Australian Childcare Alliance

# Submission to ACCC Childcare Inquiry

## Response to September 2023 ACCC 2nd Interim Report.

October 2023

# Contents

# Foreword

As the national peak body for the Australian Early Childhood Education and Care (ECEC) sector, the Australian Childcare Alliance (ACA) represents more than **3,000 provider members** who employ more than **75,000 educators** and care for more than **360,000 families** throughout Australia.

Our vision is a future where **every child in Australia has access to high quality, affordable and sustainable early learning services**.

Australia needs high-quality, well-resourced, affordable early learning (childcare) services.

A strong and sustainable early learning (childcare) sector is critical to the economic health of this nation, as reflected in the Treasurer's *2021 Intergenerational report: Australia over the next 40 years*. Without a sustainable, affordable early learning (childcare) sector, the economy falters and women are the first to be forced out of their jobs, to stay home and care for (otherwise well) children.

Meanwhile the benefits of high-quality Early Childhood Education and Care (ECEC) are well recognised and acknowledged locally and globally across the education sector, in the context of an abundance of evidence from studies in Australia and internationally, demonstrating the significant advantages children gain from attending quality early learning services.

Children who enjoy quality early learning are likely to be well socialised, confident, inquisitive about the world, accepting of diversity, resilient to manage challenges and also to be life-long learners.

These benefits flow on to our families, the wider community and the Australian economy.

Affordable access to early learning services is therefore **essential** for all Australian families with young children, as well as those planning to have children.

We know that affordability directly impacts a family's access to high quality ECEC service for their child, particularly those families who experience high levels of financial vulnerability. We know that these **families and children benefit significantly more from ECEC as early intervention, education, and care.**

The health and developmental benefits of early learning to Australia's young children are now needed more than ever, and the long-term benefit to our economy is exactly what policy makers need to focus on.

However the nationwide delivery of high-quality ECEC services simply cannot be achieved without a strong, stable and supported workforce. Australia urgently needs immediate and long-lasting solutions to these workforce shortages.

ECEC **providers across the country are struggling to meet the demand for places** and to meet the regulatory requirements for the educator-to-child ratios. This is having a devastating impact, particularly on working mothers and is exacerbating an overall worker shortage being experienced in all parts of the national economy. This issue is even more acute in regional, remote, and disadvantaged areas of Australia.

It is in this context that ACA welcomes the opportunity to contribute our feedback to the Australian Competition and Commission (ACCC)'s recommendations in the 2nd Interim Report as part of the Inquiry into Childcare.

We hope that our feedback offers practical, meaningful insights into the issues impacting the cost of ECEC services to families.

ACA commits this Submission to the ACA Childcare Inquiry for consideration, in the context of anticipating the upcoming Productivity Commission review of the current funding mechanism and possible reforms to consider within the sector.

We will continue to engage with Federal Government consultation processes to ensure that **every child in Australia** has access to high-quality, affordable and sustainable early learning services, and therefore the **best start in life**.

**Paul Mondo**
**President**

# Executive Summary

The Australian Competition and Commission (ACCC) 2$^{nd}$ Interim Report provides some important, useful data and commentary in parts. However as a result of the **limited** data collected across Australia, it is less impactful and offers less meaningful analysis than anticipated.

In particular the data collected lacks adequate representation from small to medium service providers (making up 99% of service providers in the sector[1]) and fails to illustrate the complex Early Childhood Education and Care (ECEC) landscape of different service delivery models. The report features extremely limited definitions around 'costs' and 'profits' which fail to accurately reflect the complexities, the challenges and the variations of the current ECEC sector.

Below are a number of key points that the Australian Childcare Alliance (ACA) would like to highlight to bring focus to the limitations of the data collected and the omission of significant contextual information when presenting elements of the data.

## KEY POINTS FOR CONSIDERATION

When assessing the ACCC Recommendations which form part of this Interim Report, the Australian Childcare Alliance (ACA) highlights the following points as important contextual considerations:

- The **activity test should be abolished** as it creates more inequity for families experiencing social and financial vulnerabilities.
- In order to analyse the financial burden of running a high-quality early learning centre, it's essential to recognize that compliance costs form the **majority** of expenses for all ECEC services. These costs are **not optional**; ECEC services are legally mandated to adhere to the standards outlined in the National Quality Framework and the National Quality Standards.
- Between 2018 and 2022 there was 28% increase in labour costs (greater than the increase in the Wage Price Index over the same period), resulting in a 20% fee increase over the same period to cover this increase in labour costs.
- Many small providers are not paying themselves a wage nor benefiting from the revenue of their own real estate (i.e. via rent or mortgage expenses) as a small business owner, and instead claim an owners drawing, which has not been accounted for accurately in the ACCC 2nd Interim Report. This omission seriously impacts the accuracy of data around "profits".

[1] Figure 7: Proportion of Approved Providers By Size, page 9, ACECQA NQF Snapshot Q2 2023
https://www.acecqa.gov.au/sites/default/files/2023-08/NQF%20Snapshot%20Q2%202023%20FINAL.PDF

- Substantial increases in ECEC operating expenses, including - but not limited to - a 60% increase in insurance and 150% increase in Workers Compensation annual fees, both of which are regulated requirements that have contributed to operational costs and therefore family fees.
- Indexation and CPI are not enough to respond to these increases, consequently these costs are considered by services and then largely passed to families through increased fees.
- Children under 3 years old are more expensive to care for than 3-5 year olds because of the mandatory staffing requirements and exacerbated by the current critical ECEC staffing shortages. The ratio of staff to children in this younger group is 1:4 compared to 1:11. (State variances apply).
- ECEC costs vary significantly based on location, with remote and regional areas of Australia finding it difficult to attract an experienced and appropriately qualified workforce.
- Service fees play a crucial role in covering operational costs, regulatory requirements and compliance expenses, which are increasing at a pace surpassing the current wage and cost indexation rates. These escalating costs are subsequently absorbed by the service impacting viability unless fees increase.
- The 2nd Interim Report makes no reference to the complexity and variety of state and territory funding and policies (in addition to Commonwealth funding), that affects the costs for a service, hours of support families receive, and their service offerings (programs and staff professional development support).
- The current Inclusion Support Program (ISP) funding for additional educators does not cover the **actual costs of an additional educator** and the **service absorbs these costs,** with this cost then passed on to **all families** accessing the service.
- Failure to acknowledge and reflect the advantageous nature of operating a ECEC service under a NFP model (like exemption from payroll tax and company tax) when determining costs and profit margins across services.
- Starting Blocks needs more accurate, current, and functional information for it to be of real benefit for parents and families. This source of collected data should be used to assist government and providers with planning and supply in areas of demand.
- For-profit ECEC services **reinvest revenue** into the significant capital needed to build and operate new services. **Without flexibility to raise revenue**, these organisations would not be able to open new services, therefore blocking the **long-term supply of ECEC**.
- The hourly rate cap is not keeping up with the actual costs of delivering a service due to the limitations of indexation by CPI, including cost variations across different locations and workforce shortage implications particularly in the context of delivering different session lengths and maintaining service viability.
- Shorter sessions cost more per hour due to the fixed costs such as regulatory requirements, staffing and other expenses that go across a whole day, and cannot easily be reflected into a percentage of a daily rate.

- The 2nd Interim Report suggests a move towards supply side funding; however, if this results in restraining revenue this runs the risk of impacting service viability and may come at the price of lowering quality and decreasing flexibility of services for families.
- Direct price control measures in the United Kingdom resulted in 26% of all providers in deficit in 2021[2].

The Australian Government is in a prime position, being informed by the ACCC and also the ongoing Productivity Commission Inquiry, to positively impact the future of the ECEC sector in Australia.

It is vitally important that future policy decisions which impact the delivery of ECEC services in Australia, **do not diminish** the wonderful strengths of our sector and **do not risk** the possible outcome of stripping out ECEC services, rather than building on and improving the framework that has led to high quality, early learning across Australia.

The delivery of high-quality, early learning services is contingent on **two key pillars** - **strong and viable services and a stable and supported workforce.**

## PRIORITY RECOMMENDATIONS TO FEDERAL GOVERNMENT

- Implement a government-funded wage increase which invests in sector longevity and value, responds to growing population needs and ensures that the stabilisation of the ECEC workforce does not come at the cost of parents.
- Remove the activity test to give vulnerable families and children equal access and participation in ECEC services.

It is vitally important that we can deliver on **both of the above objectives** immediately to ensure a strong foundation for the ECEC sector.

Please refer to the **Summary of ACA Recommendations Responses** on page 41 of this submission.

[2] 199 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC refers to UK, Department for Education, G Cattoretti and G Paull, (2022), *Providers' Finances: Evidence from the Survey of Childcare and Early Years Providers 2021*, Frontier Economics Research report, March 2022, Figure 3.

# Equity

## Activity test locks out some children, creating inequity

The activity test was designed by the Coalition Government with the aim of incentivising workforce participation through more affordable childcare for those who work.

This model automatically disadvantages the children of parents who may not be working or undertaking other eligible activities, and unfairly denies these children of the best start in life via adequate access to high-quality early learning.

There is growing evidence to support the abolishment of the activity test, as it creates inequitable outcomes for Australia's youngest children:

- the activity test contributed to 126,000 Australian children from low-income households missing out on ECEC.[3]
- 50% of low income households spend between 5% to 21% of their disposable income on childcare, compared to 2% to 9% for households with the highest income.[4]
- Removal of the activity test during the Covid period saw an increased levels of ECEC participation of vulnerable families.
- In June 2021, there was a 12 per cent increase in Aboriginal and Torres Strait Islander children's participation in ECEC across 9 months.[5]
- Abolishing the activity test would save an estimated $1,306 million to the government across 2023-24.[6]
- Extensive sector support for abolishment of the activity test.
  (Please refer to *Appendix C - Equity measure Joint Proposal.)*

The current funding models that intend to support families experiencing social and financial vulnerabilities, create more inequity and lock these families out, through the activity test, complex systems, and administrative processes.

---

[3] 4, Impact Economics and Policy (2022) *The Child Care Subsidy activity test: Undermining Child Development and Parental Participation*, Impact Economics and Policy, Australia

[4] 105 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

[5] 6 SNAICC (2022) *The Family Matters Report 2022*, SNAICC, Melbourne

[6] Impact Economics and Policy (2022) *The Child Care Subsidy activity test: Undermining Child Development and Parental Participation*, Impact Economics and Policy, Australia

This is particularly evidenced with Indigenous families who need support to feel culturally safe, align with the ECEC service and understand the CCS systems as to access and for ongoing participation of ECEC services. The flow on effect is that children are not supported from their different starting places early in life, which hold them back in all domains.

# Costs, Quality and Viability

The primary objective of the ACCC's 2nd Interim Report ("the Report") was to identify the key areas that contribute to the costs of operating an ECEC service, and therefore explore possible government interventions to make ECEC services more affordable for families.

The ACCC was tasked with the responsibility of identifying the factors that contribute to the profitability, viability and quality of the ECEC sector.

The Australian Childcare Alliance (ACA) has observed that the Report makes recommendations based on broad assumptions from a set of data that does not adequately reflect the sector in its entirety; this includes the complexities of contributing costs, funding supports and the true costs of compliance with regulatory obligations.

The early learning (childcare) sector features a range of diverse financial models and methods of operating across the country. Without taking all these differences into account, the ACCC's analysis of the fees being charged across the sector amounts to "comparing apples with oranges".

The Report does not refer to and take into account the different inputs of funding across the states and territories and across service types (i.e. privately owned versus Not-For-Profits), that reflect different policy priorities and have different outcomes for families.

For example, as outlined in greater detail on page 24, Australia's Not-For-Profit (NFP) services receive financial benefits which creates a competitive advantage to reduce wage costs. The funding saved can be reinvested to increase pay to attract staff along with fringe benefits offerings. This cost saving allows a competitive edge that privately owned services simply cannot compete with.

Further variations in operating costs include the impact of the varied state and territory ECEC funding levels and types, different pre-school ages and funding, the cost to attract a highly skilled workforce, cost variations based on remote locations and a range of unique service differences, such as the number of children over and under 3 years old attending the service.

The differences in state-specific funding directly impacts the programs ECEC services can deliver and the number of hours available to families. Grant funding opportunities can offer financial support to services but is often only available to NFP services.

On a broad scale, Australia's ECEC services are experiencing rapid cost increases which exceed current funding levels and pricing indexation models. This key point has not been adequately addressed in the Report.

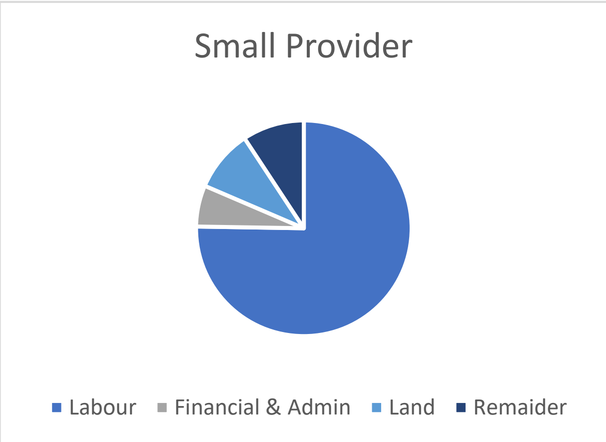
**With all of these varying factors at play, it is extremely difficult to compare the operating costs of one service to another and find a 'one size fits all' solution to complex challenges across a vast ecosystem of ECEC services that operate across Australia.**

## True costs associated with ECEC service delivery

The Report's analysis of overall operating costs for centre-based ECEC services fails to accurately represent the significant proportion of compliance costs, which are outlined in greater detail on page 13 of this submission.

Moreover the Report's method of categorising the size of services by grouping **all** ECEC service types **together**, then exploring and determining their overall costs, fails to accurately reflect the different costs of privately owned (For-Profit) and Not-For-Profit (NFP) services.

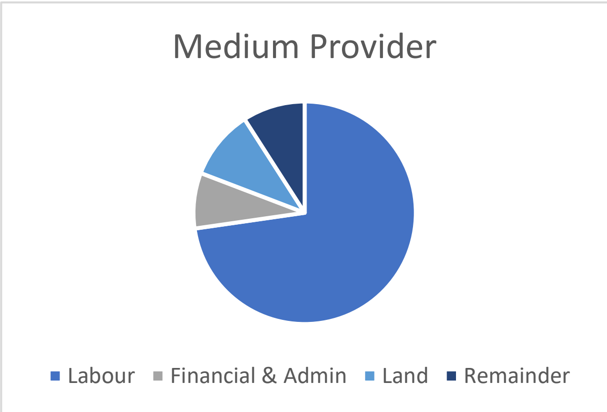
The Report's **very general** presentation of data which aims to reflect the overall costs for centre-based ECEC services across the country is presented below:[7]




For small providers, the total costs are $10.97 per hour and is made up of:

- Labour at approximately $8 per hour
- Finance and administration at $0.71 per hour
- Land and associated costs at $1 per hour
- Remainder of costs at $1.26 per hour (which includes $0.53 of consumables)

[7] Figure 1.35: Average costs for centre based day care, by provider size, 2022 on page 65 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC. ACCC noted that 'Analysis results for medium providers may not be fully representative of sector'.




For medium providers, the total costs are $12.33 per hour and is made up of:

- Labour at approximately $8.90 per hour
- Finance and administration at $1.02 per hour
- Land and associated costs at $1.25 per hour
- Remainder of costs at approximately $1.15 per hour (which includes $0.53 of consumables)

The data in the above graphs does not take into account the varying factors that directly impact operating costs of a service, such as service type (privately-owned or Not-For-Profit), state level government funding, regional vs metro locations, etc.

The result is a very crude analysis of the operating costs of an individual ECEC service.

## Quality Costs

Throughout the history of early learning (childcare) in Australia, there have been significant policy changes in response to the needs of the child and the family that have shaped and influenced how services are operated and in turn the overall cost to families.

The introduction the National Quality Framework (NQF) brought in regulatory changes that have directly increased the costs of the provision of ECEC services. These changes include qualification requirements, mandatory staffing ratio changes, an increase in administration, the development of specific curriculums, in some cases the introduction of new equipment, new infrastructure and so on.

Please refer to *Appendix A – Australia's early learning sector: A timeline of NQF Regulatory Impacts* for an overview of these regulatory changes from 2009 onwards.

It was predicted that there would be additional costs associated with the implementation of the NQF back in the Parliamentary Library Blog in 2012:

> "…*in spite of the NQF's merits and the concessions that have been made, the tension between improved quality and services and increased costs is likely to make the NQF's implementation difficult*."[8]

Regulatory requirements that bring about nationwide, consistent delivery of high-quality ECEC services come at a cost – this important detail must be recognised in funding models.

In addition to the NQF, other major changes in government policies and funding decisions at the State Government level have had a significant impact on the ECEC sector broadly and on the costs of operating an individual early learning service. These changes have impacted operations, administration requirements, staffing, regulations, family subsidies, the assessment and rating of individual services and a range of other aspects.

Many of these changes have contributed to increased costs for families, due to the additional work required of the staff at their early learning service.

## Compliance costs

Contrary to the broad-brush statements made in the Report, all early learning service providers would agree that compliance costs underpin the **majority of costs** of operating an ECEC service.

That is, all costs associated with operating an ECEC service – with the exception of rent or lease expenses – are compliance costs, directly incurred as a result of the national regulations for the sector. It is important to note that these are **not discretionary** costs. Australia's ECEC services are legally obliged to comply with the requirements under the National Quality Framework (NQF) and the National Quality Standards (NQS).

The Report grossly misrepresents these costs in making the determination that regulatory compliance costs only make up 0.59% of the cost to operate a centre-based ECEC service. [9]

By categorising all compliance costs as a component of labour costs, the Report effectively buries and ignores the true cost of compliance with regulatory requirements.

---

[8]Marilyn Harrington (2011), *The National Quality Framework for Early Childhood Education and Care,* FlagPost, Parliamentary Library, Department of Parliamentary Services

[9] 43, ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC, refers to: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

The Report therefore fails to adequately reflect the **actual costs of compliance** with the national regulations in the ECEC sector. [10]

Some examples of compliance costs across the ECEC sector include:
*(**Note**: This is a snapshot, not an exhaustive list)*

- Staffing costs – mandatory training, educator-to-child ratios, administration to meet reporting requirements.
- Infrastructure costs – age-appropriate bathrooms and toilets, play areas, drinking taps, sun shades, outdoor shelter.
- Equipment costs – the provision of age-appropriate play and sports equipment, educational toys and activities, ongoing replacement and repair of all items.
- Consumables costs – the provision of sunscreen, nappies, minimum levels of food quality.
- Property maintenance costs – immediate repair to any damaged property
  Eg. chipped paint which requires repaint urgently, replacement of security fence and gates, play forts which require regular powder coating due to wear and tear.
- Additional factors contributing to high compliance costs – overtime due to high task load, training after hours and/or on weekends, as well as training during business hours when additional replacement staffing will also be required.

It is a well-known fact among the ECEC sector that compliance is interwoven into **all** areas of operation of an ECEC service, with the biggest cost of regulatory compliance being staffing (to ensure mandatory ratios and qualifications are upheld to meet NQF and NQS requirements).

On behalf of all ACA members, ACA would like to make it clear that the ACCC's statement that compliance costs amount to a mere 0.59% of a centre providers' operating costs is a **gross misrepresentation** and fails to accurately reflect the layers and complexities of compliance responsibilities as part of operating an ECEC service.

Upon reviewing the collated data in the Report, ACA suggests a more accurate percentage reflecting the total compliance regulatory costs as required by national law.[11], minus rent, would be **89.9%** of costs for medium providers and **90.9%** of costs for small providers.

## Case Study: ACA Member in Victoria

One of ACA's member services in Victoria has alerted ACA to an example of extensive compliance costs regarding their infrastructure.

---

[10] 'We note that many regulatory compliance activities are completed by employees, which will be included in labour costs.' 47, ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

[11] Percentages determined based on Figure 1.37: Average land and related costs for centre based day care, by provider size, 2022. Page 66 of ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

The service provider explained that compliance requirements meant that they had to relocate a sandpit to make it compliant with the new regulations. The costs associated with this compliance measure required the additional cost of overtime hours for the Centre Manager to meet the landscaper, the cost of equipment and labour for the renovation and repatriation of the old site with grass to minimise child trip hazards.

The work required builders' insurance, labour costs, equipment and machinery hire, demolition of old site, waste removal, materials specific for compliance requirements, play equipment, revegetation of old area, materials for new sensory and play area.

The total cost to comply with this new regulatory requirement was $41, 140 (including GST).

## Labour costs

The Report acknowledges that staff wages are the largest expense associated with delivering a high-quality ECEC service. Recent research carried out by Dandolo Partners[12] indicates that wages represent between 55% and 85% (with a median of 70%) of costs within an ECEC.

Among the privately-owned services in the ECEC sector, 64.3% are paying their staff above award wages.[13] This is a reflection that services value their highly trained, experienced, and qualified educators and know offering wages above the award is one of the important factors in retaining staff.

The early learning sector has seen labour costs increase by 28% in centres between 2018 and 2022, which is greater than the increase in the Wage Price Index over the same period.[14]

High-quality ECEC services require financial investment, as reflected in the 20% increase of fees across all services between 2018 and 2022.[15] When adjusted for inflation, this increase was about 4%.[16]

As a proportion of operating costs, wages make up approximately 69.9%. The 20% fee increase was therefore required to cover these additional labour costs.

It is clear that wages that attract and retain high-quality, experienced and appropriately qualified staff are essential for the delivery of high-quality ECEC services, with better Assessment and Rating rankings and better outcomes for children at the service.

---

[12] Dandolo Partners (2023), *The cost and impact of different funding approaches to increase ECEC sector wages*: Report for the Australian Childcare Alliance, Dandolo Partners

[13] 11, ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

[14] 50, ibid

[15] 10, ibid

[16] 10, ibid

## Different costs across different ages – under 3 year olds

An important factor that impacts the operating costs for ECEC services is the fact that the labour costs for providing ECEC services for children under 3 years old are substantially higher than the costs for 3-5 year olds, due to the high level of care that is required for babies.

This higher cost is often addressed by the service provider via a cross subsidisation, to offset the costs of younger children with the age-mix model in an ECEC at service. That is, the families of children under 3 years old are not charged a significantly higher fee, but the service provider has to account for that higher operating cost in their macro management of costs.

In terms of the demand for ECEC services not meeting supply, the largest gap is the birth-to-3 year old places for parents wishing to return to work or study. These parents are the most likely demographic to struggle finding a place for their child and may be forced postpone their planned arrangement whilst sitting on waiting lists.

The underlying reason for this is the ECEC workforce shortages coupled with the mandatory staffing requirements. Under the NQF, the educator-to-child ratio for birth-to-24 months is 1:4, and 1:5 for children from 25 to 36 months (except for Victoria which maintains 1:4 for this cohort) . That is, there has to be one educator to four babies. This ratio is standard across all states and territories in Australia.

This low ratio is essential for adequate age-appropriate care of the children and allows for the provision of a high-quality service. However, the ratio reflects the fact that this age bracket incurs the highest costs per child in terms of the staffing and resources required to provide adequate care.

### Case Study – Room for Under 2 Year Olds

The table below illustrates the estimated operational costs for one educator in a room of under 2 year olds. These costs may vary across service type, service size and state/territory.

| | | | |
|---|---|---|---|
| Educator at Level 4.3 | $30.05 per hour | 38 hours | $1, 141.90 |
| In addition to super, annual leave and personal leave | 25% | | $285.48 |
| Payroll tax and Workcover costing | 5% | | $57.10 |
| **Total** | | | $1, 484.48 |

Note that in under 2 year olds' room, staffing ratios would require two or nearly three staff for 11 children compared to the over 3's room which would require one educator for 11 (based on the Qld staffing ratios).

## Impact of workforce shortages

The **single most pressing** issue facing the early learning sector Australia-wide right now is the critical workforce shortage of qualified educators.

The early learning (child care) sector is experiencing a **nation-wide workforce crisis**. There are simply not enough entrants into the sector to meet the demand for educators and to meet our regulatory requirements for the educator-to-child ratios.

A recent report[17] produced by CELA (Community Early Learning Australia), ELAA (Early Learning Association Australia) and CCC (Community Child Care Association) revealed that over 4,500 job vacancies (minimum) were advertised in the Early Childhood Education and Care (ECEC) sector in the first six months of 2021 and nearly half of all vacancies remained unfilled during that period.

In 2022 the problem grew exponentially for the sector, compounded by low unemployment rates and the lasting economic and social impacts of COVID-19. The latest National Skills Commission data showed there were over 7,000 ECEC roles advertised nationally at the end of September 2022[18].

The ongoing staffing crisis across the Early Childhood Education and Care (ECEC) sector has been reflected in operational data provided by ACA's members in two national surveys.

Conducted in two tranches, the survey showed the majority of ECEC services are being forced to cap enrolments as they simply don't have enough staff to meet the legal ratio requirements of educators to children.

Across a single week in February 2023, more than two thirds of the 627 centres surveyed confirmed enrolments that week had been capped, which equated to a total of 16,300 places cut off from Australian families. A second survey of 442 centres across a one-week period in May 2023, revealed that — again — more than half had been forced to cap enrolments due to the ongoing workforce shortages.[19]

The ECEC sector simply does not have enough people to meet the demand for ECEC child places, whilst also remaining compliant with the educator-ratios put in place to ensure the safety and wellbeing of children and staff alike.

---

[17] https://bit.ly/CELAWorkforceReportNov2021

[18] https://www.nationalskillscommission.gov.au/topics/skills-priority-list

[19] ACA Media Release Families turned away from childcare because of critical staff shortages – ACA reports new survey data https://childcarealliance.org.au/media-publications/aca-media-releases/226-media-release-aca-survey-report-families-turned-away-from-childcare-because-of-critical-staff-shortages-tuesday-13-june/file

Without adequate numbers of entrants into the sector, over 12,500 early learning service providers across the country are struggling to meet the demand for places and to meet the regulatory requirements for the educator-to-child ratios. As a result, families are being forced out of their services and out of the workforce.

## Investing in the ECEC Workforce

The ECEC workforce has significant demands and expectations in creating high quality, culturally safe learning, and care environments for children from birth to five years across 12 hours a day for 52 weeks each year. ECEC staff do not get school holiday time away from services, are doing longer hours (e.g. from 6:30 am to 6:30 pm) and are often not receiving the professional recognition or value, when held in comparison of school teachers.

Parents also advocate for more investment in the ECEC workforce:

> *Accessibility and supply are directly related to lack of educators at childcare services. As a result, services are having to cap enrolments. Improving educator pay and conditions would work to address supply issues.*[20]

These demands need to be heard, valued, and responded to with wages that reflect the value of the ECEC workforce and pay accordingly to attract and retain educators and teachers to deliver high quality ECEC for Australia's children. T

The need to support ongoing changes to the cost of wages in the ECEC sector should be factored in to the mechanism of the subsidy model for ECEC services, to ensure a framework that permanently supports the maintenance of a strong, robust ECEC workforce.

## Variation of state-level funding and impact on services

Further to Commonwealth funding, the State and Territory Governments fund the ECEC sector differently based on policy priority areas, budgets and areas different department portfolios oversee.

The implications of these funding differences are reflected in:

- the number of hours of ECEC available for children aged 3 and 4 years, which affects the out-of-pocket expenses to parents.
- the grants available for services for building construction, renovations, and maintenance (with some grants only being open to NFPs and community services).

[20] 3 ACCC 2023 Childcare Inquiry Roundtable Summary – Parents and Guardians, ACCC

- the grants available to attract, retain, upskill, and support in relocation of early childhood educators, Early Childhood Teachers and new workers to the sector.
- the grants available for supporting the service in purchasing toys and equipment, maintenance and replacement as required by compliance regulations.
- the success or failure in attracting of service providers and educators to areas that are remote, rural and in higher levels of need.[21]

These differences in financial support across each state have a direct impact on the costs of running an individual service, along with the service offerings made available (i.e. educational programs, infrastructure, equipment, staff professional development support, etc).

Families are directly impacted by these variances, in particular with the variations of hours of funded support available across the states. This fact is not well acknowledged in the Report, and directly feeds into the wider discussions about the operating costs for services and the influences on fees for parents.

Please refer to *Appendix A – Australia's early learning sector: A timeline of NQF Regulatory Impacts* for an overview of these regulatory changes from 2009 onwards.

[21] Educators support this with 'Some services in regional and remote areas spend a lot of money to attract educators only to find that the educators do not stay long in the job. Government support would be useful for rural and remote locations to build an educator workforce among the existing community.' 4 ACCC (2023) *Childcare Inquiry Roundtable Summary – Educator Roundtable*, ACCC

## Education Funding Support across a Child's Lifetime

The financial contributions required at the state and federal level for each child's ECEC, primary and secondary education are complex and differ across jurisdictions.

Based on the 2021 data, the Australian Government invests the following each year into a child's education:

- $8,458 on each child's early childhood education
- $12,099 on each child's primary school education[22] and
- $15,204 on each child's secondary school education.[23]

Please note that these are approximate costings and are variable based on a range of factors, including the different state and territory programs funded to target different cohorts in the community, combined funding programs (i.e. Health) as an intervention that may go into centres or schools.

There is an additional range of factors that also play into the need for additional funding for a school including the number of students with a disability, that have English as a second language, who identify as from an Aboriginal and Torres Strait Islander (ATSI) background, the location of the school in a low socio-economic area, rural, regional, or remote region, and size of the school.

## Not-For-Profit Service Operational Advantages

The Report found that privately-owned services make up 70% of centre-based services, with Not-For-Profits (NFP) making up 30% of centre-based services.[24]

Establishing an ECEC to operate under an NFP structure, offers significant benefits including:

- Does not incur payroll tax
- Does not attract company tax
- Offers additional benefits to attract and retain staff including salary packaging and Fringe benefit tax exemption
- Exemption from Local Council Rates and Emergency Services fee
- Eligibility for grants and other funding streams.

---

[22] P6 Australian Government Schools Funding Report (2021), *Report on financial assistance paid to the schools sector and relevant decisions under section 127 of the Australian Education Act 2013*, Department of Education

[23] Ibid The determination of how much each school is funded is based on a "base amount [that] is calculated each year in accordance with section 33 of the *Australian Education Act 2013*. The number of students enrolled at the school for the year is multiplied by the SRS funding amount for the year for each student.

[24] 45, ACCC (2023), *Childcare Inquiry: Interim Report June 2023* ACCC

The Report indicates that NFPs paid their staff above award wages,[25] but fails to represent the savings of payroll tax nor company tax, as listed above.

These cost savings give NFPs a competitive advantage over other service types in the sector during a time of significant staff shortages, as the savings can be reinvested into paying staff more to attract and retain them. Retention of surpluses can be redeployed in the future without consequence.

## RATES AND THRESHOLDS OF PAYROLL TAX ACROSS AUSTRALIA[26]

| State/ Territory | Rates | Thresholds | Maximum Annual<br><br>Deduction Entitlement* |
|---|---|---|---|
| ACT | 6.85% | Annual $2 000 000<br><br>Monthly $166 666.66 | Same as annual threshold |
| NSW | 5.45% | Annual $1 200 000 | Same as annual threshold |
| NT | 5.5% | Annual $1 500 000<br><br>Monthly $125 000<br><br>Weekly $28 846 | Same as annual threshold |
| QLD | 4.75% $6 500 000 or less<br><br>4.95% more than $6 500 000<br><br>Regional employers may be entitled to a 1% discount on the rate<br><br>until 30 June 2023. | Annual $1 300 000<br><br>Monthly $108 333 | Same as annual threshold |

[25] large not-for-profit centre based day care providers, which paid 94.5% of their staff above award wages compared to for-profit providers paying 64.3% of their staff above award wages. 11 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

[26] Australian Revenues Office 2023, Payroll Tax Australia sourced from https://www.payrolltax.gov.au/resources#resources__rates_and_thresholds

| | | | |
|---|---|---|---|
| | From 1 January 2023, a mental health levy will apply to employers and groups<br><br>of employers who pay more than $10 million in annual Australian taxable wages.<br><br>Additional 0.25% (primary rate) more than $10 million (primary threshold).<br><br>Additional 0.25% (primary rate) + 0.5% (additional rate) more than<br><br>$100 million (additional threshold).<br><br>For the 2022–23 financial year, the thresholds are adjusted to accommodate the levy commencing during the financial year. | | |
| SA | 0% to 4.95% Exceeds $1 500 000 but not $1 700 000<br><br>4.95% Exceeds $1 700 000 | Annual $1 500 000<br><br>Monthly $125 000<br><br>Weekly $28 846 | $600 000 |
| TAS | 4% $1 250 001 - $2 000 000<br><br>6.1% $2 000 001 or more | Annual $1 250 000<br><br>Weekly $24 038 | Same as annual threshold |
| VIC | 4.85%<br><br>1.2125% for regional employers | Annual $700 000<br><br>Monthly $58 333 | Same as annual threshold |
| WA | 5.5% | Annual $1 000 000<br><br>Monthly $83 333 | Same as annual threshold |

*If you employ for part of the financial year or in more than one state or territory, your deduction/threshold entitlement may be reduced. In some states and territories the deduction/threshold entitlement may reduce as wages paid increase.

Factoring in payroll tax and company tax exemption and additional benefits available only NFP services, the actual profit margins of NFPs at 6% in 2022, might be closer to the for-profit services with profit margins at 9%. However, it should be noted that Figure 6 of the 2nd Interim Report indicates that medium size NFP providers are in fact not making a profit and are in deficit by approximately 6%, which does not reflect well on the efficiencies and viability of the service delivery of medium NFP providers.[27]

In 2022, land costs for large not-for-profit providers accounted for about 10% of total expenses whereas this was about 18% of total expenses for for-profit providers.[28] Factors that contribute to these lower costs are due to:

- Not-for-profit providers have a much higher proportion of owned (12%) and donated (1.4%) sites than for-profit providers
- Higher ownership of property reduces costs of renting, interest on mortgages, insurance, and other overheads.

This compares to for-profit providers spent more on land (17.1% or $2.02 per charged hour) than not-for-profit providers (10.2% or $1.18 per charged hour).

## ACA Member Feedback - Increases in Costs

Recent focus group feedback from ACA members (i.e. owner/operators of early learning services) indicated that they are experiencing substantial annual increases in their operational expenses.

Some examples of these annual increased costs are detailed below:

- Food costs have increased by $1.50 per child per day, which based on a centre being licenced for 100 children per day, this equates to an increase of $39,000 per year.
- Cleaning chemicals have increased by 12%.
- Insurance costs have increased by up to 60%.
- Over 150% increase in Workers Compensation costs.
- Cleaning and maintenance costs have increased by up to 20%
- Renovation, building and construction costs have increased in the past 12 months from $2500/$2600 per m2 to $5500 per m2.
- For the large majority of service providers which commercially lease their facilities, this makes up 10-20% of their expenses including scheduled annual increases of 3-5%.

Additional known costs:

- An upcoming increase to staff superannuation contributions from 9% to a scheduled increase to 12% by 1 July 2025.

---

[27] 20 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC

[28] 11 ibid

- Agency costs for casual staff are 30% higher than employed educator costs (this takes into account super, contractor rates, etc.). Agency costs for a Certificate 3 Educator start at $50 per hour and increase according to higher qualifications.

  Below is an overview of agency educator costs based on qualifications levels below:

| Qualification level | Cost per hour |
|---|---|
| Support worker | $45.99/hr + GST |
| Cert III | $49.99/hr + GST |
| Diploma: | $59.99/hr + GST |
| ECT | $74.99/hr + GST |

As an example, across one year, one of ACA's members in the focus group discussion said they experienced a 30% increase in operational costs, which was impacted by the costs of food, cleaning, rent and other related expenses.

## Financial model of schools versus ECEC services

Australia's ECEC services can only generate revenue from one source, which is parents' fees. These fees are essential to operating and compliance costs which are exceeding at a faster rate than current wage and cost indexation rates, these growing costs are then absorbed by the service.

There have been long-held public comparisons between school and ECEC costs, with the assumption that these costs should be on par with each other. However, these are not equitable comparison points, because these are entirely different models of operation, with different revenue models, different teacher: child ratios, different operational hours and different government support mechanisms and different grant funding available.

Public schools:

- are eligible for government grants. Whilst NFP and community ECEC services are eligible for government grants, these are not available to all ECEC service providers.
- have no rent or lease costs. The Federal and State Governments jointly fund improvements to school buildings infrastructure, upgrades, and maintenance.[29]

[29] Australian Education Act 2013

- have dedicated government-funded pupil free days for professional development and curriculum development. ECEC's do not have dedicated student free days for this purpose.
- Do not operate under structural regulatory requirements comparable to ECEC services, which are subject to staff ratios requiring more teachers and educators for babies, 2 year olds, and 3-5 year old children, as their needs are higher than older school-aged children.

The limited revenue pathways available to ECEC service providers mean that increasing parent fees is the only response to accommodating the growing costs in ECEC service delivery. The revenue generation of ECEC services is vitally important to achieve business viability and quality improvement.

## Reinvestment of Capital

The initial investment and start-up costs associated with building and opening a new ECEC service is approximately $2 to $3 million. This figure is even greater in regional and remote areas, to accommodate additional freight costs, travel of trades and other professionals to complete the build.

Across Australia, it is estimated that the gross value of Long Day Care real estate assets exceeds $18 billion. With a growing demand for places from new families, investment in real estate and capital is essential in order to support the demands.[30]

The current trend among the majority of the major banks of knocking back childcare operators reflects that they do not have the capability or policy inclination to offer funds that adequately satisfy the ECEC sector's needs.[31] Consequently, many non-banks currently cater to the 21% of all childcare property debt, with growing demand that figure that needs to rise to 26% to meet the sector's demand.[32]

These non-banks largely include privately-owned ECEC services, both small and large, that are investing significant capital to build and operate new services. To achieve this, the repayment against this capital often comes out of "profits". Effectively, "profits" are used as capital to build and establish new centres.

Without adequate profit, these organisations would not be able to open new services and therefore support the ongoing, long-term supply of ECEC.

---

[30] Peak Equities (2021) *Childcare in Australia A Guide to Investment*, Peak Equities

[31] Australian Property Journal (2023), *Major banks turning away childcare operators*, Australian Property Journal https://www.australianpropertyjournal.com.au/web-stories/major-banks-turning-away-childcare-operators/

[32] ibid

Removing the opportunity for ECEC service providers to reinvest their capital in the development of new ECEC services would have a significant negative impact on sector supply being able to meet population growth and in turn, the sector's capacity to support parents in their return to the workforce and to provide equitable supply of ECEC services across Australia.

## Additional Educator to Support Children with Additional Needs

The current Inclusion Support Program (ISP) funding for additional educator to support a child with additional needs, is not reflective of the actual costs of an additional educator and the service absorbs these costs. Consequently, when an additional educator for a child with additional needs is not adequately funded, this cost is passed onto all families accessing the service. This then drives up fees which impacts on family's ability to afford ECEC.

### Overview of current ISP funding vs actual costs of additional support educator

| Time period | Current ISP funding | Actual cost of additional educator | Out-of-pocket Cost to the service |
|---|---|---|---|
| Per hour | $23 | $40 | $17 |
| One week (25 hrs) | $575 | $1,000 | $425 |
| One year (50 weeks) | $28, 750 | $50, 000 | $21, 250 |

This increased cost is unfortunately passed onto families in their daily fee. Using the above case study, 100 placed service would need to charge (assuming it's full) $0.85 a day to make up a shortfall of $21, 250 cost per year and a 50 place service (assuming it's full) would need to charge an extra $1.75 a day to make up a shortfall of $21, 250 cost per year.

## Cost of the Credible Threat of Intervention in Practice

The Report suggests the exploration of credible threat of intervention including services surveying parents prior to increasing fees. This has the potential to give a disproportionate power to parents, and risks creating a range of unintended consequences including uncertainty of the viability of services.

Further to the points outlined above under the *Quality Costs* section, many costs incurred by a service are related to compliance. Failure to comply (depending on the nature of this breach) can result in the service being closed, service viability under threat and no provision of service for children and their families.

The Report suggestion that ECEC services should survey parents is problematic. Asking families for their feedback on changes to fees may create a misconception that fees are flexible and that families can have an impact on fee setting, regardless of operating costs.

ECEC service providers would have to determine their own threshold for how much parent feedback could influence their fee setting. For example, if the service provider proposes a new fee and surveys parents to determine whether they agree to the increase, the question arises – "What threshold of agree vs disagree could the service accept as reasonable?" Even with a majority of parents in agreement, this would still leave some parents unhappy, having been given the impression their feedback would impact the fee setting.

Furthermore, the suggestion that a service provider should survey parents to assess their willingness to pay higher fees to fund a centre's renovations is problematic. This would seemingly place significant business operational and financial planning of a service in the hands of families who may be completely unaware of the implications of their decision on the service's facilities and ability to meet regulatory compliances and remain viable.

# Competition

The 2nd Interim Report ("the Report") refers to competition in a local area that affects making supply decisions. However, there is failure to adequately acknowledge the significance variation of costs across services based on their remoteness. These costs affect the ability to attract, and retain qualified educators, inflated freight costs and other costs that risk sustainability and viability of ECEC service delivery.

## Cost Variation Based on Location

The costs associated with a service in a remote location, servicing a lower socio-economic community and supporting a higher number of families experiencing vulnerability is significantly different to a service in a wealthier, metropolitan area with more advantaged families.

It is difficult to attract an experienced and appropriately qualified workforce into remote and regional areas of Australia. To remain competitive or incentivise new staff that has the experience and qualifications to a remote centre to maintain high quality education and care, this may come at an additional cost.

Speaking with ACA's members who are ECEC service leaders and providers across Australia, below is an example from services in remote regions of Western Australia about the real freight costs for consumables.

### Case Study: Esperance service (in their own words) - 698km out of Perth metro

- Being located in a regional area, the cost of everyday items including food, sunscreen, nappies, etc includes a significant cost of freight, and with very little choice of retailers (they only have Woolworths and IGA available to them) we pay more. We have found that bulk supply is not cheaper.
- This extends to the cost of utilities as there is no choice of multiple services and suppliers Eg. Electricity, tagging of electric items and fire inspection and testing are much higher than in metro areas. Prices are at a premium with no competition.
- We pay significant freight costs on items for centre, i.e. furniture, art and craft based on limited choice in local shops.
- Recent freight charges for stationary supplier WINC has doubled from $16 to $32 for the freight alone.
- This region experiences higher cost of fuel, coupled with the need to commute larger distances (compared to many metropolitan areas that have services, shops, and resources in closer proximity).

- Our service finds it difficult to attract and access professional development opportunities for staff, as most services are based in Perth. Consequently, all professional development services come at higher cost to factor in flights and fuel for trainers.

## Accurately Representing Small Providers

ACA finds that the Report makes assumptions that many small for-profit providers have a larger profit margin than the reality. This false impression may be created due to the fact that many small providers do not pay themselves a wage as a small business owner nor a component for the real estate that they already own.

In order to determine the service's "profits", the ACCC bases their assumptions on reported wages and real estate costs, without taking into account that small provider often pay themselves via an owners' drawing after reported profits.

Consequently, the basis for calculating "profits" in the Report is flawed, resulting in incorrect data and an inaccurate representation of profit margins for small privately-owned ECEC services.

Further to this, the Report acknowledges that there has been insufficient consultation with the number of small providers to accurately represent the sector and present correct data.

The Report notes:

> *The cost information presented in this report is not intended to be comprehensive, but rather represent typical costs incurred by providers of different service types, size and profit status. We obtained cost information in a manner that would best facilitate this analysis in the limited 12-month time period we have to report. We note that due to the significant number of providers of childcare services in Australia, and the differences in record keeping and cost allocation noted above, obtaining a comprehensive, detailed, and consistent cost dataset is an extremely significant and time-consuming exercise.*[33]

## Reducing 'Taxpayer's Burdens'

The Report refers to the 'taxpayers' burden' and ensuring there is 'value for the money of taxpayers' in relation to costs of the ECEC sector on the wider community. There are existing mechanisms to address risks of fraudulent behaviour, which families can report concerns and outcomes including publicly naming services that have breaches.

[33] 41 ibid

Government investment in the ECEC sector is an effective spend of taxpayers' dollars,[34] with long term capital savings via a lower spend on human services across the lifetime of each individual child.[35] Every dollar invested on high-quality, birth to-five programs for disadvantaged children delivers a 13% per annum return on investment.[36]

## Fraudulent Behaviour

The greatest burden on taxpayers are instances of a service acting unethically, such as fraudulent behaviour (Eg. Misrepresentation of children at their service or claiming CCS illegally).

There is a range of Federal and State Government Departments and regulatory bodies that respond to these issues, by monitoring and publish those occurrences when ECEC services act in a way that "burdens taxpayers".

These include:

- State and territory regulatory authorities.
- Federal Child Care Subsidy (CCS) Hotline which is overseen by the Department of Education. There is a range of complaint procedures to address complaints relating to child safety, reports of fraud or non-compliance, and general complaints.[37]
- ACECQA list services with their quality rating, and service and temporary closure information. Some in the industry believe is the equivalent to 'naming and shaming' a service.

  Reasons for service closures are noted and the ACECQA website shows real time information.[38] All of the information on this website is publicly available for families to access to assist informing their choice in services, to assess the quality of the service and to help understand what the best choice for their child is.

[34] The Front Project (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

[35] 50 ibid

[36] ibid

[37] Department of Education (2023), *Making a complaint to the department*, Department of Education, Australian Government

[38] ACECQA, 2023*, Service and temporary closure information*, ACECQA

## Starting Blocks website

The Starting Blocks website would require a major overhaul if it is to offer a useful service to parents and families. Feedback from families attending ACA member services indicates that parents do not rely on and often have not heard of the Starting Blocks website as a search mechanism for finding an early learning service.

A number of commercial providers provide a similar online search service, operating more effectively with reliable, current information for families. Well known examples include the www.CareForKids.com.au and www.Toddle.com.au platforms. Whilst ACA cannot draw on any public statistical information at this time, it is well known among the sector that families do not readily use the Starting Blocks website.

ACA would recommend a review to check the user statistics of the website and to explore mechanisms to ensure information is accurate, meets the needs of families, and is well communicated so that parents are actually aware of website.

For example, Starting Blocks does not currently capture the fees for all the different session types that services offers. It currently only reflects the average session price. This is a failure in providing practical information and meeting the direct needs of families.

As the Starting Blocks website does not currently provide accurate, current and relevant information for its target audience, particularly in light of the fact that commercial providers have created better platforms that families engage with, the value of ongoing investment from government is questionable. Such an investment may be an inefficient use on government funding.

# Price Regulation Mechanisms

The design of the Child Care Subsidy (CCS) hourly rate cap in 2018 was intended to:

- set a price cap across the sector,
- measure services ability to deliver within that set price cap,
- create greater diverse hours and session lengths to give parents more flexibility, and
- create affordable and accessible ECEC for children to participate and parents to return to the workforce.

## Hourly Price Cap (HRC)

The HRC was introduced by the government in 2018, with the purpose of setting the maximum subsidy it would choose to fund. Over time, the ECEC sector has experienced increases in operating costs, particularly in wages (28% from 2018 to 2022 as identified by the ACCC) with more services struggling to operate under the hourly rate cap amount.[39]

These additional costs are reflected in services charging above the HRC. The number of services charging above the HRC has increased from 13% in 2018 to 22% in 2022.[40] In 2022, the 22% of providers above the HRC there was approximate two-thirds of these were within 10% of the rate cap.[41] On average, those services above the HRC charged 9% more than the rate cap.[42]

The HRC is a particularly blunt instrument and does not adequately reflect the wide variance in operating costs from one location to another, including the varying costs across age groups (ie. the ratio of staff required for babies vs older children) through to more subtle differences such as the location, staffing needs, etc. It could be reasonably assumed that providers charging (on average 9%) above the HRC, is a reflection of services trying to cover growing costs of service delivery, and not "services pricing at excessive levels"[43] or motivated to make "excessive profits".[44]

---

[39] 50 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

[40] 167 Ibid

[41] 160 ibid

[42] 167 Ibid

[43] 167 Ibid

[44] 'margins are highly variable between providers, our analysis suggests that margins do not appear excessive in aggregate over the period 2018 to 2022, 199 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

The Report acknowledged that:

> *It is important to note that although more services are exceeding the hourly rate cap over time, this is not necessarily reflective of services pricing at excessive levels. If the hourly rate cap is indexed at a rate below the costs of provision in a competitive market, then providers will progressively price above the rate cap to remain viable.*[45]

Since the introduction of the CCS HRC in 2018, annual indexation has not adequately kept up with these changes to operating costs contributing to more services operating above the HRC.

| Year | CCS Hourly Rate Cap | % Indexation | Annual Wage Review |
|---|---|---|---|
| 2018 | 11.77 | n/a | 3.5% |
| 2019 | 11.98 | 1.8% | 3.0% |
| 2020 | 12.20 | 1.8% | 1.75% |
| 2021 | 12.31 | 0.9% | 2.5% |
| 2022 | 12.74 | 3.5% | 4.6% |
| 2023 | 13.73 | 7.8% | 5.75% |

See *Appendix D - Contrast of Annual HRC rate Increase, Indexation, Wage Review & Implications of the Regulatory, Policy and Award Changes across the ECEC sector since 2018* for full table detailing policies, award, and regulatory changes related to the CCS HRC, Indexation and Annual Wage Review.

## Flexibility in Hours of Care

The introduction of the CCS also resulted in the activity test being introduced allowing families either 24, 36, 72 or 100 hours of care per fortnight. When this system was designed, it was done so with the intention of providing greater flexibility of sessions for families for greater flexibility. As a result, we have seen services offering sessions ranging from 6, 9, 10 or 12 hours. The 2nd interim report talks to the concept of "optimisation" to maximise subsidies for families under the auspices that this was not

[45] 167 ibid

how the system was intended to work which is an incorrect assumption. This diverse range of session offerings was encouraged by the Government of the day and the policy mechanism as designed.

One important concept that has not been addressed both in the design of the original CCS and when being assessed by the 2nd Interim report is that the hourly rate simply cannot be the same for shorter sessions as longer sessions due to the significant negative impact on service viability. Very specifically if a family books a six hour session from 10am to 4pm there is no possibility that the sessions on either side will be booked by another family and therefore a loading needs to apply for those shorter sessions.

Shorter sessional lengths are often problematic and create a range of unintended consequences around service viability.

## Annual CCS Cap Removal

As part of the 2021/22 Budget, the government removed the annual cap on subsidies for all families which supported an estimated 250,000 families with affordability and access to ECEC. The removal of the cap came into effect on 7 March 2022 and particularly benefited parents with multiple children.

The removal of the annual cap saw an increase to children participating in ECEC for more days and parents having more support to return to the workforce. When families are not limited with the annual rate cap, they have been more inclined to enrol their child into ECEC over more days per week. Consequently, the removal of the annual cap saw an increased participation with 'the number of children attending for 5 days per week using 10 hour sessions has more than doubled between 2018 and 2022.'[46]

The long-term benefits for children increasing their participation in ECEC, include:

- more likely to have learning disabilities or additional needs identified and interventions earlier that has better likelihood of outcomes than later interventions. Later interventions have also been found to be more expensive and require more usage.
- Return on investment of children receiving early education, to the benefit of the community and society with a $4.75bn of benefits to children, families, government, and business.[47]
- Gender equality principles to support women to move back into the workforce, education and facilitate greater opportunities for career development pathways.
- Parents have the ability to return to work or study, increasing workforce participation and economic benefit.

[46] 24 ibid

[47] Price Waterhouse Cooper (2014) Putting a value on early childhood education and care in Australia, Price Waterhouse Cooper, Australia

## Session length

Service providers are limited in extending a huge variety of session offerings as they impact service viability. The benefits for parents are greater flexibility, however, data reflects that parents are not actively taking up the shorter session times and in offering these, it has a significant impact on the service.

Since 2018, evidence indicates that families are using longer sessions at services, which increases their child's days of participation and there is a move away from shorter sessions:

- Overall decline in low usage of shorter sessions (3 or 6 hours) since 2018,[48]
- 63% increase in the use of longer sessions (10 hours)[49]
- 36% increase in 9 hour sessions[50]
- children enrolled 3 days a week tend to be attending in 10, 11 and 12 hour sessions.[51]
- the number of children enrolled for 4–5 days a week growing by 33% between 2019 and 2022[52]
- Hourly rate caps add additional layers of complexity for parents to understand the out-of-pocket costs incurred (additional confusion when trying to compare different services prices and length of sessions)

## Service Viability running Shorter Sessions

Shorter sessional lengths are often problematic and create a range of unintended consequences for the service relating to additional costs, viability, and staffing implications.

To offer shorter sessions, there needs to be adequate supply of staff to accommodate, and under the award across different jurisdictions there is a minimum number of hours an educator can be employed for being a 2 hour minimum under the *Childrens Services Award* and half day minimum for teachers under the *Educational Services Teachers Award.*

There are significant implications of shorter sessions from an operational and viability perspective, causing challenges in staff rostering, finding available qualified staff who want to work shorter sessions, mandatory staffing ratios, additional costs if using agency staff, the risk of affecting the

[48] Figure 4.9, 178 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

[49] Figure 4.7 a significant increase (about 63%) in the number of 10 hour session lengths in centre based day care across Australia between 2018 and 2022. 177 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

[50] Figure 4.8 of 178 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

[51] 179 ibid

[52] 176 ibid

quality of the program delivery across a shorter session and consistency of benefits for the children participating.

A service needs to have a minimum of 70% occupancy rate in order to break even[53], despite the 2nd Interim report claims 50% to 85% occupancy levels for service viability.[54] When attempting to offer short and long sessions, this has implications for the occupancy rates of a service and therefore viability. ECEC services need to consider the challenges of viability, reaching occupancy levels to break even and staffing implications when offering 3-6 hour sessions at their service.

Shorter sessions may have the unintended consequences of half work days for educators, or challenges in allocate parents availability spaces (the remaining 3-6 hours) which may be in the second part of the day, which may not support the parents needs or be an effective use of their CCS supported allocated hours.

Shorter sessions have often been scrutinised as being more expensive and costing more per hour. This is based on the assumption that the costs of a whole day, is equivalent (when divided by the number of hours) to have the same costs for a shorter session. This assumption fails to take into account the cost variations, staffing and other expenses that go across a whole day, and cannot simply be reflected into a few hours.

For Example:

### Health System for day surgery

In Australia, a private health patient will be charged for the entire day spent in hospital for a procedure that may take only a few hours. This is based on the rational that there is staff time required to prep the patient, review patient paperwork, operating theatre fees, medicine and dressings costs, prepare the theatre room, administrative processes to admit and discharge the patient, require staff with specialised skills and qualifications (theatre nurses, anaesthetist, doctor, surgeon and/ or specialist, etc.), allow for additional time for delays or emergency responses, time to reset the room pack up and sterilisation of equipment, and a range of other procedural processes to ensure the health and safety of the patient is paramount.

[53] Dandolo Partners (2023), *The cost and impact of different funding approaches to increase ECEC sector wages*: Report for the Australian Childcare Alliance, Dandolo Partners

[54] ACCC report highlighted that 'for both for-profit and not-for-profit large providers, services made a loss in 2022 where the average occupancy rate was less than 60% (figure 3.21).' 143 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

## Move Towards Daily Rate Cap

The hourly rate cap was first set in 2018, when 85% of services were at or above the determined hourly rate cap. The current CCS system has a cap based on an hourly rate and the number of hours prescribed in the activity test. This was intended to promote flexibility of sessions for families and provide a cap on price increases. Ultimately this has failed because service providers need to set fees based on the actual operating costs and not the CCS hourly rate cap.

Although the hourly rate cap increases annually with indexation, there is clear evidence to suggest that the increases fail reflect the rapidly growing costs. The cost of delivering a high-quality service is difficult to standardise as it can be impacted by geographic location, the educator-to-child ratios and qualification requirements for the particular state, varying rental costs, the specific needs of the community, the cultural context, the impact of workforce supply and the need for and availability of adjunct services.

Hourly rate cap and the variety of session lengths offered at services have also added considerable complexity to the system for families. The Report supports a move to daily rate cap as services generally advertise a daily rate, and parents then are confused with trying to understand their out-of-pocket costs comparing services.[55]

## Supply Side Subsidies

The Report suggests the move towards supply side funding. All funding models run the risk of unintended consequences and it is impossible to have a firm view on supply side funding without further detail.

However it is worth noting that any framework that limits the fees providers could charge families, would restrain revenue and could therefore create a range of unintended consequences as a a result.

This concept would need to be explored in greater detail, further consultation and codesign with the ECEC sector to ensure this accurately reflects the needs, operations, and costs of service delivery.

[55] 165 ACCC (2023) *Childcare Inquiry: Interim Report September 2023* ACCC

## Risking Service Viability

Any mechanism that restrains revenue in the ECEC sector runs the risk of impacting service viability. Policy that constrains revenue could result in reducing reinvestment of revenue back into capital and infrastructure. This would send the sector backwards – something that ACA would like to see the Productivity Commission explore in greater detail in the current inquiry into funding mechanisms for the sector.

This risk is clear upon analysis of international examples of direct price control. For example, in the United Kingdom, the UK Department of Education mandated all ECEC services to offer a set amount of hours to each family at no cost. The implications of this regulated price control measures were made clear in 2021, with 26% of all service providers in deficit, and 51% at break-even.[56]

## Compromising Quality

With restrained revenues, services find ways of reducing expenditure which will come at the expense of quality. As outlined previously, compliance costs are the greatest expense for services and without sufficient revenue to reinvest in these, quality of services and discretionary items will likely be removed from service provisions.

The implications and risks of insufficient revenue for the ECEC sector will be seen in less capital reinvestment, decline in quality and less flexibility for families. The long-term consequences of insufficient revenue will be lack of service viability and therefore closure of services.

The current revenues raised are used to reinvest to build new centres and service the growing demands of families. The private ECEC sector has grown on back of private investment form providers small and large. However, for the same level of growth to continue and to keep up with population demands, there needs to be surplus to service debt otherwise new service provision would be restricted.

[56] 199 ACCC (2023), *Childcare Inquiry: Interim Report September 2023* ACCC refers to UK, Department for Education, G Cattoretti and G Paull, (2022), *Providers' Finances: Evidence from the Survey of Childcare and Early Years Providers 2021*, Frontier Economics Research report, March 2022, Figure 3.

# ACA Responses to ACCC Recommendations

## ACCC 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.

## ACA Response to Draft Recommendation 1

ACA believes that the current government policy and regulatory arrangements for the ECEC sector continue to focus on the **outdated** objective of **workforce participation outcomes**, rather than the additional objective of ensuring that every child reaps the **life benefits** of Early Childhood Education and Care (ECEC).

1/ ACA strongly recommends that the Federal Government's objectives for policy and funding of the ECEC sector should consider **both** its **educational benefits** in the first instance, followed by its commitment to supporting workforce participation.

2/ In the context of any future price regulation mechanisms that may be considered, , ACA recommends the development of an industry-specific price index that reflects the increasing costs of operations and takes into account the increases in educator wages with wage price indexation, annual HRC rate increase, indexation, wage reviews, implications of the regulatory, policy and Award changes, and other growing costs that affect service viability.

## ACCC Draft Recommendation 2

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.

The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and existing hourly rate cap mechanism, to simplify their operation and address unintended consequences, including on incentives and outcomes. In doing so, we recommend consideration be given to:
(a) determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs as well as the additional costs associated with providing childcare services in remote areas and to children with disability and/or complex needs.

(b) changing the hourly rate cap to align with the relevant pricing practice for the service type. This could include consideration of a daily fee cap for centre-based day care. Consideration will need to be given to setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality.

(c) removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.

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

## ACA Responses to Draft Recommendations 2 (a), (b), (c) and (d)

### 2 (a)

ACA recommends that the Federal Government introduces a process that ensures that the annual increase to the HRC accurately reflects increases in operating costs from year to year.

ACA recommends the development of an industry-specific price index that reflects the increasing costs of operations and takes into account the increases in educator wages with wage price indexation, annual HRC rate increase, indexation, wage reviews, implications of the regulatory, policy and Award changes, and other growing costs that affect service viability.

### 2 (b)

ACA is willing to consider supporting a daily rate cap with one of the primary benefits being a simplification of a complex system for families. Before ultimately supporting a daily rate cap, ACA would like to see a **more detailed analysis** of how this would work in practice, to ensure that it did not create any negative unintended consequences.

### 2 (c)

ACA strongly supports Recommendation 2(c) to abolish the activity test to ensure that every child can access and afford ECEC.

### 2 (d)

ACA does not support Recommendation 2(d) due to the risks associated with the credible threat of intervention. The risks include putting service viability under threat and no provision of service for children and their families.

The majority of ECEC costs are compliance costs and are not discretionary costs - ECEC services are legally obliged to comply with the requirements under the National Quality Framework and the National Quality Standards.

## ACCC Draft Recommendation 3

The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents' and guardians' information needs, and balanced against the costs of collecting and publishing information.

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

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

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

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

## ACA Response to Draft Recommendation 3

ACA believes that parents and families should have access to the best and most accurate information to inform choice and that an online platform is needed to meet these needs and expectation.

In order for Starting Blocks to be useful, ACA recommends:

- a review of the current information provided in consultation with parents, to identify gaps.
- That the Federal Government works with key stakeholders in the ECEC sector to ensure that the information collection processes is simple and effective.

## ACCC Draft Recommendation 4

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

## ACA Response to Draft Recommendation 4

ACA strongly supports government measures to urgently 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.

ACA recommends that the government:

- provides immediate and sufficient funding that is responsive to changing labour costs and can maintain high quality ECEC service delivery.
- explores different levers to factor the cost of wages into the subsidy model and ensure it reflects ongoing changes to wages.
- increases the funding rate for additional educators covered under the inclusion support program to ensure it adequately covers the hourly rate and on costs for providers.

## ACCC 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.

## ACA Response to Draft Recommendation 5

ACA supports this recommendation.

## ACCC 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.

## ACA Response to Draft Recommendation 6

ACA supports the concept of a market stewardship role in under-served areas and vulnerable cohorts. Should the government take on such a role, it needs to develop clear guidelines and parameters to make data available and incentivise service provision in areas of unmet need.

ACA endorses more funding and resources for areas of higher levels of vulnerability through a series of recommendations:

- Development of a flexible funding models that reflect and respond to the cost variations in service delivery across the country.
- Allocate funding to allow for the development of aggregated occupancy reports published quarterly via clusters of postcodes across Australia. Such reports would be invaluable to advise the market as to where oversupply and undersupply exist and therefore allow for assist in ensuring demonstrable need exists.
- Establish a new national needs-based funding program for children for all ECEC services that responds to local community needs - as determined by the Australian Early Development Census (AEDC) - and provides resources for additional support on a needs basis.

## ACCC 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.

## ACA Response to Draft Recommendation 7

ACA is willing to participate in discussions around alternative funding models, noting that historically changes to funding have sometimes resulted in unintended consequences that have deeply impacted the sector. ACA is mindful that limiting flexibility can sometimes result in services becoming unviable and is cautious not to repeat the mistakes of the past.

ACA would like to see rigorous, evidence-based policy design based on an analysis of accurate and thorough data, produced with careful consideration to the complexity of the sector.

# Appendices

## Appendix A - A Timeline of Regulatory and Policy changes in the ECEC

Please refer to the next six pages overleaf.

# Australia's early learning sector:
## A Timeline of NQF Regulatory Impacts

## 2009

### July

Council of Australian Governments (COAG) endorsed *Investing in the Early Years– A National Early Childhood Development Strategy*. The strategy aimed to ensure that 'by 2020 all children have the best start in life to create a better future for themselves, and for the nation'.

COAG created the *National Partnership Agreement on the National Quality Agenda for Early Childhood Education and Care* ('the National Partnership'), under which federal, state and territory governments committed to a suite of interrelated national partnerships and national initiatives.

### Impact

This created national system of regulation, and quality standards for ECEC, replacing state and territory systems.

The Indigenous Early Childhood Development (strategy) was developed to "close the gap" for children from Aboriginal and Torres Strait Islander backgrounds.

The National Quality Agenda for ECEC (NQAECE) was established an integrated and unified national system for ECEC and OSHC.

TAFE fees were waived through the Commonwealth's Early Childhood Development Workforce Strategy. ECEC courses and training became more financially accessible, with the remaining course costs met by the State Governments.

---

The first Australian Early Development Census (AEDC) was held to collect national data on the developmental health and wellbeing of all children as they start school.

### Impact

The AEDC collects data every 3 years on five domains of early childhood development. Australia became the first country in the world undertake this data collection. The AEDC creates longitudinal early years data that informs policies and other frameworks.

## 2010

The *Education and Care Services National Law Act 2010* enacted and legislated the National Quality Framework (NQF) and Early Childhood Education & Care (ECEC) national regulations.

## 2011

Introduction of the *Care Services National Regulations 2011*.

### Impact

Established the Australian Children's Education and Care Quality Authority (ACECQA) to support the NQF's administration. ACECQA set out the ratings system under the National Quality Standards, outlined minimum standards for services in the seven quality areas, staffing arrangements and qualification requirements.

## 2012

The first phase of the NQFs was implemented.
From 1 January, educator-to-child ratio of 1:4 for children aged from birth to two years in centre-based services. All jurisdictions to have staffing ratios fully compliant by 1 January 2016. Those jurisdictions with existing lower ratios retained those ratios.

### Impact

Additional ECEC workforce demands, ECEC upskilling required and increased staffing requirements.

---

WA had existing ratios of educator to child ratio of 1:4 for birth to 24 months, 1:5 for over 24 months and less than 36 months and 1:10 for 36 months up to and including preschool age.
From 6 December 2012, all ECTs had to be registered under the Teacher Registration Board of Western Australia.

---

In NSW the educator to child ratios did not change with the NQF coming into effect.

### Impact

In NSW the educator to child ratios of 1:4 for birth to 24 months, 1:5 for over 24 months and less than 36 months and 1:10 for 36 months up to and including preschool age.

---

In Queensland the educator to child ratios changed with the NQF coming into effect, with Grandparent clause for service licensed to continue the educator to child ratios of 1:5 for birth to 2 years (expires 2020).

### Impact

Increased the educator to child ratios of 1:5, to 1:4 for birth to 2 years.
Increased the educator to child ratios of 1:8, to 1:5 for 2 years to 3 years.
Increased the educator to child ratios of 1:12, to 1:11 for 36 months up to and including preschool age.

---

Introduction of *Education and Care Services National Regulations 2012.*

### Impact

In August 2012, regulatory authorities began assessing and rating services against the NQS.

In 2013, 55% of services were meeting or exceeding the NQS, in 2020 this rose to 82%.

---

Two National Approved Learning Frameworks began under the NQF.

### Impact

Services required to deliver educational programs that use approved learning outcomes in the curriculum planning, delivering, and evaluating quality ECEC programs.

## 2013

ACECQA set minimum mandatory training requirements for all ECEC staff.

### Impact

There are no pupil free training days with ECEC, unlike the school setting. These mandatory training are undertaken after hours, or additional staff are required to backfill for staff undertaking training with these costs to the service.

## 2014

All educators employed after 1 January 2014 require qualifications as determined by ACECQA.

### Impact
By 1 January 2014, 50 per cent of educators in a centre-based service have (or are actively working towards) a Diploma level education and care qualification or above and that other educators have (or are actively working towards) a Certificate III level qualification.

SA: All teachers in LDC and all ECTs in SA are required to be registered by the Teachers Registration Board of South Australia.

First National Quality Framework Review held.

### Impact
Assessed NQF's objectives, and how the system could be improved to funding regulatory services and appropriate governance arrangements.

NSW introduced and implemented the Preschool Funding Model (PFM)

### Impact
Funding for two years of preschool for disadvantaged and Indigenous children, in addition to preschool.

## 2015

### 20th February
The Productivity Commission published the findings of inquiry into Childcare and Early Childhood Learning.

### 1st July
The Australian Government discontinued the waiver of HECS-HELP Benefit for the ECEC teachers (wavier of fees came from the Early Years Workforce Strategy).

### Impact
Full fee for ECEC Teachers is a disincentive to attract new teachers and build workforce.

In Victoria, all ECTs employed must be registered from 30 September 2015 with the Victorian Institute of Teaching.

In Western Australia, lunchtime cover existed for ECEC educators and teachers to address staff ratio cover to allow for staff to take a lunch break[1].

[1]Regulation 374A amended in Gazette 6 Jun 2014 p. 1788

## 2016

National Early Years Workforce Strategy lapsed at the end of 2016

Commonwealth Government funding for ECEC professional development ceased.

### Impact
The cost of professional development is absorbed by the ECEC service.

## 2016 continued

### 1st January
All states and territories (except Tasmania and Western Australia where they are already in place) have the change in educator to child ratios come into force. Services could include staff actively working towards an approved qualification or taken to be an early childhood teacher (ECT) in their educator to child ratio count.

### 18th July
All ECTs working in approved centres in NSW must be accredited under the NSW Education Standards Authority.

Ratios in Victoria for children over 3 year olds change from 1:15 to 1:11 and all services are required to have at least one Early Childhood Teacher.

### Impact
In Victoria, the educator to child ratios is of 1:4 for birth to 24 months, 1:4 for over 24 months and less than 36 months and 1:11 for 36 months up to and including preschool age.
Additional ECE educators and teachers required in centres to increase the number of staff per child ratio.

## 2017

Review of the 2014 NQS Review.

### Impact
Changes to the National Law and regulations.

## 2018

### February
The National Quality Standards is revised changes to the Exceeding themes.

### Impact
The NQF requirements for accreditation were restructured from 18 standards and 58 elements, down to 15 standards and 40 elements.

### 2nd July
The Child Care Subsidy (CCS) replaced the former CCB and CCR payments.

### Impact
Subsidy amount for families varied based on income, hours worked (or amount of study or training undertaken) and type of ECEC used.

In Victoria, the transitional arrangements for ECTs end.

### Impact
All ECTs in Victoria are required to hold a Bachelor's degree.

In South Australia, two ECTs are required for centres with enrolments of 60 per day or more.

## 2019

The Child Care Subsidy (CCS) came into effect.

### Impact
Families can access subsidies, through a single model that has separate funding streams.

---

NQF Review 2019.

### Impact
The recommendations were implemented in 2022 and 2023.

---

Change in staffing ratio in South Australia for 3–5-year olds.

### Impact
The ratios for South Australia moved from 1:10 for 3-5 year olds, to be brought in line with the ACECQA mandated ratio of 1:11 for 3-5 year olds.

The ratios in SA in LDC are 1:4 for 0-24 months, 1:5 for 24-36 months and 1:11 for 36 months and over, and continues to operate at this ratio in 2023.

## 2020

New ECEC staffing requirements requiring additional ECTs.

### Impact
From January, ECECs must employ a second ECT or suitably qualified person in attendance for a minimum number of hours or percentage of time, based on the number of approved places in the service.

---

Changes to wages in the *Educational Services (Teachers) Award 2020.*

### Impact
Casual employees must be paid for a minimum number of hours, and Fair Work Commission proposed a potential new allowance for 'Responsible Person' and 'Educational Leader' to receive additional remuneration.

---

Changes to wages in the *Children's Services Award 2010.*

### Impact
Additional 2 hours of paid non-contact time per week for Educational Leaders, rostering extension and service to supply/reimburse their staff for protective clothing and sunscreen.

---

Ending transitional arrangements for ECT's in QLD with the expiry of the Grandparent clause.

### Impact
All services must have the educator to child ratios of 1:4 for birth to 2 years.

---

### June
The National Quality Framework Approved Learning Framework Update begins.

## 2021

### 10th December
The annual cap was removed as part of the Australian Government's Enhanced Child Care Subsidy arrangements announced in the 2021-22 Budget.

### Impact
Families with more than one child aged five or under in care get an additional 30% subsidy for their eligible children, up to a maximum of 95%.

Child Care Safety Net created new funding streams that included Additional Child Care Subsidy (ACCS), an Inclusion Support Programme (ISP) and the Community Child Care Fund (CCCF).

### Impact
Under the ACCS and ISP, ECEC operators could apply for additional funding to help children with additional needs, with disabilities, and those from culturally and linguistically diverse backgrounds.

### May
The Federal and State Governments announced plans to reduce red tape for services by requiring just one application from 2023 for assessment by both Commonwealth and state and territory regulatory authorities.

In Queensland, all ECTs had to be fully qualified with no provisional ECTS any longer.

## 2022

### January
The ‘Educational Leader’ Allowance came into effect for teachers based on FWC determination.

### Impact
Increased wages for the ‘Educational Leader’ ($62 – $105 per week).

### October
The Diploma Educators Allowance came into effect, based on FWC determination and reflected in the *Educational Services (Teachers) Award 2020*.

## 2023

Educational Ministers agreed to extend workforce transitional provisions until 31 December 2024, these were due to expire on 31 December 2023.

### Impact
The following regulations were extended in response to ECEC workforce shortages:

- **Regulation 239A** – regarding attendance of early childhood teachers at centre-based services in remote and very remote areas (NT, NSW, SA, TAS)
- **Regulation 240** – qualification requirements for educators working in centre-based services in remote and very remote areas (SA, TAS)
- **Regulation 242** – qualification requirements for people to be “taken to be an early childhood teacher” (NT, ACT, NSW, SA, TAS)
- **Regulation 264** – general qualifications for educators in centre-based services (ACT)

ACECQA Board extend its ‘Equivalent to an ECT’ provision until 31 December 2024.

## Appendix B – State-level funding for ECEC services across Australia

| | Funded initiatives areas | | | | | |
|---|---|---|---|---|---|---|
| **Jurisdictions** | 3 year old Kindy/ Preschool | 4 year old Kindy/Year before School | Infrastructure funding to build new centres | Workforce | Equipment, Toys & resources | Inclusion and additional needs support |
| QLD | | For Parents and families –<br><br>Base Subsidy $1919.50 per eligible child, spending rules, min 75% on over & above award conditions for ECT & or gap fee reduction for families<br><br>Next year, 2024<br><br>For Parents and families – max 15 hours per week or 30 hours per fortnight for 40 weeks, (up to 600 hours per year) | | For staff & services improved entitlements for ECT & educators<br><br>$1919.50 per eligible child, spending rules, min 80% on over and above award conditions for ECT & Diploma if they are delivering the program | For service & families for quality resources & extracurricular<br><br>$1919.50 per eligible child, spending rules, max 20% on quality age appropriate educational resources and or Inclusions or excursions where all eligible children are offered to attend at no charge and ECT is present | For educator training for additional needs and AECD vulnerability |
| NSW | For parents and families -Start Strong Funding (3 year olds) Trial<br><br>$40 million | For parents and families - Start Strong Funding (Core) 600hrs ($2,110 per year in fee relief) for children aged 4 and above in long day care. | For community - 100 new preschools on public school sites worth $192 million<br><br>50 new preschools on non-government school sites worth $15 million.<br><br>For services - Flexible Initiatives Trial (FIT) for families – flexible | For staff & services - Recruitment and retention of essential early childhood workers $4.4 million<br><br>Innovative Teacher Training Fund to attract $5 million | | For services - Childcare and Economic Opportunity Fund $500 per child of fee relief to 3 year old children attending eligible preschool programs in long day care centres, effective from early 2024 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | models of care and operation 2 year grants worth $20 million<br><br>Capital funding for new NFPs services in targeted communities, including high-growth and regional settings worth $5 million | | | worth $20 million<br><br>Inclusion support |
| Vic | For parents and families - 5 hours per week and receive a Kinder Kit (books, toys & activities) | For Parents and families - 15hours per week | For Community-<br><br>50 Vic government owned and operated ECECs, built in areas of greatest need | For staff and services-<br><br>traineeships, Innovative Initial Teacher Education (IITE), Free TAFE, scholarships, employment incentives to join, move or re-join Vic sector | For Services to purchase equipment and toys to support play-based learning | |
| | All 3 & 4 year olds can access free Kinder in LDC ($2000 per year) & Sessional ($2500 per year) | | $1.2 billion infrastructure funding | $370 million to attract high-quality ECTs and educators | Every service (LDC kinder & Sessional kinder) receives $5000 | |
| ACT | For parents and families- 15 hours per week, 600 hours per year<br><br>Koori Preschool program to 15 hours per week (600 hours per year) | For parents and families – Preschool Reform Agreement offers 600hrs annually for Preschool<br><br>15 hours of free preschool a week at an ACT public school | | For staff & services- upskill, train, scholarships, to attract & retain educators | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tas | For parents & families- Working Together for 3yr old and above from lower socio economic families 20 hours per week, up to 960 hours per year for each child (commences 2024) | For parents & families- Great Start Kindergarten program - 15 hours for 4 year olds | | | | Early Childhood Inclusion Service (ECIS) |
| SA | | For Parents and families - Universal Access (15 hours for over 3-year-olds) | | For Parents and families- Migrants relocating to SA receive free ECEC, paid by TAFE SA | | Inclusion support |
| WA | | For parent and families (not yet implemented)<br><br>Cth & WA govts signed a preschool funding agreement will benefit more than 130,000 WA children | or NFPs and community ECECs Grants up to $50,000 to develop and deliver new initiatives and models of service in regional WA | For LGA Councils to Attract & retain educators in regional areas. $1 million In total, made up of $25,000 grants | | |
| NT | | | For services- – grants for building and grounds upgrades in Long Day Care & 3 year old Kindergartens. Grants are for community and NFP only | For service & staff- Territory Workforce program for apprenticeships, workforce development and industry workforce strategies. General workforce funding, not specific to ECEC. | For services - Toy & equipment grants for Long Day Care & 3 year old Kindergarten - grant is calculated using current utilisation rates and is paid to. services every two years. | |

## Appendix C - Equity Measure Joint Proposal

Please refer to the next five pages overleaf.

# Removing barriers to affordable early childhood education and care for the children who need it most – an equity measure

## The Opportunity

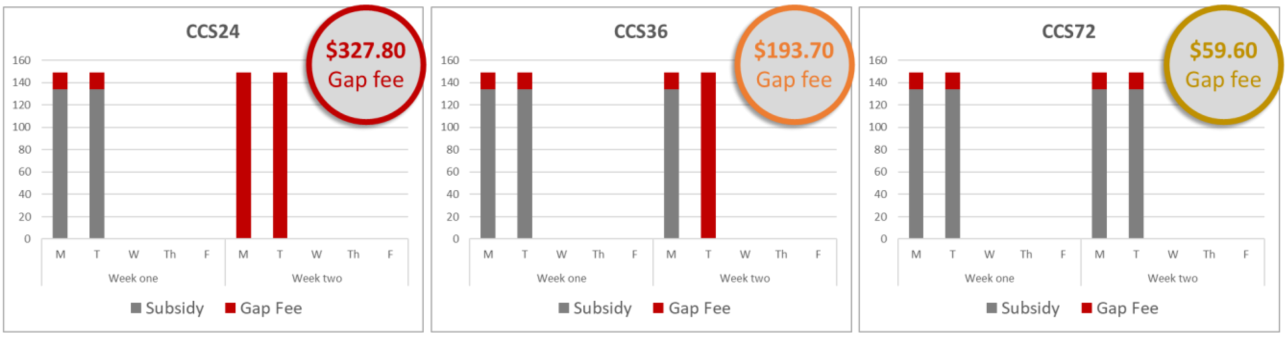
The Government's commitment to lifting the maximum rate of Child Care Subsidy to 90 per cent of the hourly fee cap for families earning up to $80,000 will improve equitable access to early childhood education and care. This is an important policy change.

However, the families that are most in need of improved affordability will miss out on these benefits because **they don't have access to enough hours of subsidy** due to the current design of the activity test. Credible independent and Government commissioned evaluations and sector analysis have shown that structural design of the activity test for low-income families prevents families from accessing enough affordable early learning and care to support child development or promote workforce participation (outlined in the subsequent pages).

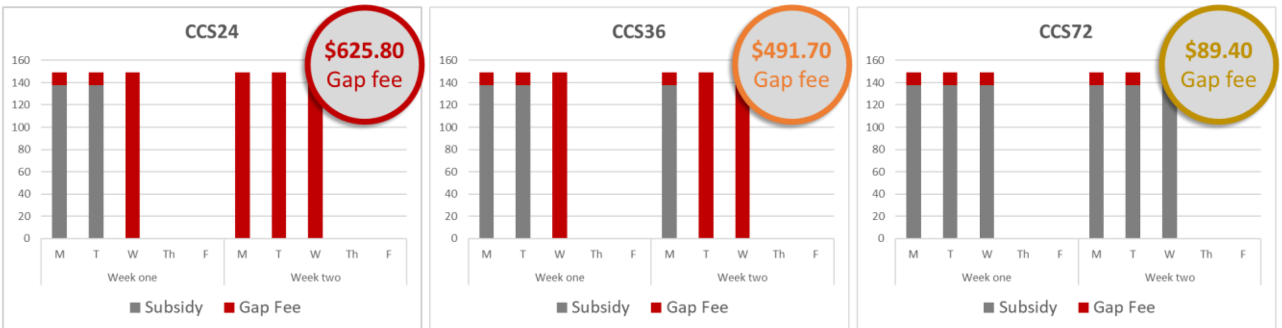
An increase in the rate of the Child Care Subsidy (CCS), without a complementary measure to increase the number of hours available to families with low incomes and less than 16 hours of work, study or training **will exacerbate existing inequity and widen attainment gaps for children in families with low incomes and insecure work**. It will also tangibly increase financial disincentives and out-of-pocket costs and barriers to work, study and training for parents of young children at a time when the Government is trying to increase productivity as part of the skills shortage across the economy.

The charts below demonstrate the current inequity built into the system by comparing the gap fee for families accessing CCS for 24 hours per fortnight (CCS24), CCS for 36 hours per fortnight (CCS36) and CCS for 72 hours per fortnight (CCS72) over two days per week and three days per week patterns of attendance over a fortnight.

Two days per week (under $80,000)




Three days per week (under $80,000)



[1]

[1] Based on $149 cost per day and 90% subsidy

## A simple solution

A simple legislative amendment to remove the bottom two steps of the activity test (ie CCS-24 and CCS-36) would deliver three crucial and urgent benefits:

1. Improve equity of access for children from low-income households who are yet to meet the activity test threshold and as such are currently excluded from early education and care and amplify the benefits of the Governments election commitment
2. Remove financial and administrative barriers to participating in work, study and job search activities for parents of young children by ensuring ongoing access to affordable child care and early learning
3. Reduce complexity and unnecessary red tape with Centrelink – a key complaint of thousands of Australian families who must report to Centrelink fortnightly if their activity changes.

We estimate that this would benefit up to 80,000 families. Approximately 12,000 accessing CCS24 and a further 41,000 accessing CCS36, which they are eligible to depending on their activity test. We estimate there are a further 20,000 – 30,000 families currently locked out of the system. The majority of families, around 622,000, are accessing Child Care Subsidy for 100 a fortnight, meaning that this proposal will make a significant impact for a smaller proportion of families accessing fewer approved hours of CCS.

The cost of this change would likely be returned in increased tax revenues from parents working more and potentially administrative savings for Services Australia. Administrative data shows families only use the subsidised hours they need – the co-contribution ensures that utilisation is closely aligned to hours of paid work.

It is also technically feasible to introduce this change with the CCS rate change legislation and is a relatively simple systems change for Services Australia.

| Current | | |
|---|---|---|
| Activity test step | Hours of recognised activity per fortnight | *Hours of subsidised child care per CCS fortnight – |
| 1 | Up to 8 hours + means test | 24 hours |
| 1 a | Exemptions for preschool | 36 hours |
| 2 | 8 hours to 16 hours | 36 hours |
| 3 | More than 16 hours to 48 hours | 72 hours |
| 4 | More than 48 hours | 100 hours |

| Proposed | | |
|---|---|---|
| Activity test step | Hours of recognised activity per fortnight | *Hours of subsidised child care per CCS fortnight – |
| 1 | Up to 48 hours | 72 hours |
| 2 | More than 48 hours | 100 hours |

**Note Government admin data shows families only use what they need & can afford*

# The details and evidence

## The issues

In 2018, the previous Government's Jobs for Families Package, halved the minimum Child Care Subsidy (CCS) entitlement for families that do not meet the activity test, effectively cutting access to early learning from two days a week to only one day a week for many of the most vulnerable children in the community.

The minimum CCS entitlement of 24 hours a fortnight for families that do not meet the activity test effectively limits children's access to subsidised early childhood education and care (ECEC) to one day per week because the majority of early childhood education and care services operate daily sessions of 11 hrs. Very few services offer 6 or 9 hour sessions that would enable a child with only 24 hrs per fortnight of subsidy to attend 2 days/week. As a result, many of these children miss out.

There is a robust dual purpose to this proposal:

The first is to ensure that families get at least two days a week of access to ECEC, if needed, to promote child development, especially for disadvantaged children from the age of 2 years, for whom the evidence is clear that early learning programs provide a protective factor against developmental vulnerability and other forms of disadvantage.

The second is to enable sufficient flexibility and incentives to promote workforce participation especially for low-income families – one cannot look for work without sufficient ECEC. For families, this significantly limits the level of flexibility available to them, particularly women, to participate in the economy. One of the most significant impact for families, particularly women, is on those who have insecure, casual or short-term work opportunities. Families find themselves unsure about which activities count towards their eligibility and become stuck in a cycle of not being able to accept work that is available because they do not have predictable access to care. They cannot afford to pay high out-of-pocket cost for unsubsidised access and are concerned about over-estimating their activity.

*Case Example: Vrushali is a single mum to Ravi who is 2 years old. Ravi attends Happy Days long day care centre one day a week - usually Tuesdays. The daily fee at Happy Days is $126.50; Vrushali pays $25.30 and claims $101.20 CCS. Vrushali works as a casual retail assistant at Coles; she is offered shifts at short notice and often has to turn them down when she does not have care for Ravi. The team at Happy Days try to be flexible but they cannot always offer a spot for Ravi on other days and Vrushali cannot afford to send Ravi to Happy Days for 2 days/week because she doesn't qualify for the subsidy – it would cost $126.50 and she usually only earns $116 per shift. If she wasn't limited to 24hrs/fortnight, Ravi could attend Happy Days more frequently and Vrushali could take more shifts.*

Children benefit from high quality early childhood education and care – this is particularly true for vulnerable groups. Yet, a recent AIFS evaluation of the Child Care Package found that the reduction in the minimum hours of subsidised ECEC from 24 hours per week to 24 hours per fortnight 'disproportionately impacted on children in more disadvantaged circumstances' and recommended that it be reviewed (p. 346). In addition, data provided to Senate Estimates show 31,440 families (2.9%) were entitled to CCS24 in 2018-19, which by June 2021 had dropped to just 12,110 families (1.3%) – there has been an overall reduction of 42,000 families since 2018.

## Proposed solution: No one left behind—no one held back

There is an opportunity to address this by **abolishing the CCS24 and CCS36 categories, as part of the legislative changes planned this financial year to change the CCS rates.** This change would deliver better equity gains for children and families, increase productivity, and cut red tape.

Abolishing the CCS24 and CCS36 categories will ensure that children in low-income households, including many children at risk of poor education outcomes, would have access to at least 2 days of early learning each week. This would be a significant start to undoing the disadvantage that was baked into Australia's early learning and care system by the previous government. It is also a step towards the Government's commitment to universal early education for all children without the need to wait for the final recommendations which may still be 2 years away. In other words, we could act now.

This proposal responds directly to the AIFS evaluation of the CCS, released in March 2022, which recommended that the adequacy of CCS24 be reviewed, finding:

> *"there are significant challenges in the provision of early childhood education and care, including the balance between childcare as an enabler of parental workforce participation and the role of early childhood education and care in child development and as an instrument to address disadvantage"*

## Workforce Benefits

Families, and particularly women returning to the workforce, need predictable access to ECEC to be able to participate in the workforce. Removing the CCS24 and CCS36 categories would remove the significant barrier of high out-of-pocket cost for unsubsidised ECEC and would provide much needed predictability for families, especially women, to get back into the workforce.

Employers and the economy would also benefit from increased supply of a casual and part time workforce who will be more available to fill shortages through the flexibility and predictability that this measure will delivery.

Enhancing workforce participation and earnings also serves to support women's safety and wellbeing over the long term, building economic security and increasing their capacity to make decisions if they find themselves in an unsafe domestic relationship.

## Red Tape Reduction

This measure can be implemented within the current functionality of the CCS system while significantly simplifying it. It removes a layer of red tape for government, for families and for early childhood service providers.

While an increase to the bottom step of the activity test, to 60 hours offers an alternative approach to improving equity – it does not make the CCS any less complicated. The removal of the two lowest steps creates a simplified solution that delivers the Government's intended benefits, including improving equity of access for children and families, as well as delivering productivity gains for employers and the economy. It also represents a measured first step towards longer-term reforms to be progressed through the productivity commission reforms.

**Lead signatories:**

Professor Sharon Goldfeld
Murdoch Children's Research Institute

Samantha Page, CEO
Early Childhood Australia

This proposal has the support of leaders across the early childhood development and education sectors, including:

## Appendix D - Contrast of Annual HRC rate Increase, Indexation, Wage Review & Implications of the Regulatory, Policy and Award Changes across the ECEC sector since 2018

| Year | CCS Hourly Rate | % Indexation | Annual Wage Review | Regulatory/Policy/Award Changes |
|---|---|---|---|---|
| 2018 | 11.77 | n/a | 3.5% | • New NQS |
| 2019 | 11.98 | 1.8% | 3.0% | • End Transitional Arrangements for teachers Vic<br>• ISS Subsidisation |
| 2020 | 12.20 | 1.8% | 1.75% | • Covid resulting in significant lost revenue through the year<br>• ISS Subsidisation |
| 2021 | 12.31 | 0.9% | 2.5% | • Covid resulting in significant lost revenue through the year<br>• 10% Teachers award increase/Cork Value Case<br>• Educational Leaders Allowance ESTA<br>• ISS Subsidisation |
| 2022 | 12.74 | 3.5% | 4.6% | • Covid<br>• Educational Leaders Allowance CSA<br>• Increased staff absenteeism due to significant cold/flu season<br>• Tight Labour market driving up wages beyond award increases<br>• ISS Subsidisation |
| 2023 | 13.73 | 7.8% | 5.75% | • End Transitional arrangements QLD<br>• Increased staff absenteeism due to significant cold/flu season<br>• Tight Labour market driving up wages beyond award increases<br>• ISS Subsidisation |

# References


- ACCC, 2023, *Childcare Inquiry: Interim Report June 2023* ACCC
- ACCC, 2023, *Childcare Inquiry: Interim Report September 2023* ACCC
- ACCC (2023) *Childcare Inquiry Roundtable Summary – Educator Roundtable*, ACCC
- ACCC 2023 Childcare Inquiry Roundtable Summary – Parents and Guardians, ACCC
- ACECQA, 2023, NQF Snapshot Q2: A quarterly report from ACECQA, August 2023, ACECQA https://www.acecqa.gov.au/sites/default/files/2023-08/NQF%20Snapshot%20Q2%202023%20FINAL.PDF
- ACECQA, 2023, Service and temporary closure information, ACECQA https://www.acecqa.gov.au/resources/national-registers/service-temp-closure-info
- Australian Education Act 2013
- Australian Government Schools Funding Report 2021, *Report on financial assistance paid to the schools sector and relevant decisions under section 127 of the Australian Education Act 2013,* Department of Education (2021) https://www.education.gov.au/school-funding/resources/australian-government-schools-funding-report-2021
- Australian Property Journal (2023), *Major banks turning away childcare operators*, Australian Property Journal. Major banks turning away childcare operators - Australian Property Journal
- Australian Revenues Office 2023, Payroll Tax Australia sourced from https://www.payrolltax.gov.au/resources#resources__rates_and_thresholds
- Price Waterhouse Cooper (2014) Putting a value on early childhood education and care in Australia, Price Waterhouse Cooper, Australia https://www.pwc.com.au/publications/early-childhood-education.html
- Cattoretti, G., and Paull, G., 2022, *Providers' Finances: Evidence from the Survey of Childcare and Early Years Providers 2021*, Frontier Economics, Research report UK, Department for Education

- Dandolo Partners (2023), *The cost and impact of different funding approaches to increase ECEC sector wages*: Report for the Australian Childcare Alliance, Dandolo Partners

- Department of Education, 2023, Making a complaint to the department, Department of Education, Australian Government https://www.education.gov.au/about-department/contact-us/complaints

- Harrington, M., 2011, *The National Quality Framework for Early Childhood Education and Care,* FlagPost, Parliamentary Library, Department of Parliamentary Services https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2011/December/The_National_Quality_Framework_for_Early_Childhood_Education_and_Care

- Impact Economics and Policy (2022) *The Child Care Subsidy activity test: Undermining Child Development and Parental Participation*, Impact Economics and Policy, Australia https://static1.squarespace.com/static/61e32e62c8c8337e6fd7a1e6/t/630de5c741a8de08ad48d593/1661855185396/Undermining+Child+ Development+And+Parental+Participation+Report_FINAL.pdf

- Peak Equities (2021) Childcare in Australia A Guide to Investment, Peak Equities https://www.peakequities.com.au/wp-content/uploads/2021/03/Peak-Equities_-AUSTRALIAN-CHILDCARE-2021-A-GUIDE-TO-INVESTMENT-Digital.pdf

- SNAICC (2022) *The Family Matters Report 2022*, SNAICC, Melbourne http://www.familymatters.org.au/

- The Front Project 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, https://www.thefrontproject.org.au/images/downloads/ECO_ANALYSIS_Full_Report.pdf

- Department of Education (2021) Australian Early Development Census National Report 2021, Department of Education, Australia

Australian Childcare Alliance


Email: president@australianchildcarealliance.org.au

Website: www.childcarealliance.org.au

Phone: [redacted]

Facebook: www.facebook.com/childcarealliance


Australian Childcare Alliance Queensland

Australian Childcare Alliance New South Wales

Australian Childcare Alliance South Australia

Australian Childcare Alliance Victoria

Australian Childcare Alliance Western Australia

Australian Childcare Alliance Tasmania