, and how they interact with utilisation across all operational situations.



- If this does not operate as intended, there is a risk that such a measure would compromise the quality of services provided, or worst case, the financial sustainability of operators.
- Any price control mechanism needs to also operate in a manner that encourages development and innovation, and ultimately supports providing the best outcomes for children. It is difficult to envisage how that would operate within an environment that is weighted towards containing costs to align with regulated pricing.
- Arguably, the current demand driven model is more conducive to encouraging investment in improving pedagogy, quality and team attraction and retention. In particular, amongst larger providers, G8 notes that the ACCC have observed that a driver of current head office costs is to make such investments.

#### **Multi-employer bargaining**

- G8 is currently a party to a Multi-Employer Bargaining process. The process is designed to uncover a way to materially increase the level of wages paid to educators to support their attraction and retention.
- It is hoped that the Government will become a party to any negotiated agreement and will fund a contribution to the increase in wages through some form of direct subsidy.
- Should this transpire, what conceivably will be introduced will be a form a supply side mechanism that aids cost management for providers while operating in conjunction with the current hourly cap/Child Care Subsidy demand driven mechanism to allow the advantages of that system to continue.
- Potentially this hybrid arrangement may more effectively deliver upon the Government's objectives for the sector and, therefore, should be given proper consideration alongside exploration of other options. G8 notes that any wage recommendations should take this development into account.

#### **Additional data needed**

- While an observation has been made that there has been a trend towards introducing price control mechanisms in other countries, limited information has been provided on their relative progress or success towards achieving their stated objectives.
- These would be a valuable input to any further consideration of the concept.