

NSW Department of Education

NSW Government submission

ACCC Childcare Inquiry September Interim
Report

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Introduction

NSW welcomes the opportunity to contribute to the Australian Competition and Consumer Commission (ACCC) inquiry into the market for the supply of childcare services. Australian and international research is unequivocal; investing in early childhood is the key to transforming children's futures.

High-quality early childhood education and care (ECEC) helps children, especially those experiencing disadvantage, to build the cognitive and socioemotional skills necessary to navigate through life's challenges. Attending quality ECEC also leads to long term benefits for the individual and broader economy, with benefits reflected in higher earnings and workforce participation, increased tax revenue and considerable savings in health, education and justice budgets.¹ This delivers strong returns on investment for society as well; for every \$1 invested, \$2 is often generated over a child's life.²

While progress has been made, not all Australian children can access the essential quality early childhood education needed for their well-being and to enable parents to work, study, or volunteer. The system has gaps, is overly complex for families and service providers, and faces challenges in sustaining a growing workforce.

The Interim Reports of this Inquiry highlight some of the challenges which currently exist across the country. This submission suggests broad opportunities for the Inquiry to examine further ahead of its final report. This NSW submission focuses on three key areas: affordability and access, system stewardship and workforce.

The issues highlighted under each focus area do not constitute commitments by the NSW Government to fund new programs. Further analysis and collaboration with the Australian Governments, including negotiated funding agreements would be required for NSW to implement any recommendations arising from the Inquiry.

¹ The Front Project. (2019). [A smart investment for a smarter Australia.](#)

² The Front Project. (2019). [A smart investment for a smarter Australia.](#)

Affordability and access

NSW welcomes the Interim Report's draft recommendations relating to further review of the Child Care Subsidy (CCS) and other government funding mechanisms for childcare (Recommendations 1 and 2). Children and families, particularly those from priority population cohorts, experience a range of price and non-price barriers that inhibit their ability to access and participate in ECEC. NSW reiterates its suggestion to the Productivity Commission Inquiry that consideration be given to a new national funding approach which is based on a universal needs-based funding model; supports equitable participation and outcomes for all children aged 0 to 5 years; provides capital funding for the sector; addresses cost of living pressures and enables the workforce participation of parents; supports a sustainable ECEC workforce; and supports consistency of funding arrangements across ECEC regardless of the setting.

NSW would welcome further analysis by the ACCC on the drivers of cost increases for centre-based day care since 2018, particularly the significant increase in labour costs.

The CCS Activity Test

NSW also notes the ACCC's findings that the CCS activity test is acting as a barrier to more vulnerable children and families accessing ECEC and is magnifying affordability challenges for households who may benefit from increased access most (Recommendation 2 (c)).

The activity test's focus on working parents can negatively impact children from families experiencing vulnerability and disadvantage. A 2022 Impact Economics and Policy report found that 126,000 children from the poorest households are missing out on critical ECEC as a result of the activity test.³ The report also found that:

- First Nations families are over 5 times more likely to be limited to one day of subsidised child care per week;
- Non-English-speaking families are over 6 times more likely to be limited to one day of subsidised child care per week;
- Single parent families are over 3 times more likely to be limited to one day of subsidised child care per week; and

³ Impact Economics and Policy. (2022). [Child Care Subsidy Activity Test: Undermining child development and parental participation](#)

- Low-income families earning between \$50,000-\$100,000 are over 6 times more likely to be limited to one day of subsidised child care per week.

Recent changes to the activity test in the Cheaper Child Care Bill go some way to improving this by enabling all Aboriginal and Torres Strait Islander children to access 36 hours of subsidised childcare a fortnight from July 2023. There is merit in considering the extension of this arrangement to all families to reduce barriers to access and provide all children the opportunity to access a minimum number of ECEC hours regardless of parental workforce participation, as described at Recommendation 2(c) of the Interim report.

In its current form the CCS activity test is also not inclusive of shift workers and casual workers who experience uncertain work hours. NSW notes that this means women may be the most impacted given that women are more likely to be employed in part-time and casual work compared to men.⁴ The CCS activity test has also contributed to significant uncertainty for parents in casual employment or a range of changing employment arrangements due to the ongoing risk that they will fail to meet the activity test and generate over-payment debts. Removal of the activity test and the associated impact on increased workforce participation could increase Australia's GDP by up to \$4.5 billion, whilst also reducing red tape for the Government and providers and improving the efficiency of the system.⁵ NSW supports further investigation into ways to reform the activity test and other types of fee assistance, as part of a reformed national funding approach. This should consider the impact of any changes on the ability of families to access ECEC services as a result of increased demand.

Support for Aboriginal and Torres Strait Islander families

NSW also recognises that targeted support for Aboriginal and Torres Strait Islander children, families and tailored services delivered by Aboriginal Community Controlled Organisations (ACCOs) are essential to increasing access to high quality, culturally responsive early childhood education and care (Recommendation 5).

Funding complexity as highlighted in the ACCC Interim Reports means that ACCOs need to navigate multiple funding sources across varying timeframes. This approach creates significant barriers for ACCOs in delivering stable, high-quality, efficient, and effective services. It also hampers their ability to retain staff and build service capacity and capability, which directly impacts

⁴ NSW Government. (2022). [Women's Opportunity Statement](#). NSW Budget 2022-23

⁵ Impact Economics and Policy. (2022). [Child Care Subsidy Activity Test: Undermining child development and parental participation](#)

Aboriginal and Torres Strait Islander children, parents, and guardians who rely on these essential services.

The national Early Childhood Care and Development Policy Partnership is currently considering this issue and has agreed to commission a research project in 2023 on funding model options for ACCOs that deliver early childhood education and care and other integrated early years services for children and families. The project aligns with Closing the Gap Priority Reform Two and clause 45 of the National Agreement, which sets out objectives to build the community-controlled sector with dedicated, reliable and consistent funding models that are responsive to community needs. Considerations under this work include modelling for future ACCO sector growth, the intersections with workforce availability and capability, and funding needs for rural and remote contexts. This report could make a valuable contribution to the further work of the ACCC.

System Stewardship

NSW welcomes the ACCC's findings regarding market stewardship (Recommendation 6) and acknowledges active system and market stewardship is essential for achieving a well-functioning ECEC sector. Currently, no one level of government holds all the levers to influence system outcomes. This makes it essential for different levels of government to collaborate with each other and with other system actors to influence the ECEC system and improve child, family and sector outcomes.

The key issue currently impacting the ECEC system is supply constraint. The Interim Reports highlight several factors contributing to this including workforce shortages, existing limitations in physical infrastructure, restricted access to capital, and regulatory barriers. These constraints are often more pronounced in lower socio-economic areas and thin markets, where ECEC supply is especially strained.

Thin market conditions lead to market inefficiencies with adverse effects. These include price volatility, inadequate infrastructure development, and limited flexibility and variety in service offerings to cater to the diverse needs of families. Consequently, families in these areas often contend with reduced choices and less accessible childcare services, exacerbating the challenges faced by vulnerable populations.

NSW welcomes the ACCC's findings regarding the need to agree on market stewardship roles between the Australia, state and territory governments to identify and address under-served and vulnerable cohorts. NSW is seeking to collect and develop its data capabilities to better understand

local areas that are under-served and identify the areas of most need for vulnerable cohorts. NSW would welcome further analysis from the ACCC on key drivers of competition within local markets and remote areas to inform governments on how best to deploy market levers.

Another key issue facing the ECEC system is that National Quality Standard (NQS) ratings also tend to be lower on average in areas marked by relative disadvantage, underscoring disparities in the quality of childcare services across different regions.

Good system stewardship relies on effective data sharing arrangements between Governments and the sector. There is considerable scope for increased data and information sharing to strengthen decision-making, policy and program delivery. The Australian Government is the largest custodian of administrative data through the tax and income support system. The NSW Government currently has limited and irregular access to comprehensive data on the ECEC sector. There is an opportunity to explore a strategy on the regulation and sharing of data across all jurisdictions and the non-government sector whilst also ensuring that Aboriginal and Torres Strait Islander communities have access to, and ability to use, locally relevant data, in line with Reform Area 4 of the National Agreement on Closing the Gap. The NSW Government has suggested the Productivity Commission consider the merits of a clear system stewardship framework, including options to stimulate supply in thin markets as part of its inquiry into ECEC.

NSW also welcomes Recommendation 3 of the Interim Report regarding consideration of the information gathered and reported on through StartingBlocks.gov.au. A survey conducted by the NSW Productivity Commission found that parents and guardians often struggle to understand their out-of-pocket costs which may impact their decision on whether to access ECEC services. Provision of clear and accessible information to parents and guardians that helps them to navigate these uncertainties would be beneficial.⁶

NSW also notes Recommendation 7 of the Interim Report regarding the consideration of supply-side subsidies and direct price controls. Further detail on the potential operation of such a scheme should be included in the final report. NSW notes that whilst NSW IPART has been asked to estimate benchmark prices as part of its review into ECEC affordability, accessibility and consumer choice, IPART will not develop, investigate, or recommend price regulation or price setting mechanisms. As per the Terms of Reference, benchmark prices could be used to measure and compare early childhood service fees, reflecting costs of providing quality services for different children and family groups, geographies, service types and provider types.

⁶ NSW Productivity Commission. (2023). [Childcare choices: What parents want](#).

Workforce

NSW welcomes a closer examination of workforce pressures for the ECEC sector as advocated in Recommendation 4 of the interim report.

Shortages in early childhood workforce are having a profound impact on the long-term viability and service quality of ECEC services, as found by the interim report. This can also have an impact on inclusion, particularly for children with disability or additional needs, who may be declined enrolment on the basis that their needs cannot be met due to workforce shortages, or a lack of capability, skill or experience.⁷ To address this and ensure the sustainability of high-quality ECEC services, it is essential to explore options for attracting and retaining ECEC professionals.

The most cited reason for workforce shortages is pay and conditions, with the ECEC workforce as a whole earning below the general workforce average, with a high proportion of casual or part-time workers. Uncompetitive pay, excessive workloads and high employee turnover leaves educators consistently reporting working conditions that are high in stress and detrimental to their mental health.⁸

NSW would welcome any further detail and analysis around any potential linkage between quality and workforce challenges, particularly the attraction and retention of staff.

NSW would also welcome further analysis on the relationship between labour costs and location (areas of remoteness and socio-economic disadvantage), including the impact of high labour costs on services and markets. This analysis would help better understand the trade-offs between costs for service providers by location.

NSW notes the Interim Report's findings that not-for-profit service providers are more likely to pay staff above award wages, more likely to hire full time staff, and experience lower employee turnover and vacancies. It would be beneficial for the ACCC to consider further analysis on how subsidy arrangements and capital structure impact on the ability of services to manage labour costs, workforce sustainability and meet family needs.

NSW recognises the complex considerations at play, particularly in relation to pay and conditions, which are likely to have significant, flow on implications for cost drivers, labour markets,

⁷ ACECQA. (2020). Consultation summary report December 2020. [Inclusion of children with disability in early childhood and school age education and care.](#)

⁸ United Workers Union. (2021). [Exhausted, undervalued and leaving: the crisis in early education](#)

Government budgets and the broader economy. It is important to note that in addressing pay and conditions matters:

- The makeup of the sector varies greatly across jurisdictions. The Child Care Subsidy provides the vast majority of government funding to ECEC services other than preschool in all jurisdictions.
- There are federal and state-based Industrial Relations instruments which add to the complexity of the workforce and in how greater consistency is achieved.
- The need to avoid creating further fragmentation by addressing fair pay and conditions within some parts of the education and care sector and not others.
- Consideration is required on how future pay gaps may be funded.
- A focus on conditions is important – with varying degrees of allowances, penalties and approach to aspects such as ordinary hours and overtime.
- It will be essential to avoid unintended consequences for children and families, such as pass on of cost associated with higher wages, or lower service quality associated with urgent need to address skills shortages.

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