ACCC Childcare Inquiry
September Interim Report

Goodstart Early Learning submission
27 October 2023

Acknowledgement of Country

Goodstart Early Learning acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Custodians of all lands on which we live, work and play. We recognise Aboriginal and Torres Strait Islander cultures as enduring, living cultures and pay our respects to Elders, past and present.

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About Goodstart

We are for children, not profit

Goodstart Early Learning (Goodstart) is Australia's largest not-for-profit social enterprise and Australia's largest provider of early childhood education and care, with 660+ centres located across every state and territory, supporting more than 67,670 children from 56,800 families with a team of 15,639 employees.

As a not-for-profit social enterprise, our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. It is our view that all children should be supported to participate in quality early learning and care, regardless of where they live in Australia, their family circumstances, their inclusion support needs, or their early learning setting. We believe the best way to do this is to ensure all children have access to high quality, inclusive early learning and care no matter their location or life circumstances.

Overarching statement

Goodstart Early Learning (Goodstart) welcomes the ACCC September Interim Report as an invaluable contribution to inform the development of a truly universal early childhood education and care (ECEC) system in Australia. The findings and recommendations in this report – and the December final report – helpfully underpin a staged reform agenda for the ECEC system and the development of financing and policy instruments that support access to affordable, high quality and inclusive early learning for all children.

Not-for-Profit providers like Goodstart have consistently asserted we have a unique place in the mixed market and are efficient and effective at delivering on core public policy objectives because of the strong alignment between government objectives and NFP values and mission. The interim report proves this point with new, independent evidence that demonstrates NFP Providers are more effective at delivering on core government objectives in relation to: affordability, higher wages and better conditions for educators; improved quality of provision; and supply and access in low socio-economic and regional markets. It is crucial this finding is prominent in the final report as governments and the Productivity Commission consider objectives and design features for future reform.

We welcome consideration of partial or complementary supply-side subsidies in ECEC in recognition of the need to better understand and respond to cost drivers. We recognise there are features of supply side subsidies that are desirable to achieve specific policy objectives. However, there are significant risks to the sustainability of the market associated with supply-side funding mechanisms that need to be evaluated in assessing their feasibility as a primary financing instrument for ECEC provision in Australia. In particular, risks include: challenges associated with capturing or estimating accurate cost inputs; the significant variations in those costs across a highly fragmented ECEC market and the further variation in those costs driven by occupancy impacts across services. A key challenge is the complexity and cost associated with gathering reliable information about cost inputs, as demonstrated through this inquiry process. Drawing on international lessons in ECEC and local examples in other sectors, supply-side subsidies:

- are generally insufficient to address costs or cost increases over time
- are too inflexible to enable enterprise-level investment in quality and innovation, such as pedagogy and practice, inclusion and
- cannot contemplate or respond nimbly to emerging changes to the environment over time

Instead, we recommend further exploration of a more sophisticated demand-side mechanism, backed by supply-side top-ups to deliver on specific policy objectives and underpinned by a strong stewardship model, led by the Australian Government, focused on ensuring access to high quality, inclusive and affordable ECEC for all children. The Australian Government, as the primary market steward should work through a joint regulatory body with State and Territory Governments to specifically consider access and competition, affordability and workforce, with incentives for growth of not-for-profit provision, including through financial incentives to address capital and land costs. Consideration should also be given to the role of local, state and territory governments in managing supply, including through including zoning, planning and approval of new market entrants and tighter regulation of land development by private sector real estate interests for future early learning use.

Immediate priorities for action and reform

The ACCC analyses and findings provide a strong rationale for the following immediate steps to be taken by the Australian Government, as early as the December Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget:

1. **Immediately abolish the activity test:** The current activity test should be abolished as soon as possible because it is acting as a barrier to more vulnerable children accessing ECEC and creating a barrier to workforce entry (or re-entry) for some groups. This could be quickly and efficiently implemented by giving all families an entitlement of up to 100 hours per fortnight, noting cost of living pressures and the CCS means test are effective policy levers to ensure families continue to only use the ECEC they need.
2. **Deliver increased wages for educators:** The Australian Government must urgently fund an increase in educator pay with consideration given to the Multi-Employer Bargaining process underway. The ACCC confirms that a valued and stable workforce is critical to quality and that this can be improved by paying staff better and employing more of them full-time.
3. **Increase the Inclusion Support Program (ISP) hourly rate and apply indexation:** To remove cost disincentives to including all children in ECEC, the Australian Government must immediately increase the hourly rate for the Inclusion Support Program additional educator, index annually, and match hours of support to the child's attendance.
4. **Mandate real-time price transparency and quality information:** Immediate improvements to fee and quality reporting should be achieved by legislating real-time price and quality updates on StartingBlocks, to improve transparency for families and accountability for providers.
5. **Reset the Child Care Subsidy (CCS) hourly rate cap and apply indexation more reflective of input costs:** The costs of delivering high quality ECEC, i.e. labour and land costs, have been growing faster than CPI but the hourly rate cap has not. The hourly rate cap should be reset at the 85th percentile of fees in order to maintain its original affordability objectives. A more appropriate indexation rate should also be applied; one which better reflects increases in labour costs, (e.g. CPI 30% / award rate increases 70%).

Considerations and priorities for longer term reform

In the longer term, the ACCC should recommend that the Productivity Commission inquiry specifically consider:

- Delivering a **universal child-entitlement** to high quality, affordable and inclusive early learning for every child in Australia.
- Child- and service-level **inclusion funding**, which meets the needs of individual children with additional inclusion support needs and supports capability uplift, outreach and other service-level solutions, recognising that – within some markets – some providers are serving greater proportions of children likely to be vulnerable.

- The role for government as **market steward** to influence the ECEC mixed market beyond price, including in ensuring high quality and inclusive ECEC, access in markets of undersupply and oversupply, and incentives for growth of not-for-profit provision.

We welcome the opportunity to provide further information through formal consultation with the sector ahead of the release of the final report and in delivering on its recommendations.

Abbreviations dictionary

ACCC	Australian Competition and Consumer Commission
ACCS	Additional Child Care Subsidy
ACECQA	Australian Children's Education and Care Authority
CPI	Consumer Price Index
CCS	Child Care Subsidy
ECEC	Early childhood education and care
ECT	Early Childhood Teacher
ISP	Inclusion Support Program
NDIS	National Disability Insurance Scheme
WPI	Wage Price Index

IF YOU WOULD LIKE TO DISCUSS ANY PART OF THIS SUBMISSION IN FURTHER DETAIL, PLEASE CONTACT:

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Responses to ACCC draft recommendations

Please note: Throughout this submission, all responses relate specifically to provision of high quality inclusive early learning in centre-based day care (CBDC) settings, unless other service delivery types are specifically referenced.

Draft recommendation 1: Key objectives and priorities for ECEC

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 ☐ Do Not Support ☐ Unsure / No View

Position:

We support the recommendation for the Australian Government to reconsider and restate the objectives and priorities for early learning. In doing so, we recommend the objectives and priorities:

- Specifically state that the first objective is children's access to high quality, affordable and inclusive early education, recognising ECEC as the foundation of Australia's education system. This approach also delivers on the secondary objective of supporting workforce participation – for parents and carers of young children now, and to improve the productivity of all of Australia's children in the future.
- align with the elements of the Draft National Vision for Early Childhood Education and Care, being developed by early years Ministers for consideration by National Cabinet.[1],[2]
- recognise the significant social, economic and educational contributions ECEC makes to Australian society, including supporting workforce participation of families, as well as the long-term human capital benefits and benefits accrued from addressing disadvantage and vulnerability[3]
- recognise the ECEC workforce as crucial to delivering high quality early learning.

See also: Goodstart response to draft recommendation 2 (d) regarding price regulation.

Comments

We agree with the ACCC's assessment that the Australian Government should re-define the objectives of its investment in ECEC, with consideration to the benefits for children, families, employers and broader Australian society.
Clarifying these expectations will also help define the role of the Australian Government as a market steward, which should use regulatory, financing, market monitoring and planning levers to influence new entrants to ECEC and influence growth and market composition to ensure the ECEC market is delivering the following over the short, medium and long term. There should also be consideration of the roles of local, state and territory governments in supply of ECEC, including zoning, planning and approval of new centres.

Specifically, we recommend stronger policy and financial levers linked to quality and inclusion outcomes, including:

- an adequate supply of places that meet minimum quality standards and have a positive quality improvement trajectory;
- an adequate and sustainable workforce to supply places to meet demand;

[1] https://www.education.gov.au/download/15796/draft-national-vision-early-childhood-education-and-care/31860/document/pdf
[2] https://www.education.gov.au/early-childhood/strategy-and-evaluation/national-vision-early-childhood-education-and-care
[3] The Front Project (2019), How Australia can invest in children and return more – A new look at the $15bn cost of late action.

- a desirable mix of provision based on provider type (e.g., an increasing NFP share of provision) and age mix of children; inclusion and access for all children and families, and especially for cohorts of children and families most likely to benefit; and
- services are affordable for families and sustainable for tax-payers.

The current objectives of the Child Care Subsidy (CCS) system reflect the *Jobs for Families Package* introduced in 2018, where the primary objective was to increase parental workforce participation. This included a deliberate policy objective to reduce access to ECEC for children in families with insecure work, children in single income couple households and children in jobless families, with the CCS halving access to early education for these children and families. The complex activity test was designed to create an incentive for parents to work more hours or enter the workforce, however, successive evaluations have shown this has failed, with the result that the lowest income families now face the highest cost barriers and bear the full cost for the hours of ECEC they need at a rate far higher than more advantaged families.[4] This was confirmed by the ACCC (Sept report, pg 24) and reflects our experience where over 2,000 children in low income, low activity families dropped out of our early learning services between July 2019 and July 2022. The current activity test is working against the stated policy objective, especially for the lowest income families and is acting as a barrier to parents entering the workforce or working more hours.

The evidence about the benefits of early education, especially for children experiencing vulnerability, and the evidence of the economic and social benefits from investment in early education[5] has continued to grow since the CCS commenced. As have the expectations of families and employers and the value they place on high quality ECEC. This means the current stated objectives are not aligned with the evidence about what delivers the best returns for children, families, governments or taxpayers.

Draft recommendation 2: Considering, consulting on and simplifying the CCS

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.

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Support in principle, noting proposed changes to sub-recommendations below.

Draft recommendation 2 (a): Hourly rate cap base, indexation and loadings

Draft recommendation 2 (a) – Consideration be given to 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

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Support with change.

[4] Impact Economics and Policy (2022), Child Care Subsidy Activity Test: Undermining Child Development and Parental Participation.
[5] PWC (2019), A Smart Investment for a Smarter Australia: Economic analysis of universal early childhood education in the year before school in Australia, The Front Project; William Teager, Stacey Fox and Neil Stafford (2019), How Australia can invest early and return more: A new look at the $15b cost and opportunity.

1) We **recommend** draft Recommendation 2(a) be amended as follows to specifically outline the input costs and cost structures associated with providing ECEC services:

   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 childcare services. ***In determining the base rate cap,*** *consideration should be given to relative benefits of a base rate cap set based on fees charged compared to other cost-based mechanisms, noting the cap could be reset to the 85th percentile of fees charged in the short term to re-set its value. In terms of indexation, this should specifically consider how to reflect real increases in labour costs* ***(e.g. CPI 30% / 70% award wage increases)*** *to ensure it maintains value over time.*

   Longer term consideration should be given to having multiple rate caps (or loadings) adjusted to reflect the additional costs associated with providing ECEC services ***in high-cost areas (both remote and metropolitan/CBD areas) and to children aged birth to 3 years compared to children aged over 3 years.***

   Noting the higher costs of delivery incurred providing services to children with disability or complex needs, the Australian Government should make changes to the Inclusion Support Program to cover costs of delivery as an immediate priority, by increasing the additional educator hourly rate to cover costs of an additional educator up to $39/hour (inclusive of on-costs), introduce annual indexation of the subsidy and remove weekly caps on support hours.

N.B We agree with the ACCC's finding that supporting these children comes at an additional cost, which should be met by Government. We **do not recommend** that the current hourly rate cap is adjusted to more closely reflect the additional costs of providing services to children with disability or complex needs because the hourly rate cap is not an appropriate funding or regulatory mechanism to recognise or cover these costs. *This point is explored in further detail below.*

We **recommend** the ACCC make the following specific recommendations in the final report to inform the Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget:

2) Include a <u>new recommendation</u> that, 'As an immediate priority, the Inclusion Support Program additional educator hourly rate is adjusted to cover costs of a suitably qualified educator (an increase from $23/hour to at least $40/hour), indexed annually, and with hours of support matched to the child's attendance'; noting the current rate does not cover minimum wages[6] and therefore creates a financial disincentive for providers to enrol children with inclusion needs.

We **recommend** the ACCC make the following longer-term reform recommendation:

3) That the Productivity Commission and Australian Government explicitly consider:
   a. How financing instruments and indexation approaches for ECEC can best reflect labour costs and support improved educator wages over time, with specific consideration to higher labour costs that reflect investments in quality, including above award wages and above minimum standard qualifications mix.
   b. Consideration of loadings to complement a demand-side financing mechanism for a future funding system that recognise the higher costs of delivery based on location, age of children and having regard for charging practices, e.g. public holidays, Christmas shut-downs, holiday discounts, etc, which impact daily fees over a year.
   c. Design a complementary funding mechanism/s to deliver both child- and service-level funding (equity loadings) to support inclusion investment beyond the cost of an additional

[6] Current ISP subsidy rate of $23/hour has not been indexed since 2016. It does not cover the wages for the lowest possible ECEC qualification level (Certificate III, paypoint 1 educator).

educator (see below). This consideration by the Productivity Commission should consider and complement the NDIS Review, particularly in relation to early intervention and Tier 2 support for children with additional needs. Additional inclusion investment based on the profile of children in a service would reflect and address the ACCC's finding of higher costs of delivery for children with disability, First Nations children, children from culturally and linguistically diverse backgrounds and children with complex needs.[7]

We **recommend** the ACCC specifically conduct further analysis in relation to the following high priority and high risk areas and make findings in the final report:

4) Investigate the availability of places for children birth to 3 years with specific consideration to location, ownership type (i.e. for-profit and not-for-profit) and associated demand, including the growth in places for younger children in new services in the last five years. This should consider the impact of state government subsidies on supply of places in the ECEC market, i.e. preschool/kindergarten funding.

5) Undertake further analysis on data informing draft finding number 4 and publish revised cost and margin comparisons with consideration to variation across markets at a sub-regional level, i.e. not larger than the Statistical Area 4 level, and presented against licenced and occupied places.

6) Explore the actual costs of inclusion, particularly where costs associated with supporting children with additional support needs should be met by government programs, such as the ISP, but are being borne by providers. The final report should make a specific finding and complementary recommendation in relation to meeting the costs of inclusion, noting these have not been explored in detail in the September report.

Comments

1. <u>Base for the hourly rate cap to be reset to the 85th percentile of fees</u>

When the hourly rate cap was set in 2018, it was based on the 85th percentile of fees charged. It was designed with the intention of capping assistance in higher fee services and recognising that competition within local markets would keep downward pressure on fee growth. A rate cap based on fees charged was also recognised as the most efficient and effective way to achieve Government policy objectives due to the highly fragmented nature of the ECEC market, high variability in costs of delivery based on occupied (as opposed to licenced) places and the insurmountable challenges and complexities associated with gathering reliable information about cost inputs. The ACCC confirms Australia has high input costs, i.e. labour and land costs have increased above inflation (Sept report, pg 10). As a result, the hourly rate cap has been losing value over time.

In terms of simplicity and delivering on the key policy objectives, the hourly rate cap has been effective. The hourly rate cap has had a modest impact, with the ACCC finding that fees are generally bunched around a median local market fee (Sept report, pg 108) and consider this positive considering the challenges associated with other approaches to setting an hourly rate cap. Other beneficial findings include that fee increases tend to be larger (in percentage terms) for services below the cap than above the cap. However, the ACCC confirms Australia has high input costs, i.e. labour and land costs have increased above inflation (Sept report, pg 10). As a result, the hourly rate cap has been losing value over time as more services have a higher proportion of hourly fees (charged) move above the hourly fee cap, in line with costs increasing above CPI. By June 2024, 28% of services have (charged) fees that are above the cap by June 2023.[8] As birth-3 places have higher fees on average than 3-5 places, more of these fees are above the cap. This

[7] Child- and service-level inclusion investment explored further in Goodstart's May 2023 submission to the Productivity Commission, pg 45-54.
[8] Child Care Subsidy data report – June quarter 2023.

means that families with younger children face higher out of pocket costs than families with preschool-aged children.

The ACCC findings present a strong case for resetting the hourly rate cap to the 85th percentile of current fees in the 2024 Federal Budget (or earlier). Ideally, this change would also include applying a more appropriate indexation rate across Budget outyears; one which better reflects increases in labour costs. As birth-3 places have higher fees on average than 3-5 places, more of these fees are above the cap. This means that families with younger children face higher out of pocket costs than families with preschool-aged children. Further consideration of appropriate indexation to reflect labour costs and applying loadings for high-cost areas or younger children is explored below.

2. <u>Hourly rate cap and indexation to better reflect labour costs</u>

We concur with the ACCC's findings that labour is the largest cost for ECEC providers (Sept report, pg 39) and that labour costs have been rising faster than inflation and fees (Sept report, pg 11). Currently, the CCS hourly rate cap (and CCS income thresholds) are increased each July by the CPI in the previous December, so the timing lag may mean indexation does not reflect CPI at the time when the hourly rate cap is increased. It is important to note that both CPI and WPI may not reflect real increases in labour costs, specifically award wage increases (refer Table 1).

Consistent with the ACCC's finding that labour costs are much higher for large not-for-profit providers than for-profit providers (Sept report, pg 12) – and that this delivers benefits for children, families and taxpayers in terms of better quality and lower staff turnover – the Productivity Commission should expressly be encouraged to consider how a future financing instrument can better incentivise improved educator pay and conditions, including above award wages and conditions. At an individual service level – and considering workforce shortages and challenges in recruiting Certificate III educators – this should also consider how to ensure sector viability for services with a variable qualification mix above that required under NQF.

There are at least three credible methods for indexation of CCS: CPI, WPI and award rate increases. The ECEC sector is one of the most award-reliant sectors in the country and annual award increases generally run 12% higher than the Wage Price Index (WPI). Therefore, an indexation based on a combination of CPI and WPI is unlikely to be suitable as it does not reflect real labour cost increases. Instead, we recommend consideration of an indexation rate based on 30% CPI and 70% award rate increases (consistent with ACCC finding that labour accounts for approximately 69% of total costs). The award rate increase could be calculated using the C-10 Award Rate, i.e. Level 3-1 in the Children's Services Award), which is the reference rate for the annual award increases by the Fair Work Commission.

Table 1: Comparison of indexation options

	2018		2019		2020		2021		2022		2023
	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June
Consumer Price Index	2.10	1.80	1.70	1.80	0.60	1.10	4.80	3.50	6.10	7.80	6.00
WPI % increase	2.14		2.33		1.82		1.79		2.63		3.63
Childcare PPI % increase	4.0		6.0		3.8		5.0		4.4		5.5
Award rate increase (C-10)	3.50		3.00		1.75		2.50		4.60		5.75

This table shows the variation in indexation increases from 2018 to 2023 (to date), specifically, CPI, WPI, Childcare PPI and award rate increases. The table shows that, there is unlikely to be a single perfect indexation methodology and while a wage index based on national C-10 award rate increases would be an improvement on CPI, it still will not capture the full extent of wage costs outside of the control of the provider. In the last five years, these have included:

- Increase in superannuation guarantee payments from 9.5% to 11% (rising to 12% by 2025);
- Change to National Quality Standard ratio requirements for a second teacher (i.e. 'suitably qualified person') in January 2020;
- Significant increase in the award rates for teachers as a result of a work value case (January 2022);
- Additional labour costs in managing COVID outbreaks, including high agency costs.

For simplicity, indexation could be legislated to be 'CPI or actual wage increases (award rate and superannuation increases), whichever is the higher'. Alternatively, the indexation formula for wage costs could include the award increase as a base and then a 'plus X' factor determined by the Minister after transparent consultation with the sector that has regard for sector wide regulatory changes materially impacting on wage costs across most of the sector.

The ACCC acknowledges investments in above award wages and conditions as investments in quality, noting the reduced staff turnover and improved stability (retention) for children (Sept report, pg 94). One of the ways we invest in quality and maintain stability for our team members, children and families is by minimising disruption to the child-educator relationship, wherever possible. As both an investment in quality and in an effort to retain employees during significant workforce shortages, we keep long-standing team members in the same room and/or centre when they improve their qualifications, even though this incurs higher labour costs.

There are also state-specific regulations that impact on labour costs, but may not materially impact nationally, unless they are adopted nationally. These costs include policies such as the 1.4% levy to support the portable long service leave scheme in Victoria, sharp increases in levies for workers compensation, or changes to eligibility and rates for payroll tax.

3. Loadings to be applied to higher cost areas and higher cost age groups, as part of longer-term reforms

We agree with the ACCC's findings that it costs more to deliver high quality ECEC in some locations and for some cohorts of children, including in remote locations (Sept report, pg 133) and for children from birth to 3 years (Sept report, pg 85). However, we also contend that high-cost locations include inner city or metropolitan areas. To improve market efficiency, we recommend an appropriate hourly rate cap also takes into account the higher costs associated with the following:

a) Higher cost age groups

Higher educator-child ratios and sleep room supervision requirements for infants results in labour costs almost three times more expensive than rooms for children aged 3-5 years (and staffing for children aged 2-3 years is approximately twice the cost of 3-5 years). [9] This is confirmed by the ACCC's finding that "labour costs to care for children under 3 years old would be close to double the cost of children over 3 years old," noting the variation between services due to other factors may be hiding the true size of the relationship (Sept report, pg 85).[10] Younger children may also incur higher consumable costs resulting from service inclusions like nappies, wipes and associated hygiene products like gloves.

The ACCC finds fees for younger age groups may not reflect the cost differentials (Sept report, pg 173), which is also true for Goodstart's fees. However, even though our fees do not reflect the actual cost differentials, there is still a higher proportion of children aged birth to 3 years with fees above the hourly

[9] The IPART ECEC Report (Oct 2023 p.179) found that the labour costs for a 0-3 place were $105 to $205 a day while the labour costs for a 3-5 place were $65-115 a day.

[10] The 2015 PC Inquiry into ECEC also found that children aged birth to 2 years cost roughly double that of 3 to 5 year olds, 2015 PC Inquiry into Childcare, Vol 2, pg 383.

rate cap than children aged 3 years and older, noting there are a range of factors that can impact fees being above the rate cap.

Consistent with the ACCC finding that, "services are tightly controlling enrolments of this cohort in order to control costs" (pg 39), we hypothesise the market is not meeting demand for places for younger children, due to the combined impacts of higher costs of delivery and a fixed hourly rate cap. During consultation to inform the 2015 PC Inquiry into Childcare, peak bodies raised concerns that higher costs of delivery for children birth to 2 years may cause some services to change their structure, reducing availability of places for this age group.[11] In a recent survey of providers and families, Regional Development Australia found that over 40% of providers on the Mid-North Coast do not accept children under 2 years, despite 92% of families surveyed indicating they have children under 2 years requiring care.[12] Further, sector workforce shortages are likely to be impacting decisions about configured places, with some providers opting to cap or close nursery or toddler rooms over preschool rooms when experiencing staffing shortages.

To address this market dynamic, the additional costs of delivering high quality ECEC for younger children should be reflected, in part, with a 25% loading applied to the CCS Hourly Rate Cap for children aged birth to 3 years. Higher staffing ratios for birth to 3 years children mean labour costs per child are typically twice that of children aged 3-5. However, providers tend to cross-subsidise between age groups to lessen the impact on families, with the fee differential typically around $5-8 a day.[13] ACCC analysis found that services with a higher proportion of children aged birth to 3 years had average costs per hour around 25% higher than services with a lower proportion of children aged birth to 3 years (i.e. $14.51/hour compared to $11.63/hour (Sept report, pg 85). A loading on the hourly fee cap for birth to three children might ease some of the affordability pressures on families, while also encouraging more providers to offer high-cost birth to three places. We would suggest a loading of 25% would be a sensible reform at this point in time to support providers willing to offer more birth to three places. It would remove the current cost disincentive to offer more places for children birth to 3 years.

The ACCC should also consider – and recommend the PC specifically consider – the impact of state government subsidies on the supply of ECEC places, noting preschool funding increases the incentive for the supply of places for children 3-5 years at the same as higher costs disincentivise provision of places for children ages birth to 3 years.

b) Higher cost locations – inner city/metropolitan

The ACCC finds that costs to supply early learning places in centre-based day care (CBDC) services do not differ greatly by location, with the exception of services in remote locations or areas of highest socio-economic advantage (Sept report, pg 12).

We respectfully contest these finding on the basis that the underpinning methodology is masking variations in cost structures, which need to be addressed in the final report. Specifically, comparisons between ABS Remoteness Areas[14] are too broad to reflect the significant cost variations between ECEC markets in inner city, outer suburbs and regional areas all within the larger category of 'Major Cities'. Delivery costs, particularly property costs, vary significantly between inner city, outer suburbs and regional areas. For example, across the Goodstart network, the average rent per licenced place in Greater Sydney is almost $1,000 more than other NSW services captured in the Major Cities category. However, there is difference of nearly $5,500 between the highest rent per place in Greater Sydney and the highest rent per place in

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[11] 2015 PC Inquiry into Childcare, Vol 2, pg 258..

[12] Regional Development Australia, Childcare on the Mid North Coast, Survey Response Summary October 2023.

[13] The IPART ECEC Report (Oct 2023 p. 177) found that average hourly fees for children aged 0-2 in Sydney was $12.42 per day, compared to $11.53 for 3-5 children, an 8% differential. The differential was lower in regional areas (around $0.5 an hour).

[14] https://www.abs.gov.au/statistics/standards/australian-statistical-geography-standard-asgs-edition-3/jul2021-jun2026/remoteness-structure/remoteness-areas

other parts of NSW still in the Major Cities area. In a centre with 88% occupancy, an extra $5,550 per place adds around $27.50 per attendance on a 10 hour session, which is a significant variation.

Labour costs are also higher in many inner city or high socioeconomic locations, for example, labour per attendance at a Bondi service can be $21 more than at a Kellyville service. For example, this may reflect higher wages used to incentivise educators to work at the service, where they may not live in the local area.

It is vital that the ACCC undertake further analysis of variation in cost structures by licenced place and by occupied place by local area (i.e. no larger than SA4) for publication in the final report and clarify this finding for the following reasons:

1) Providing an accurate comparison of cost drivers in different locations is a core deliverable from the Terms of Reference for the Inquiry (ToR Pt 2, s7, (c) (v))[15] and the current analysis does not deliver on this objective in a way that is useful for Governments or the PC to inform the next phase of policy development.
2) Future funding models being developed by the PC, including consideration of supply side funding models and assessments of the effectiveness of the hourly fee cap and other price control mechanisms, rely on accurate information about cost structures and variation in cost structures based on licenced and occupied place to adequately assess the risks and benefits of various options.
3) The ACCC is the only body in Australia that has access and the appropriate regulatory protections to undertake analysis on variations in cost structures based on the highly sensitive commercial-in-confidence information provided to the Commission under the Notices for this inquiry.
4) It does not highlight the challenges in delivering affordable ECEC in the context of a single hourly rate cap.

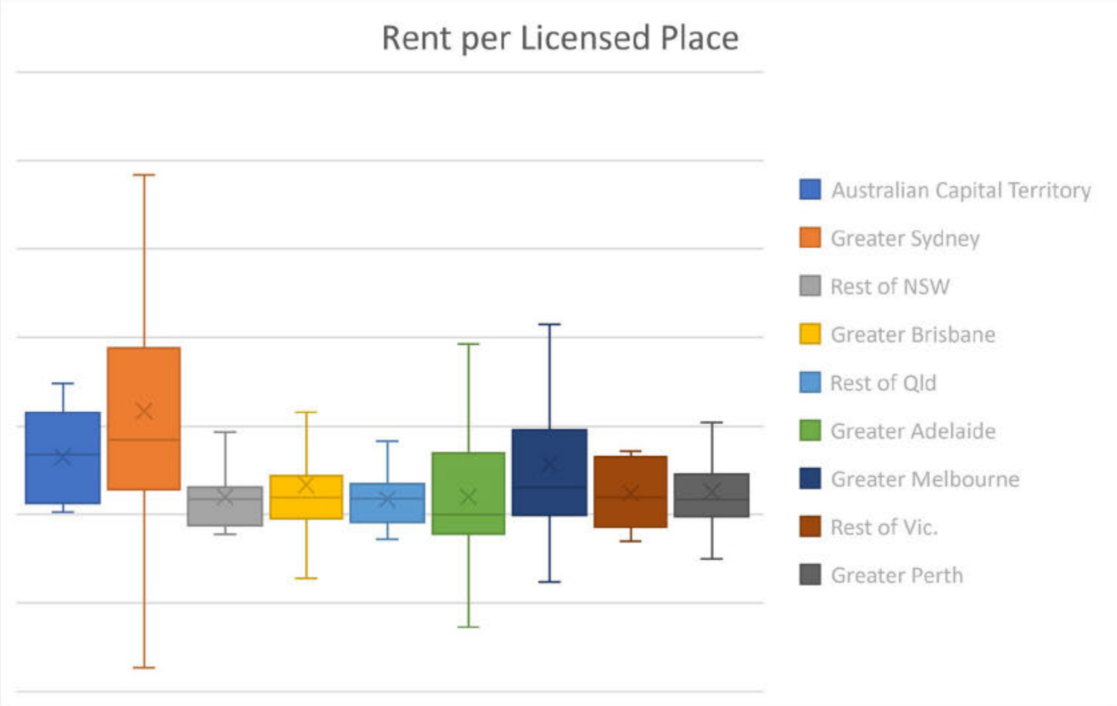
Other relevant evidence that supports the need for further analysis includes:

- There are higher costs associated with inner city and metropolitan areas, particularly property costs due to higher rents. Rent and labour data across the Goodstart network shows a significant variation between capital cities (e.g. Greater Sydney, Greater Brisbane, etc) and non-capital locations captured in the Major Cities category. On average, rent per licenced place is around $300 higher in capital cities than in non-capital areas. However, between capital and non-capital areas in each state, there is $3,000-$7,000 difference in the most expensive rent per place services.
- There are additional regulatory costs and impacts incurred when operating centres in multi-storey buildings, which is more common in CBD locations or high-density living areas.[16] Establishing services in multi-storey buildings is essential for giving families choice, particularly as more families opt to live in high density living and/or return to work in metropolitan areas. Parents and guardians returning to work in central business districts often choose CBD-based services due to high-commute times and/or so they can have their infants and children close, particularly if they are breastfeeding, so there is a high demand for nursery places. Goodstart operates around 20 services in multi-storey buildings, predominantly in capital cities in the Eastern States. Within these services, 75% of all the LDC and OSHC standard routine fees are currently above the CCS hourly cap – largely reflecting the higher rent and labour costs associated with inner city locations. Lower post-COVID occupancy in many of these services may also impact costs.

[15] https://www.accc.gov.au/system/files/Terms%20of%20reference%20-%20childcare%20inquiry.pdf

[16] Regulatory impacts associated with multi-storey buildings explained further in Goodstart submission to 2021 Review of National Quality Framework Consultation Regulation Impact Statement, pages 6-8.

Graph 1: Variation of rent per licenced place within 'Major Cities' category*



* Goodstart data showing high variation in rent per place in capital city compared with non-capital areas within ABS 'Major City' category.

4. <u>Additional costs associated with children with disability, First Nations children or children with complex needs should be subsidised through child- and service-level funding, not CCS loadings</u>

We agree with the ACCC finds that there are higher costs associated with supplying high quality ECEC for First Nations children, children with disability, children from culturally and linguistically diverse families and children with complex needs (Sept report, pg 30). We support, in principle, the intention of funding adjustments to reflect the additional costs of supporting these children and families. However, funding should be delivered in a way that directly supports the child's inclusion needs and not exclusively through a loading applied to the CCS. Instead, we recommend child- and service-level funding to meet the true costs of inclusion, as outlined in sections c) and d), below.

As noted above, we recommend the final report include a <u>new recommendation</u> that the Government immediately increase the ISP subsidy rate for an additional educator, introduce annual indexation and match hours of funding to a child's attendance. The hourly rate of an additional educator under the ISP does not cover costs as it has not been indexed or increased since 2016. As a result, there is a widening gap between the ISP hourly rate ($23.00/hour) and the actual costs of delivery (to date, Goodstart average in 2023 is $38.69/hour, including on-costs). The current subsidy no longer covers even the lowest possible ECEC qualification level (Cert III, Pay Point 1, which is $25.78 as at October 2023), noting additional educators often require specific skills and experience – such as trauma-informed practices or alternative communication such as AUSLAN – that extend beyond the capabilities of entry-level professionals.

Future reform being designed by the Productivity Commission should explicitly consider child- and service-level inclusion investment to meet the needs of children with identified vulnerabilities attending a specific service.[17] Service-level inclusion funding should specifically address the higher costs associated with

[17] Child- and service-level inclusion investment explored further in Goodstart's May 2023 submission to the Productivity Commission, pg 45-54.

providing high quality, inclusive and culturally safe ECEC for children with disability, First Nations children, or children with additional support needs, as confirmed by the ACCC (Sept report, pg 84). This could be achieved through supply side funding to high quality providers based on the characteristics of children enrolled in specific services and with reference to the relative socio-economic conditions of the community in which the service operates.

a) The CCS system does not provide for child-level loadings to be applied where there are fee implications (i.e. higher fees need to be charged to benefit from higher subsidy rate)

The CCS system has capability to apply loadings to improve affordability for groups of children based on age, service or location, where there are fee implications (i.e. where higher fees need to be charged to benefit from higher subsidy rate). A loading would provide a higher subsidy rate for higher fees associated with high-cost areas or higher cost age groups. Based on current inclusion costs not covered by government, a child-level loading would need to be in the vicinity of twice the current CCS hourly rate cap. Further, children with a disability would need to be charged a higher fee in order to benefit from the higher subsidy level and doing so would likely be discriminatory and create further cost barrier for families.

b) Child-level funding should be administered through an amplified Inclusion Support Program (ISP), which is effective at addressing inclusion barriers for children with additional needs who require an additional educator

The cost of supporting children with additional needs is not fully met by the ISP, which creates financial disincentives for providers to enrol children with additional inclusion support needs. Where these children are enrolled, providers often face significant costs supporting these children because the ISP funding has narrow eligibility criteria, does not cover all hours a child attends a service and the funded rate does not cover costs, having not been indexed since 2018.

Some providers, particularly not-for-profit providers like Goodstart, prioritise directing social impact investment towards meeting these inclusion costs. In 2022, Goodstart spent $5.6 million to cover the gaps in ISP funding, which funded:

- the gap between the ISP hourly rate ($23/hr) and actual hourly costs ($38.69/hour in 2023, not including on-costs);
- full cost of an additional educator while ISP funding is being applied for and/or approved;
- full cost of an additional educator to support children with additional inclusion needs who are not eligible for ISP, including refugee children; and
- gap between capped subsidy hours and the hours a child actually attended.

The ISP additional educator hourly rate needs to be immediately reset to fully cover the cost of a suitably qualified educator and indexed annually, by at least award wage increases. Funding should match the hours a child physically attends the service. Further, the ISP eligibility criteria should be expanded beyond children who are CCS-eligible, so it includes other children experiencing vulnerability or disadvantage, including refugee children.

c) Service-level inclusion investment should be recommended to build capability and support other priority groups of children

While children experiencing or at risk of vulnerability or disadvantage are over-represented in low-SEIFA communities, our centres have children experiencing vulnerability in all communities across the socio-economic spectrum. In fact, 14% of Goodstart children with an identified vulnerability indicator are attending centres located in highly advantaged communities (i.e., SEIFA 9 or 10).

This is why a reformed ECEC system must include service-level inclusion investment delivered through a new financing instrument, specifically to meet the needs of children with identified vulnerabilities attending a specific service. Funding – similar to the Victorian Government School Readiness Funding – should be allocated at the service-level, on an annual basis, based on the number of children enrolled at the service who are experiencing vulnerability. Funding would be used to support local inclusion capability uplift, outreach and other service-level solutions, such as access to allied health professionals.

Investment to centres based on the needs of children with identified vulnerabilities attending a service would recognise that, within some markets, some service providers are serving greater proportions of children likely to be vulnerable than others, and children with multiple vulnerability risk factors need additional investment to support their participation and outcomes.

Draft recommendation 2 (b): Daily fee cap for centre-based day care

Draft recommendation 2 (b) – Consideration be given to 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.

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Support in principle. We support further consideration of a daily fee cap as part of the longer-term reform agenda to be considered through the Productivity Commission Review.

Comments:

Families compare ECEC providers on the basis of daily fees, not hourly fees, so subsidising ECEC in relation to daily fees and daily caps is likely to improve the effectiveness of the market by making it easier for families to compare fees and assess their out-of-pocket costs. To ensure both child development and workforce participation objectives are met, and to minimise complexity, daily sessions should be offered for a minimum of 10 and up to 12 hours per day. This window is necessary to ensuring the workforce participation and economic objectives delivered by ECEC are met. Across the economy, a 'typical' 9-5 working pattern is becoming less common. Many jobs start earlier or finish later and travel time to and from work remains a challenge for many families, as more and more workplaces are encouraging their employees to 'return to the office' following increased remote working during COVID. A 10-12 hour session window supports families to meet their work commitments and commute needs, while providing flexibility around start and finish times, including to support overtime. An 11-hour opening time (and 11 hour session offer) allows flexibility for parents in pick up and drop off, which is highly valued by families.

Goodstart data indicates that, families generally choose all day sessions (between 10.5 – 12 hours) so they have more flexibility in pick up and drop off times. While dominant utilisation across 10-hour sessions and all-day sessions is similar, there is significant variability in the window of use. As per the ACCC's finding, 10-hour sessions are being increasingly used by families to maximise their CCS100 entitlement (Sept report, pg 176, 178). We hypothesise this is a by-product of the limitations of the activity test, where families are optimising their subsidised hours for affordability reasons – i.e. to avoid unsubsidised hours – when they may actually prefer the flexibility afforded by longer 11-12 hour sessions.

Draft recommendation 2 (c): The activity test

Draft recommendation 2 (c) - Consideration be given to 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.

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Support with change.

7) We support the removal of the activity test and for every child to have access to at least three days of subsidised early learning per week, regardless of their family's income or activity. Recommendation should be amended as follows:

   (c) The current activity test should be abolished as soon as possible because it is 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, noting current cost of living pressures and the CCS means test are effective policy levers that would ensure families continue to only use the ECEC they need.

   The PC should give consideration to a child-level entitlement to early childhood education and care should be made available to every child, regardless of their family's circumstance.

We **recommend** the ACCC make the following urgent/immediate recommendations in the final report to inform the Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget, as the highest order priority for immediate action:

8) Abolish the activity test: ACCC should recommend Government abolish the activity test by providing all families with an activity test result of 100 hours per fortnight, noting evidence families only use what they need (i.e. 3-day per week enrolments are the most common, Sept report, pg 178). While cost pressures and the means test are likely to continue to limit demand from families, this measure would most benefit very low-income families in insecure work who are currently paying for unsubsidised hours. The impacts of this change should be closely monitored by the Australian Government and implemented alongside improved price transparency measures to identify any unintended consequences.

We **recommend** the ACCC make the following longer-term reform recommendations to be explicitly considered by the Productivity Commission (and Australian Government):

9) Consider how best to implement a specific child-level entitlement, such as a certain number of days for all children with more days available to those who need more for work or study or due to vulnerability or disadvantage.

Comments:

Abolishing the activity test is an urgent priority. There is a good case to support giving all children an entitlement to three days per week of subsidised ECEC from six weeks to school age.[18] This entitlement ensures access to high quality early learning and supports workforce participation, particularly for families currently experiencing cost of living challenges. Additional days should be available for families who need

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[18] A summary of evidence and benefits of a universal child-level entitlement is included from page 23 in Goodstart's May 2023 submission to the Productivity Commission Review of ECEC

more to support workforce or other participation, or for children likely to experience vulnerability or disadvantage.

A child-level entitlement to three days per week of subsidised ECEC should be assigned to each child's Services Australia Customer Reference Number (CRN) and enshrined in legislation. The entitlement could be implemented relatively quickly under the current system by changing the result for the bottom steps of the activity test to CCS72. To ensure both child development and workforce participation objectives are met, and to minimise complexity, daily sessions should be offered for a minimum of 10 and up to 12 hours per day to support families who need flexibility around long days and start and finish times (consistent with our response to draft recommendation number 2 (b), above). Our administrative data also shows retention benefits for children who have access to at least three days of subsidy per week.[19]

Families who require more days for work or study and children who would benefit from additional days, such as those experiencing vulnerability or disadvantage, should be able to access the additional two days through a simple eligibility test.[20]

Draft recommendation 2 (d): Stronger monitoring of price and outcomes

Draft recommendation 2 (d) - Consideration be given to including a stronger price and outcomes monitoring role by government, supported by a credible threat of intervention, to place downward pressure on fees.

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Support with change.

10) We **recommend** draft Recommendation 2(d) be amended as follows:

    2(d) Consideration be given to including a stronger price and outcomes monitoring role as part of a stronger focus on a market stewardship approach led by the Australian Government, supported by a credible threat of intervention, to place downward pressure on fees.

See also: Response to draft Recommendation 6 on market stewardship, below.

We **recommend** the ACCC make the following longer-term reform recommendation to be explicitly considered by the Productivity Commission (and Australian Government):

11) That the Productivity Commission consider ways to identify and report on fee outliers within localised markets, as part of the Government's role as market steward.

Comments:

We support a stronger role for Government in price and outcomes monitoring, however this should be considered as part of holistic market stewardship role for Government.

Any consideration of fee regulation should be directed at 'excessive fees' and should:

- Focus on 'outliers' charging high fees or increases in fees inconsistent with local market conditions and significant cost drivers
- Have regard to the considerable variability in cost of service between child ages, needs, locations and service types

[19] Statistical analysis of 175,000 highlighting statistically significant findings to support a minimum three-day entitlement detailed on pages 19-20 in Goodstart's May 2023 submission to the Productivity Commission Review of ECEC.

[20] Process and eligibility for accessing additional days of subsidised ECEC is explored further in Goodstart's May 2023 submission to the Productivity Commission Review of ECEC.

- Allow for exceptions based on the needs of children (i.e. quality, inclusion, access, thin markets)
- Allow fees to move in line with the main cost drivers of labour, property and consumables
- Be flexible enough to take account of circumstances outside of providers control (e.g. regulatory changes, economic shocks, emergencies and natural disasters)

Consistent with the ACCC finding that the standard deviation of price is less than $1.00 per hour in the majority of SA2s (Sept report, pg 108), fees should reflect local market conditions:

- Where fees are outside the 'allowance' above the median price in the local market, Government may ask a provider to 'show cause', i.e. justify higher fees or have a fee imposed by Government.
- Defining a local market, calculating medians and setting the allowance would be key policy challenges, noting the challenges experienced by the ACCC in obtaining comprehensive price and cost information for the purpose of this inquiry.
    - A local market could be within 5km of the centre, or whatever radius is required to capture a minimum number of centres for comparison (e.g. at least 4 other centres).
- The allowance should be high enough to identify the outliers (i.e. the highest decile of fees in local markets), e.g. 5-10% above the median.
- Consideration should be given to whether the comparison is the 'average fee' for the centre (having regard to all ages and sessions) or the 'typical fee' for each age group (e.g. the 10 hour or longest session).
- Local markets should be strengthened with real time transparency of fees and fee increases on a well-designed, parent-facing Government website.

Draft recommendation 3: Reimagining StartingBlocks.gov.au

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 costs 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 ☐ Do Not Support ☐ Unsure / No View

Position:

Support. We support mandated, real-time price and quality transparency for families, providers and governments.

We **recommend** the ACCC make the following urgent/immediate recommendations in the final report to inform the Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget:

12) *Improve fee reporting and transparency on StartingBlocks: ACCC should recommend Government better utilise existing transparency provisions to ensure fees published are up to date with better information about inclusions provided by high quality NFP providers.*

Comments:

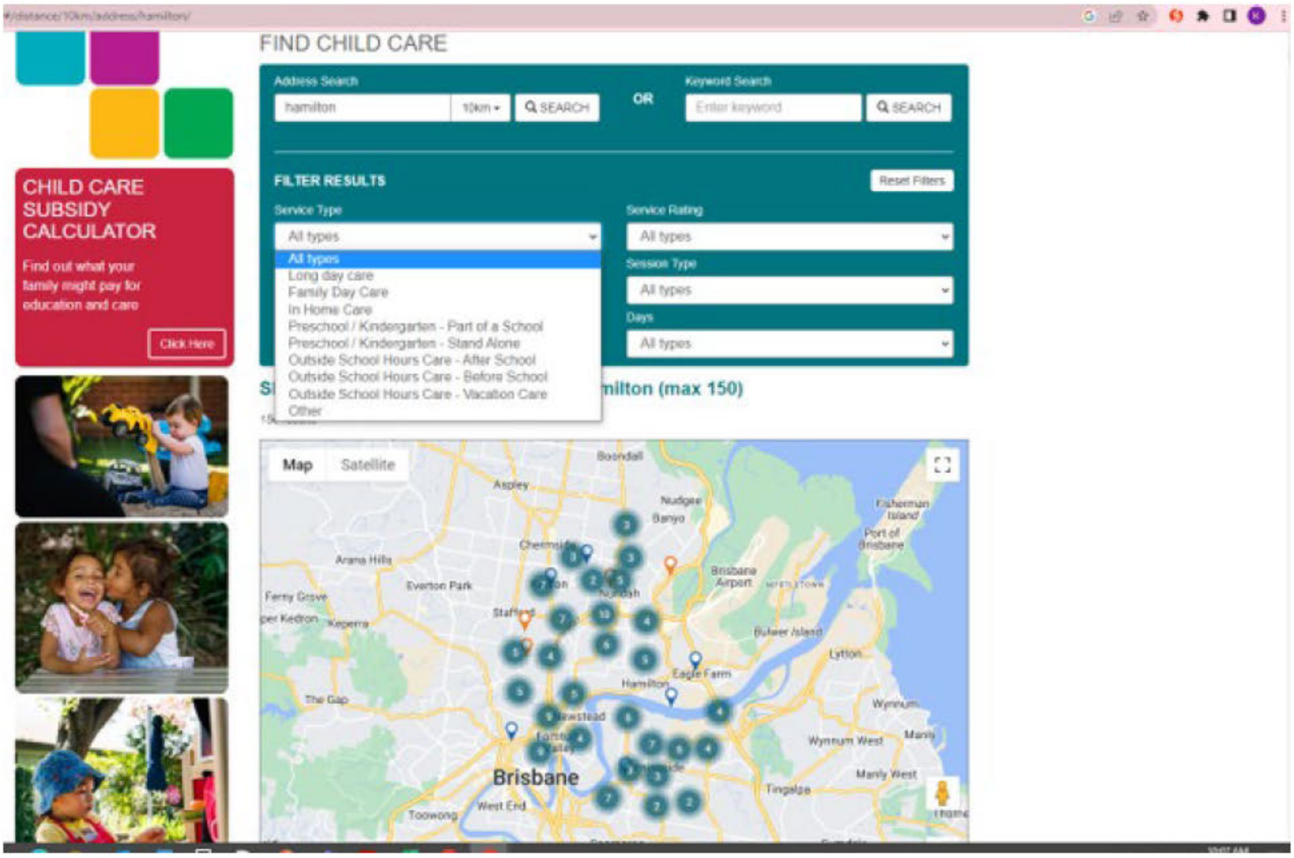
In its current form, StartingBlocks falls well short of the objective of price transparency and will not achieve this objective without the requirement for providers to maintain up to date information on the site or automating information updates from the Child Care Subsidy System (CCSS).

We recommend a legislative requirement for providers to update their fees in the CCSS and on Starting Blocks within 14 days of any change, consistent with the requirement to provide at least 14 days' notice of fee changes to families. This should be an interim solution while Government considers how best to automate updated fee information directly from CCSS, which currently only occurs for new services (or newly acquired services by a provider). Similarly, we support a legislated requirement for providers to notify families in a service of that service's quality rating following a completed Assessment and Rating process for improved transparency and accountability.

To support price transparency, the Australian Government and/or PC should consider and provide direction to providers on reporting standard or typical fees for consistency. Currently, providers publish a daily fee but without session length information. As a result, families are not able to compare like with like or establish the hourly rate to estimate their out-of-pocket costs on the Child Care Subsidy calculator. StartingBlocks should also be updated to allow providers should also have the option of publishing inclusions and discounts, including food, nappies, holiday discounts or public holiday discounts, etc.

When its predecessor, Child Care Finder, was closed, the objective was for StartingBlocks to be a single website for families to visit to inform all decisions about ECEC, including CBDC, preschool, family day care, OSHC and vacation care. Updates should help it achieve this objective by providing accurate information about preschool setting options and including preschool subsidy information in the out of pocket costs calculator. Currently, families are not able to select 'preschool in a long day care setting' as an option (refer below). In order to ensure their service appears in searches, some long day care (CBDC) providers are marking their services as standalone preschools in the National Quality Agenda IT System (NQAITS), which is inaccurate and may be skewing ACECQA data.

IMAGE 1: StartingBlocks preschool search categories



Draft recommendation 4: ECEC Workforce

Draft recommendation 4 - The ACCC recommends that the 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 ☐ Do Not Support ☐ Unsure / No View

Position:

Support with change.

13) We **recommend** the ACCC amend the recommendation in the final report to be consistent with the findings in the ACCC September report, pg. 33:

The ACCC recommends that governments consider measures to ease workforce pressures in the ECEC sector to:

i. *improve the status and recognition of educators and early childhood teachers;*
ii. *address pay discrepancies with other relevant sectors, such as primary school teachers and educators;*
iii. *consider the adequacy of time for planning and reporting; and*
iv. *consider the impact of training requirements on educators and early childhood teaches, and whether paid placements and scholarships would be appropriate; and 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.*

We **recommend** the ACCC make the following urgent/immediate recommendations in the final report to inform the Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget:

14) *Summarise key workforce findings*: The ACCC final report should include a strengthened finding summarising positive ACCC findings in relation to the maintaining NQS minimum standards, the positive relationship between better educator pay and conditions, reduced educator turnover and improved quality.

We **recommend** the ACCC make the following urgent/immediate recommendations in the final report to inform the Mid-Year Economic and Fiscal Outlook (MYEFO) or 2024 Federal Budget:

15) Investment in wages: The ACCC should recommend the Australian Government note these findings and urgently fund an increase in educator pay with consideration given to the Multi-Employer Bargaining process underway.

We **recommend** the ACCC make the following longer-term reform recommendation to be explicitly considered by the Productivity Commission (and Australian Government):

16) Investment in wages and the workforce loadings: The ACCC should recommend the Productivity Commission consider how regulatory and financing approaches, including industrial relations frameworks, could deliver improved and sustainable pay and conditions for the ECEC workforce in the short and medium term.

Comments:

The ACCC report identifies labour costs as the crucial driver of the cost of ECEC (draft finding 1), the quality of ECEC (draft finding 12), and the supply of ECEC places (draft finding 7). Improving the attraction and retention of educators is also recognised as a key potential informal price constraint opportunity (Sept report, pg 200). It is therefore curious that the draft recommendations have little to say about labour costs beyond 'consider how the existing regulatory framework support and influence the attraction and retention of educators' (draft recommendation 4). This touches on only one of the five key factors the ACCC identified as contributing to workforce pressures (Sept report, pg. 33). Importantly, it does not deal with what educators and providers have identified as the main reasons educators leave the profession – the lack of professional recognition and low pay (first two points for Government to consider, Sept report, pg 33).

Given the workforce challenges currently being experienced by the ECEC sector and the implications they have on costs and fees, it is understandable the ACCC would reference the current regulatory arrangements and their impact. However, the other findings from the ACCC warrant stronger summarised findings and proposed actions in the final report. As it stands, the current draft recommendation 4 is inadequate to reflect the very powerful key findings and challenges identified by the ACCC in relation to workforce, which have by-and-large been supported by the sector. We propose the final report and recommendation be amended to reflect all five of the key factors identified in the report (Sept report, pg. 33).

Draft recommendation 5: Supply-side funding for Aboriginal Community Controlled Organisations

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 ☐ Do Not Support ☐ Unsure / No View

Position:

Support.

Comments:

We fully support the proposal to maintain and expand supply-side support options for Aboriginal Community Controlled Organisations. A supply side funding model must be sufficient to deliver high quality, culturally safe and responsive early education.

In the longer term, the PC should consider and develop a new funding model with elements of block and needs-based funding for Aboriginal Community Controlled Organisations that delivers both early education and integrated support services. A new funding model should include purposeful investment to grow and develop the Aboriginal and Torres Strait Islander Community Controlled Organisation sector across the country. We are aware of national research, consultation and data analysis process currently being undertaken by SNAICC – National Voice for Our Children, together with Deloitte Access Economics, which should be a key consideration by the PC inquiry.

Draft recommendation 6: Market stewardship role for governments

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 ☐ Do Not Support ☐ Unsure / No View

Position:

Support with change. To ensure an effective ECEC market, a broader market stewardship role is required to deliver benefits and achieve policy objectives beyond price or areas of under-supply.

17) Draft recommendation should be amended as follows:

    "A market stewardship role should be considered for both Australian and state and territory governments, in ensuring the ECEC market is delivering on the following objectives: an adequate supply of places, a sustainable and adequate workforce, a desirable mix of provision based on provider type and age mix of children; minimum quality and inclusion standards; and services that are affordable for families and sustainable for tax payers. The positive role the sector plays in market stewardship and in achieving shared policy objectives with Government should also be recognised."

    These market stewardship objectives should be led by the Australian Government utilising regulatory, financing, market monitoring and planning levers, alongside a settlement of responsibilities with local, state and territory governments.

18) We suggest a new recommendation be made in the final report, as follows:

    Sustainability and growth of the NFP sector should be considered explicit objectives of future ECEC stewardship, policy and regulatory approaches, given the ACCC's positive findings about the benefits delivered by the NFP sector for children, families and Governments. This should also include consideration of new approaches to removing barriers in accessing capital and funding growth for NFPs.

Comments:

<u>The valuable role of market stewardship beyond price</u>

Governments have a strong role to play in the ECEC market. A universal ECEC system needs proactive regulators to ensure it continues to deliver on its objectives of quality, access, inclusion and affordability.

We support a stronger role for the Australian Government in stewarding ECEC finance, regulation, planning, data transparency and workforce sustainability to deliver on high quality, affordable and inclusive ECEC for all children and families. This should also include a specific focus on building an evidence ecosystem accessible to all stakeholders in the system. Stewardship in the context of supply should extend beyond thin markets to also consider markets where oversupply is diluting quality through inefficient use of labour, as well as markets where there is an absence of or decreasing presence of NFP service provision. A market stewardship approach should consider the roles of local, state and territory governments in the supply of ECEC, including zoning, planning and approval of new centres and new market entrants, with specific consideration to quality and inclusion.

Specifically, we recommend stronger policy and financial levers linked to quality and inclusion outcomes, including:

a. Management and funding consequences for services that do not meet quality measures.
b. ECEC market supply policy and regulation that ensures the future shape of the ECEC market supports national priorities around access, quality and inclusion, including stronger controls on new market entrants.
c. More regular and nationally consistent NQS Assessment and Ratings processes with outcomes reported to families.
d. Inclusion expectations of service providers to be more explicit and to be made clear at a centre level via an integrated Quality and Inclusion Improvement Plan, which would be required to allow access to inclusion funding.

Supporting growth of high quality, inclusive and affordable provision (i.e. NFP)

Despite the strong quality, inclusion and affordability record of the NFP sector, fewer and fewer families have the choice of sending their children to a NFP service because of the declining share of services that are NFP. Between 2013 and 2023, the percentage of LDC services that are NFP (including private school and government services) fell from 40% of all centres to 31.1%. In that period, just 81 new NFP services and 113 services at private schools opened, compared to 2,363 new private services. This reflects the difficulties that the NFP sector faces in raising funds for capital growth, particularly community centres that rely very heavily on government funding for capital. In the final report, the ACCC should include analysis about the shape of the NFP segment of the market.

Given the high costs of providing services in remote areas providers are less inclined to commit to opening services in these spaces. High prices and undersupply inevitably follow. Creating appropriate incentives and support for providers to provide services in these underserved areas is sensible.

Draft recommendation 7: Supply-side subsidies and direct price controls

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.

☑ Support ☐ Do Not Support ☐ Unsure / No View

Position:

Conditional support.

The further exploration of supply-side subsidies is contingent on further analysis of cost variations by licenced place and by occupancy recommended above at Recommendation 2 (a). A new funding system for ECEC must be designed to reflect the Australian ECEC context and ensure it delivers on the policy objectives the Government sets for the ECEC system. Based on the analysis produced to date, and our knowledge of

our cost drivers demonstrating the variations in cost, it remains unclear if a simple and sustainable supply-side financing approach could be feasible for ECEC in Australia. We respectfully request that the ACCC articulate in its final report the significant challenges and risks associated with the complexity of cost structures within the ECEC market in Australia, how variations in occupancy impact these costs and how these matters should be considered and how risks and unintended consequences could be mitigated in designing a new financing instrument.

19) **The draft recommendation should be reworded (and specifically broadened) to better reflect the analysis that is needed to be done to develop a new funding system as follows:**

    7. In designing a funding system that is better aligned to delivering the objectives that the Government has set for the child care system, the ACCC supports further consideration of :

    i. ***supply-side subsidies either as a substitute for or alongside demand-side subsidies, including the opportunities and implementation risks involved with such a change and means to mitigate such risks;***
    ii. ***direct price controls or other means (e.g. potentially profit controls[21], or enhanced transparency) to ensure Government and parents do not face excessive fees;***
    iii. ***unintended consequences of supply side and direct price controls drawing on international examples and mitigation strategies;***
    iv. ***how market stewardship objectives are reflected in financing levers; and***
    v. ***better directing funding for new growth to services offering higher quality, more inclusive, more accessible and more affordable services.***

20) **We recommend draft finding 18 be amended in the final report to include the following:**

    "However, if price standards or public subsidies are set too low, regulation could lower quality or lead to market exit if service provision becomes unviable."

Comments:

We welcome consideration of partial or complementary supply-side subsidies in ECEC in recognition of the need to better understand and respond to cost drivers in designing a future universal ECEC system. However, there are significant risks associated with supply-side funding mechanisms as a primary financing instrument due to the high variations in costs and occupancy impacts in ECEC. A key challenge is the complexity and cost associated with gathering reliable information about cost inputs, as demonstrated through this inquiry process. Drawing on international lessons in ECEC and local examples in other sectors, supply-side subsidies:

- **are generally insufficient to address costs or cost increases over time**
- **are too inflexible to enable enterprise-level investment in quality and innovation, such as pedagogy and practice, inclusion and**
- **cannot contemplate or respond nimbly to emerging changes to the environment over time**

Instead, the ACCC should recommend that the Productivity Commission consider the relative benefits of a more sophisticated demand-side mechanism, backed by supply-side top-ups to deliver on specific policy objectives and underpinned by a strong stewardship model, led by the Australian Government, focused on ensuring access to high quality, inclusive and affordable ECEC for all children. As the primary market steward, the Australian Government should work through a joint regulatory body with State and Territory Governments to specifically consider access and competition, affordability and workforce, with incentives

[21] Media statement: Anthony Albanese PM and Amanda Rishworth MP, 24 June 2021, 'Labor to improve transparency in early learning sector'.

for growth of not-for-profit provision, including through financial incentives to address capital and land costs. Consideration should also be given to the role of local, state and territory governments in managing supply, including through including zoning, planning and approval of new market entrants and tighter regulation of land development by private sector real estate interests for future early learning use.

1. Australia's affordability has improved when compared internationally

This recommendation is based on the ACCC's draft findings 17-18 (Sept report) regarding the affordability of ECEC in Australia compared with other OECD countries. The ACCC has used the recommendation to encourage a broader and deeper discussion about alternative types of regulation that may better protect the Australian taxpayer going forward. However, a careful analysis shows that draft finding 17 (that children is Australia is relatively less affordable than in most other OCED countries) is already out of date, which then requires a rethinking of the consequential analysis. The ACCC report (footnote 117) notes that the OECD data for Australia is based on data as at 1 January 2022. This was before the 7 March 2022 changes that substantially reduced out of pocket costs for families with two or more children in care, and before the July 2023 CCS changes that substantially reduced out of pocket costs for all families. The September 2023 CPI measure of child care out of pocket costs shows families were paying 12% *less* in child care costs than they were in December 2021.[22] This should be explicitly recognised in the final report.

There have also been substantial increases in wages in Australia in 2022 and 2023. The statutory minimum wage in Australia rose 17% in the past two years and average weekly earnings grew by almost 8%. Factoring the changes in CCS rates and adjustments for increases in fees and wage rates, the data in figures 5.1, 5.2 and 5.3 of net child care costs for two children (as a percentage of household income) will be significantly improved and well below what was the OECD average in 2022.

Table 3: Net childcare costs as a % of net disposable income

	OECD calculations[1]					Goodstart estimates[2]		
Couple 2x Average Earnings	**2018**	**2019**	**2020**	**2021**	**2022**	**2022[3]**	**2023[4]**	**2024[4]**
Australia	18	15	16	16	16	9.6	10.3	6.5
OECD	11	10	10	9	9			
Couple 2x Minimum Wage								
Australia	16	10	10	10	11	7.0	7.4	5.3
OECD	12	10	9	9	8			
Single Minimum Wage								
Australia	18	11	11	11	11	7.3	7.3	5.4
OECD	13	10	9	9	9			

[1]OECD Net Childcare costs. [2]Estimates reflecting actual or projected increases in fees and wages and actual CCS rates. Assumes net disposable income remains a constant share of gross disposable income as at January 2022. [3]May 2022 data and policy settings; [4]January data estimates and policy settings.

Another noteworthy trend in the OECD data is that, while gross childcare fees rose significantly between 2018 and 2022, so too did net disposable income. As a percentage of net disposable income, there was little change in net childcare costs between 2019 and 2022 (although there was a reduction in the OECD average driven by major policy changes in a handful of countries).

[22] ABS CPI Table 9 https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

This analysis, while not complete, does suggest that the two major reforms of CCS in 2022 and 2023 will have brought net childcare costs for a family with two children to below the OECD average. This suggests that draft finding 17 is out of date and should be updated or removed.

2. <u>Supply-side funding models do not always reduce the level of public investment</u>

What Australian experience and OECD experience shows that that the level of public investment in ECEC is the biggest single determinant of net childcare costs. Historically, Australia has invested less in ECEC than most other OECD countries and net childcare costs for families have been higher as a result. As discussed above and by the ACCC in section 5.3.1, the key factor driving the reduction in net child care costs in OECD countries has been public policy decisions backed by substantial increases public funding. The report's analysis of OECD case studies suggest that higher levels of public expenditure is a pre-requisite for a system that delivers both quality and affordability. We would suggest that a new draft finding 17 should reflect the analysis in section 5.3.1.:

> *New draft finding 17: "Overseas data indicates that those countries that have succeeded in providing affordable early childhood education and care – most notably, the Nordic countries – have directed substantial public resources to this service."*

In section 5.2.3, the report suggests that 'supply-side subsidies reduce the cost of provision'. We would suggest this point is clarified, as the cost of provision is determined by structural drivers of costs (labour, rent etc). However, how it is subsidised and the extent to which this impacts on outlays for tax payers is a separate consideration. If the report is trying to make the point that supply side subsidies reduce the burden on taxpayers, that should be clarified and assessed against the evidence. Several countries that employ significant amount of 'supply-side' funding into their child care systems have substantially higher net costs than Australia in 2022 includes the United Kingdom, New Zealand, Canada, the Netherlands and Ireland (although all five countries have since increased public funding for child care).

OECD data does reflect that gross fees have increased faster in Australia than in most OECD countries. The reasons for this have been extensively canvassed elsewhere in the ACCC report, driven primarily by increases in wages and other costs.

We would suggest that draft finding 18, while a reasonable high-level summary on the face of it, would be substantially improved if it also reflected the OECD commentary (p 198) that if price standards or public subsidies are set too low and do not cover costs, regulation could lower quality or lead to market exit if service provision becomes unviable.

3. <u>Models of price regulation and supply-side funding</u>

Goodstart notes the ACCC finding that, while profit margins for ECEC are variable, they no do not appear to be excessive. We support continued work to identify the exceptional cases where providers are making excessive profits, particularly if it impacts on the delivery of quality care and inclusion for children, and to develop suitable policy parameters to address that. Given the highly variable nature of costs and occupancy, it will not be an easy task. There are some providers charging fees substantially higher than the local market average and, given the high level of public subsidies they receive, it is not unreasonable for Government to ask those providers to justify that level of fees.

The ACCC has provided a valuable desk top research report on its review of case studies of ECEC systems and funding reform in other OECD countries. It is an exciting time around the world in ECEC policy, with many countries considering major or minor reforms. Goodstart reviewed a number of these case studies in our submission to the Productivity Commission, which may be of interest to the ACCC.[23] Our submission

[23] Goodstart submission to the PC inquiry 2023, Appendix B.

summarises some insights from our review of international models (p. 66-70), which we also draw to the ACCC's attention to inform the final report. Some of the key insights we found were:

- There are a number of crucial factors that may be unique to Australia's ECEC system that have a significant impact on the viability and feasibility of various financing instruments for ECEC in Australia, including the higher incidence of part-time rather than full-time attendance, seasonal or locational variation in occupancy, wide variability in property costs, fragmented nature of provision and the complexity of multiple tiers of government and regulation.
- In supply-side funded systems offering 'free' access, 'free' almost never means free or zero out-of-pocket costs for families unless it is delivered by fully funded public provision and inadequate funding sees 'free' hours needing to be cross-subsidised by higher fees on other hours needed by families to support workforce participation (with associated undesirable impacts on effective marginal tax rates).
- Supply side 'block funding' tends to be most efficient and effective if families have limited choice in which service they use, and if the overwhelming majority of children attend close to full time.
- The composition of the market – in terms of NFP, private and public provision – matters in considering which approaches best deliver on outcomes and mitigate risks for Government – with mixed markets amongst the most challenging to effectively manage supply side funding risks.
- Many countries employ elements of both supply and demand side funding to ensure funding reflects government priorities while providing a degree of flexibility for providers and parents to suit their needs.
- Full supply-side funding systems take many years to fully mature as detailed cost regulation, frameworks, calculations and reporting need to be developed and refined to underpin the funding.

At the heart of the design of a funding system is the need for a clear set of policy objectives on what the Government wants the ECEC system to achieve and deliver. This was rightly the first recommendation of the ACCC report. Secondary recommendations should include a stewardship approach consisting of the development of financing and regulatory levers to monitor and deliver on those policy objectives efficiently, equitably and effectively.

4. <u>Public and not for profit provision versus private provision</u>

The ACCC report found that NFP or public providers generally offer higher quality, have lower staff attrition (Sept report, pg 151), better pay (p. 153) and lower fees (p. 203) than private providers and are more likely to be located in low SEIFA communities (p. 102). Yet, 93% of new centres opened between 2013 and 2022 were privately owned, and the share of CBDC centres operated by NFP or public providers fell from 32.2% to 24.5% of services.[24] Fewer families have the choice of accessing an NFP or publicly run centre than they did a decade ago. This reflects a strength of demand-side subsidies in Australia, which is the delivery of growth of ECEC provision by private providers in areas where they assess that services would be viable. Higher profit margins generated by private providers and greater willingness to take on and finance debt means more capital to invest in growth, with NFP providers more likely to prioritise social purpose goals (p. 139) and more capital constrained.

[24] Goodstart submission to the PC inquiry 2023 p. 82

Funding reform needs to ensure that funding is better directed to promoting services that offer higher quality, better pay and lower fees. The report notes that the $35 billion National Child Care Reform plan in Canada prioritises funding for growth in high quality NFP provision (p. 203). This should be covered by an extension of draft finding 12 that then links into the revised and expanded recommendation 7.

Draft finding 12 currently says: *"The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service."*

This finding should be expanded to include:

> *"Not for profit services generally have higher pay and lower staff turnover than private services, which in tun support higher quality service."*

Recommendation 7 should then include as an express consideration of design of the new funding system:

> *"…better directing funding for new growth to services offering higher quality, more inclusive, more accessible and more affordable services."*

5. <u>Short-term and long-term price control mechanisms</u>

Goodstart acknowledges that, as the level of government investment increases and parental out of pocket costs reduce, there is potential for unrestrained fee growth. This may require a higher level of scrutiny and market stewardship than in the past, as the report discusses (Sept report, pg. 199-200). This will especially be the case if the Government ultimately decided to retain a demand-based subsidy system but with a universal 90% CCS rate. Longer term funding reform will clearly need to include consideration of how to constrain excessive fee growth in that context.

In the short term, the ACCC has identified a number of mechanisms that the Government could employ to restrain excessive price growth. These could include:

- Strengthening reporting of real time fees and fee increases through Starting Blocks, which could strengthen local markets;
- The role of grants in promoting supply in under-served areas, which could accelerate the growth of low fee, high quality NFP services;
- Price monitoring with credible threat of intervention;
- Resetting the methodology used to index the hourly fee cap;
- Improving the attraction and retention of educators to increase the supply of available places.

In our submission to the Productivity Commission, Goodstart argued fees were generally competitive at a local level. Analysis by the ACCC has confirmed that fees tend to be close to the local average fee, 90% of SA2s recording a standard deviation on fees of less than $1.50 an hour. Goodstart's submission to the PC presented two ideas to strengthen local markets:[25]

- Improve fee transparency, so families and providers can more easily compare fees, and
- Monitoring excessive fees and requiring providers to justify such excessive fees as a condition of funding and/or to be an approved provider for CCS.

We note that variants of both of these initiatives have been identified by the ACCC. The proposal for price monitoring with a credible threat of intervention (p. 201) is worthy of further consideration. The key factor in the proposal is the suggestion that the Government could set a 'de facto formula' for fee increases. We note this is likely to be challenging to implement, in practice. For example, most providers increase their fees in July. The biggest factor impact on fees is the cost of labour, and the Fair Work Commission's

[25] Goodstart submission to the Productivity Commission (2023) p. 75

decision (usually released in May or June) on award rate increases. Timing wise, any ‘guidance’ issued prior to the Fair Work award decision is likely to be out of date, and any ‘guidance’ issued after may be too late to influence July increases.

The ’guidance’ approach could end up costing the Government more, as providers planning for a lower fee increase may simply default to the higher number.

A more sensible approach may be to require providers to justify excessive fees after the event. Whether or not it would be an ‘excessive fee’ by reference to the local market price, or an ‘excessive fee increase’ by reference to the general movement in fees, or indeed an ‘excessive profit’ would need careful consideration. Possibly the simplest approach may be where a service is charging a fee excessively above the local market average, then they will be asked to justify that rate to Government with the provider’s response made publicly available. If they can’t justify the price, they could be directed to reduce fees or have a capped approach to future fee increases. The advantage of this approach is that it would focus attention on outliers, strengthened local markets, but also provide a credible threat of intervention if a service is seen to move outside accepted parameters. While local market competition is generally effective, there continue to be outliers burdening families with excessive fees and excessive fee increases.

Fee growth will continue to be a concern under more generous subsidies with weaker price signals generated by from much lower out-of-pocket costs for families. For this reason, we believe there are other higher priorities for investment that should be implemented first; namely a universal child level entitlement (abolishing the activity test); funding a pay increase for educators; and fully funding the cost of inclusion. These measures are likely to deliver a better return on investment and so should be prioritised ahead of a flat 90% subsidy for all families.

Request for additional findings and recommendations in final report

1. Request new findings and complementary recommendation in relation to the unique value of not-for-profit providers be included in the final report

1) We request that, in its final report, the ACCC **elevate its findings** that not-for-profit providers are delivering effectively and efficiently on government’s key objectives of affordability, access, quality and inclusion. The findings in the final report should explicitly note that the observed benefits of not-for-profit providers, including:
   - Better access: NFP providers are more likely to service communities outside major cities or in disadvantaged communities (June report, pg. 45-46).
   - More affordable: NFP providers had lower average fees across all geographic and socioeconomic areas (June report, pg. 13, 97).
   - Higher quality: NFP providers make investments in above award wages and conditions and employing more staff full-time, which are evident in higher quality ratings, lower staff turnover and higher child retention (Sept report, pg. 152, 113 and 151).

   This section should also include any new findings in relation to the NFP sector as part of the ACCC’s further analysis explored below.

   See also: Comment 3 in response to draft Recommendation 7 (above).

2) We request that the ACCC analyse data provided under the first mandatory s95ZK Notice in relation to the representation of children likely to experience vulnerability or disadvantage and the associated inclusion costs of providing high quality ECEC to those cohorts. We hypothesise vulnerable cohorts will be over-represented in not-for-profit services and not-for-profit providers will made considerably higher investments in inclusion, such as allied health.

If proven, we request the above finding in relation to not-for-profit providers also include:

- More inclusive: NFP providers have higher representation of children experiencing or at risk of vulnerability or disadvantage and invest more in inclusion, including through allied health, targeted programs and/or outreach activities.

3) We request that the ACCC look at provision of places for children aged birth to 2 years by ownership type. (See also our response to draft Recommendation 2(a).) We hypothesise that not-for-profit providers are more likely to offer places for younger children, noting the higher costs associated with higher educator-to-child ratios (Sept report, pg. 85).

   If proven, we request the above finding in relation to not-for-profit providers reflect the following:

   - Better access: NFP providers are more likely to service communities outside major cities or in disadvantaged communities (June report, pg. 45-46) *and are more likely to provide places for babies and younger age groups.*

4) We request that the ACCC consider data specifically in relation to the provision of ECEC by not-for-profit providers, including in relation to market share and growth. It is our observation that the not-for-profit sector is shrinking, in part due to challenges accessing capital but also because surpluses are being reinvested in quality and inclusion at the expense of growth.

Despite the strong quality, inclusion and affordability record of the NFP sector, fewer families have the choice of sending their children to a not-for-profit service because of the declining share of services that are not-for-profit. Between 2013 and 2023, the percentage of not-for-profit CBDC services (including private school and government services) fell from 40% of all centres to 31.1%. In that period, just 81 new NFP services and 113 services at private schools opened, compared to 2,363 new private services. This reflects the difficulties the NFP sector faces in raising funds for capital growth, particularly community centres that rely very heavily on government funding for capital.

5) To complement this finding about the unique value of not-for-profit ECEC providers, we request the final report include a **new recommendation** as follows:

   Recommendation: *The ACCC recommends that, in designing a new ECEC system, the Productivity Commission and Australian Government specifically include financial and regulatory incentives to support not-for-profit service provision, including through a market strategy and planning approach and through the establishment of a fund to directly invest in new, quality not-for-profit and public services – aligned with the statement of national priorities – to ensure all families have the choice of affordable, inclusive and high quality not-for-profit provider.*

   The ACCC recommends the Productivity Commission specifically consider the establishment of a capital fund to cover costs of establishing new centres, major repairs and upgrades for not-for-profit services based on national priorities.

2. Request new findings and complementary recommendation in relation to the effectiveness of local markets in placing downward pressure on fees be included in the final report

We request that the ACCC finding about the effectiveness of local markets be elevated to be a key finding in the final report, based on fees being closely clustered around the median. This is based on the ACCC statement that, 'the standard deviation of price is less than $1.00 per hour in the majority of SA2s and less than $1.50 in about 90% of all SA2s' (Sept report, pg 108).

Elevating this finding substantiates the proposal to focus on fee outliers in a local market as part of the price regulation approach under draft Recommendation 2(d). Specifically, where fees are outside an ‘allowance’ above the median price in a local market, e.g. 5-10% above, Government may ask providers to show cause to justify their higher fees or have a fee imposed by Government.

3. Request new findings and complementary recommendation in relation to property and land costs be included in the final report

Suggest new recommendation:

> *The PC should give consideration to regulatory and financing approaches that better control land, land related costs and planning approaches as part of a broader definition of market stewardship to manage over and under supply in different markets.*

We note the ACCC intends to “…explore further the nature of relationships between childcare centre owners and childcare providers in our final report” (Sept report, pg 12). We request that the findings from these subsequent analyses are elevated into the findings in the final report, complemented by the above recommendation.

4. Request ACCC include all available data and analyses in an appendix to the final report

The ACCC inquiry is an invaluable contribution to the evidence base for ECEC and an important input to the future reform of the ECEC system. We request that ACCC include as much data and analyses as possible in a comprehensive appendix or technical attachment to the December final report. Ideally, this would include observations and learnings from the ACCC Inquiry process in relation to the complexity of collecting and comparing cost, price, supply and demand data and information, to inform future PC consideration about financing, (eg including consideration of the need for an ECEC costs authority or other body, if cost structure information needed to be captured in an ongoing way).

Responses to draft findings

1. Labour is the main driver of cost for supplying childcare, accounting for 69% at centre-based day care and 77% at outside school hours care. Labour costs have increased significantly for large centre-based day care providers over the last 5 years.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

2. Land and related costs are the other significant driver of cost for centre-based day care providers.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

See above – proposed new recommendation in relation to property.

3. Not-for-profit providers appear to face lower land costs than for profit providers, but these savings are invested into labour.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

See above – proposed new findings in relation to NFP providers:

- Suggested finding: NFP Providers appear to be efficient and effective in delivering in areas aligned with Government objectives through improved pay for staff, lower staff turnover, more provision for communities facing disadvantage and more likely to be high quality.
- Suggested finding: NFP providers have not grown due to their corporate structure which creates challenges accessing capital to fund expansion with modest surpluses invested in objectives aligned with Government such as funding inclusion.

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.

☐ Agree ☑ Do Not Agree ☐ Unsure / No View

Consistent with the response to draft Recommendation 2 (a), above, we recommend the ACCC conduct new analysis and update this draft finding (and Recommendation 2 (a)) to show the significant variation across local markets and with consideration to occupancy impacts. There is considerable variation of costs *within* the 'Major Cities' ABS Remoteness Area category between inner and outer suburbs that should be considered, e.g. Tewantin Qld (Sunshine Coast) classified as 'Major City' but with far lower rent per place costs than Brisbane CBD in the same category.

As the nation's largest provider, we know the costs to supply vary by licenced and occupied place and understanding this variation is crucial when considering future ECEC funding and system reform.

5. Parents' and guardians' demand for centre-based day care is driven by a complex combination of factors. Parents look to prevailing market prices, however informal measures of quality are key considerations.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

6. Providers' supply decisions are influenced by expectations of viability, which is heavily influenced by relative socio-economic advantage and geographic location.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

7. Staffing constraints are a barrier to more suppliers entering or expanding their operations in childcare markets.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

8. The nature of competition reflects the unique demand and supply factors in childcare markets; price plays a less influential role once households have chosen how much childcare to use and providers compete on quality to attract and retain children and families.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

Partly agree – providers do compete based on price (and quality) to attract families. While we agree price plays a less influential role once families have chosen a provider, fee increases can impact retention.

Suggest finding in final report is edited as follows:

> *The nature of competition reflects the unique demand and supply factors in childcare markets;* ***price, along with quality, plays a more influential role when families are choosing a provider*** *and deciding how much childcare to use. However, price is less influential once households have chosen a provider and providers tend to compete on quality retain children and families.*

9. On average, large centre-based day care and outside school hours care providers appear to be profitable and financially viable.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

10. Occupancy is a key driver of revenue and therefore profits and viability.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

11. On average, margins are higher:

– for for-profit providers of centre-based day care than not-for-profit

– in Major Cities and more advantaged areas

– for services with higher quality.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

12. The ability to attract and retain staff is a key determinant of quality, which affects the profitability and viability of a service.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

Agree, noting ACCC finding that above award wages and employing staff full-time contributes to higher quality ratings, higher child retention and lower staff turnover (Sept report, pg 152, 113 and 151).

13. The design of the Child Care Subsidy and existing price regulation mechanism has had a limited effect in placing downward pressure on prices and limiting the burden on taxpayers.

☐ Agree ☐ Do Not Agree ☑ Unsure / ~~No View~~

Noting increases in underlying cost drivers, we believe there is evidence that the design of the CCS and existing price regulation mechanism – particularly the hourly fee cap and the means-tested gap fee paid by families – have been effective at keeping downward pressure on prices and limiting the burden on tax-payers. However, there is room to improve, which could be achieved through better fee transparency to allow families to compare prices within a local market and stronger action taken against providers who implement excessive fee increases.

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.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

Partly agree - the case for utilising session lengths is primarily to improve a family's affordability within the structural design of the CCS and the activity test. It is not a focus to maintain revenues or profits; this focus comes from daily attendances, rather than session length.

15. The Child Care Subsidy is complex for parents and guardians to understand and it is difficult to estimate out-of-pocket expenses.

☑ Agree ☐ Do Not Agree ☐ Unsure / No View

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.

☐ Agree ☑ Do Not Agree ☐ Unsure / No View

Note: Important to clarify: we agree StartingBlocks can contain outdated information, however, StartingBlocks data is republished on many aggregator websites, so is ultimately used by families.

17. Overseas data indicates childcare in Australia is relatively less affordable for households than in most other OECD countries.

☐ Agree ☑ Do Not Agree ☐ Unsure / No View

Disagree – this finding is based on analysis of data as at January 2022, so, while accurate to make comparisons at that time, it does not take into account the 2022 and 2023 reforms of CCS, specifically the introduction of the Multi-Child Subsidy in March 2022 and the Cheaper Childcare reforms in July 2023. These changes have had the effect of halving out of pocket costs for families with two children in care (the OECD benchmark) and are likely to bring Australia down to the OECD average or below.

18. Many OECD countries are moving toward greater regulation of childcare fees such as low fees or free hours for parents and guardians, supported with supply-side subsidies to cover providers' costs of provision.

☐ Agree ☑ Do Not Agree ☐ Unsure / No View

Disagree – many of these OECD countries have substantially higher out of pocket costs than Australia, highlighting that supply side funding is no guarantee of reducing out of pocket costs where the funding fails to keep up with underlying cost pressures. The final report should include a more balanced analysis of the OECD comparator experiences. See Appendix B of Goodstart's submission to the Productivity Commission Inquiry for further reference.[26]

[26] Goodstart submission to the PC inquiry 2023, Appendix B.