

[REDACTED]

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## Introduction

What is your name?

Name:

Jane Hunt

What is your email address?

Email:

[REDACTED]

Are you responding to this survey as:

Peak body

What is your organisation?

Organisation:

The Front Project

Do you consent to the ACCC publishing your submission?

Yes

## Open written submissions

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If you wish to provide responses to all or any of the draft findings and recommendations outlined in the September interim report, please move to the next section 'Guided submissions' to provide responses against the relevant findings and or recommendations.

## Guided submissions

### Draft Findings - Costs

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

Agree

Please provide further comment if relevant:

As the demand for qualified teachers and educators has grown and staffing shortages have intensified, providers are looking at industrial entitlements as a lever to attract and retain staff. Some providers recognise the need to offer above-award salaries and conditions, but majority of providers rely on the relevant awards.

In its 2021 national ECEC workforce census, the ABS found that 57.1% of staff working in long day care were paid award rates. Historically, centre based long day care providers have utilised the relevant awards as employment instruments, providing the legal minimum as one measure to control costs and in some instances to maximise profitability.

In a tightening labour market, benchmarks for employment and competition for qualified staff come from other parts of the ECEC sector, namely preschools, together with the primary school sector where superior enterprise agreements are in place. These workforce pressures in ECEC have an obvious impact on labour costs as providers compete to attract and retain staff.

Government needs to intervene, as a system steward, to address the low wages and conditions of the ECEC workforce. Whilst there is promise in the new multi-employer bargaining process, any resultant pay increase needs to be supported by government investment and accountability measures to ensure that pay increases flow directly to staff and do not contribute to provider profits or trigger an increase in fees.

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

Unsure / No View

Please provide further comment if relevant:

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

Unsure / No View

Please provide further comment if relevant:

4. Location influences costs of supplying childcare services, although the influence differs depending on the cost category. Overall, costs to supply services to different areas of remoteness and socio-economic advantage do not differ greatly, except for the areas of most remoteness and most socio-economic advantage.

Agree

Please provide further comment if relevant:

Our Families Survey (n=1,000) found that 39% of families living in regional/remote Australia do not currently use paid early learning and care because of the difficulties in securing a place. This is a significant proportion of families and children unable to access a place and the associated benefits of early education. The current funding system, which does not adequately address thin markets, results in the uneven distribution of supply and impedes access and equity.

Services in regional and lower SES areas are also more likely to be impacted by any shock to the system, such as the pandemic. Research conducted by The Front Project in partnership with dandolopartners during the pandemic identified that ECEC services in regional and lower SES areas were overrepresented when it came to centre sales, services under financial stress, and closures. This was attributed to a higher number of services in these areas being standalone and these locations experiencing higher levels or changes to unemployment.

Government should take a more prominent system stewardship role either through direct intervention and delivery of services or through financial incentives to support providers in remote areas. Supply-side and block funding are two models to improve access in remote areas.

## Draft Findings - Competition

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

Agree

Please provide further comment if relevant:

Our Families Survey revealed that choosing appropriate childcare is driven by a range of factors, including quality. Parents generally viewed the price charged for an ECEC service as an unreliable indicator of quality, with their primary concern being able to afford and access a place. Parents sense good quality and bad quality education and care, but they lack the opportunity, information and tools to make decisions that fully and objectively consider quality.

Our research found that parents do not see quality ratings as a meaningful indicator of quality and would value information about outcomes for children, and service information such as user satisfaction and how issues and complaints are dealt with, to help determine quality. Parents report that staffing arrangements and relationships are a key part of the decision-making process in measuring quality. The way in which staff members interact with children was seen by 80% of parents as an extremely strong indicator of quality. The ratio of workers to children (69%), the cleanliness of the facility (68%), whether children are happy and excited to go there (68%) and how the centre communicates with and involves parents about their child's progress and activities (66%) also emerged in the survey as signifiers of quality for the majority of parents. Parents also mentioned quality being reflected by low staff turnover, staff who appear to be happy to be there, and positive interactions between staff, and staff and management. Conversely, worker shortages, turnover, and poor pay and conditions were seen as impediments to delivering quality.

Even where parents can discern service quality, limited choice of services and access issues means information about quality is often unable to be acted on, with families taking whatever they can get and being stuck in services even if quality issues arise. Many parents are operating in an environment where they lack free choice over the services they use and encounter barriers to determining quality, so this becomes a secondary driver of ECEC decision-making. Some families report feeling locked in to services they do not perceive as high quality because they lack other options. 39% of families living in regional or remote Australia who do not currently use childcare cite the difficulty of securing a place.

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

Unsure / No View

Please provide further comment if relevant:

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

Unsure / No View

Please provide further comment if relevant:

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

Agree

Please provide further comment if relevant:

Our families research indicated that many parents don't tend to consider the price charged for an ECEC service and whether it is run for profit as a reliable indicator of quality. Whilst cost of ECEC is a key consideration for parents, it's not strongly perceived as tied to quality. Families are more likely to assess quality on factors including relationships between staff and children, ratios, cleanliness, and whether children are happy to attend.

### Draft Findings - Profitability, viability and quality

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

Unsure / No View

Please provide further comment if relevant:

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

Unsure / No View

Please provide further comment if relevant:

11. On average, margins are higher:

Unsure / No View

Please provide further comment if relevant:

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

Agree

Please provide further comment if relevant:

The ACCC rightly identifies the connection between attracting and retaining a stable workforce and quality rating of services. It is no surprise that investing in staff with professional pay and conditions is more likely to reduce turnover, boost staff morale and provide staff with the conditions they need plan and deliver high quality programs for children. This has a tangible impact on quality and outcomes for children as measured by the National Quality Standards and Assessment and Rating process.

### Draft Findings - Price regulation mechanisms

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

Agree

Please provide further comment if relevant:

Our Families Survey, which went to market soon after the CCS changes, identified cost and affordability of early learning and care as a major issue.

61% agreed that the decisions that they have made regarding the care and education of their child/ren have come with significant financial sacrifices.

50% agreed that they've found that once the cost of care is factored in, it's hardly worth working. This increased to 62% for those on lower household incomes (>\$121,000).

49% agreed that they've had to change work arrangements to fit in with the care that they can find/afford.

61% reported that they had noticed the service/s they use raising their fees since these changes to CCS came into effect.

The CCS in its current design is not working for children, for families or for the sector.

14. Childcare providers are optimising session lengths to match current activity test entitlements to minimise out-of-pocket expenses for parents and guardians and maintain their revenues and profits.

Unsure / No View

Please provide further comment if relevant:

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

Agree

Please provide further comment if relevant:

Parents in our survey indicated that they find it complex and difficult to understand the funding system, with Child Care Subsidy payment records and invoices confusing and half of parents surveyed indicating that childcare costs are opaque. There is a lack of transparency around what determines the prices that are charged and why these vary so much from service to service. Parents report a lack of transparency around how services apply government subsidies that are intended to increase affordability.

16. More information is important for parents and guardians, yet the comparator website StartingBlocks.gov.au is not widely used by parents and guardians and can contain outdated information.

Agree

Please provide further comment if relevant:

Our Families Survey revealed that parents want to make decisions in the best interests of their family, but this is constrained by a web of internal and external factors including limitations in their awareness of and access to information.

Parents do not see quality ratings and other information on the StartingBlocks website as meaningful to them. What they are looking for is information on how staff interact with children and each other, objective measures of outcomes for children, along with information of user satisfaction, issues and complaints.

Access to more meaningful, up-to-date information is most helpful where it supports parents and guardians to make choices. However, in areas where there are limited or no choice of service, information is unable to be acted on with families taking whatever they can get.

## Draft Findings - International childcare costs and price regulation mechanisms

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

Agree

Please provide further comment if relevant:

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

Agree

Please provide further comment if relevant:

## Draft Recommendations

### Draft Recommendations - Existing regulatory arrangements

Draft recommendation 1 - The ACCC recommends that the Australian Government reconsider and restate the key objectives and priorities of its childcare policies and supporting measures, including the relevant price regulation mechanism.

Support

Please provide further comment if relevant:

We acknowledge the efforts of the Australian government (and a number of states and territories) to reform and advance early education and care, including the development of a national early years strategy and vision, implementing the national workforce strategy, the Productivity Commission inquiry and this ACCC inquiry.

We're at an important crossroads for developing a future early childhood education and care system that works for children, families and society more broadly. Central to any future system is a clear statement by the Australian Government of purpose and priorities for early learning and care, and the role that funding plays, and we welcome the draft national vision for ECEC.

Providing universal access to high quality early learning and care should be seen as an entitlement for all children and families, and a wise investment for Australia to make. Our economic analysis of the benefits on investing in early learning and care, specifically the year before school, identified a strong return on investment (<https://www.thefrontproject.org.au/impact-foundry/research/economic-analysis>). And perhaps most importantly, intervening early is good for children, families, and the country. Early intervention can improve the lives of children and young people and strengthen our communities,

while reducing pressure on government budgets, enabling more efficient and effective spending, and boosting workforce skills and capabilities. The cost to government of late intervention in Australia is \$15.2bn each year. This equates to \$607 for every Australian, or \$1,912 per child and young person ([https://www.thefrontproject.org.au/images/downloads/THE\\_COST\\_OF\\_LATE\\_INTERVENTION/Technical\\_Report-How\\_Australia\\_can\\_invest\\_in\\_children\\_and\\_return\\_r](https://www.thefrontproject.org.au/images/downloads/THE_COST_OF_LATE_INTERVENTION/Technical_Report-How_Australia_can_invest_in_children_and_return_r))

Children, families, governments and business all benefit from the returns early education provides. Benefits are reflected in higher earnings and workforce participation, increased tax revenue and considerable savings in health, education and justice budgets. Early education plays a key role in Australia's prosperity.

Funding models and levers play an important role in supporting the ECEC system to achieve its objectives. They support policy objectives around affordability, accessibility, efficiency, and accountability of the system by influencing the way in which funders, service providers, and system participants interact with each other. Importantly, funding models cannot achieve these objectives in isolation but must work with all components of the broader system architecture (including policy, regulation, sharing of evidence, monitoring and evaluation, and governance structures) to produce an environment that enables and ideally drives the desired outcomes.

In our work on System Stewardship (<https://www.thefrontproject.org.au/media/attachments/2022/10/25/tfp-case-for-system-stewardship-full-3-new.pdf>) consultees raised the need for:

- \* The creation of a clear and collectively endorsed vision for the ECEC system, resulting in the impetus and roadmap for reform, as system settings are reoriented towards this vision.
- \* Consistent policy objectives, governance arrangements and strategic alignment across levels of government, which would support a more effective system delivery and reform environment.
- \* Clarity on the responsibility of the system to meet child and family needs that would create clear benchmarks and parameters for intervention, where objectives are not being met.
- \* Re-establishing a point of connection and pride for system participants, reducing fragmentation and uniting momentum towards a common goal.

The diversity of the ECEC sector supports simultaneously realising three objectives of:

- \* Children's learning and development.
- \* Workforce participation (particularly female workforce participation).
- \* Socioeconomic equity through reducing the impact of vulnerability on a child's development, education and subsequent life outcomes.

Movement towards a system stewardship model requires a clear and unified vision for what the ECEC system should be striving for – including where the priorities across these objectives lie. This would help lessen tensions between the different objectives and orient the system towards a common goal.

Draft recommendation 2 - The ACCC recommends further consideration and consultation on changes to the Child Care Subsidy and existing hourly rate cap mechanism, to simplify their operation and address unintended consequences, including on incentives and outcomes.

Support

Please provide further comment if relevant:

We support further consideration and consultation on the Child Care Subsidy and its suitability as a future funding model. A funding model should be based on the core principles of universal access, equity, and addressing disadvantage.

The ACCC has identified significant problems with the CCS including supply issues, lack of transparent information, complexity navigating the system, and lack of competitive pricing. Our Families Survey similarly finds that the Child Care Subsidy is not working. Even with the recent changes to the CCS, families are still struggling: 39% of families who do not use early learning and care state it's due to not being able to afford it. And of those families using childcare and aware of the changes, 61% report that their providers took the opportunity to increase fees.

An individualised funding model or voucher system, such as the CCS, requires a level of alignment in the market, where the supply of services is sufficient to meet the level of demand in the market. This should be underpinned by transparent sharing of information to ensure individuals can make informed choices, which should also encourage appropriate levels of competition in the market. Our Families Survey reveals that parents/guardians do not have access to the transparent information they need, that the ECEC system can be complex to navigate, and that access to their preferred choice of service can be limited.

For any funding system to be successful there must be stronger regulation of prices and intervention to deal with uncompetitive behaviour by providers in the sector. Regulation and ongoing market monitoring is important to ensuring that the sector is comprised of suitably high-quality providers. Without strong policy and regulatory settings, a for-profit motive can allow providers to reduce quality or inflate prices to retain more government funding as profit. Another risk with the voucher system, which we've seen play out, is that some markets are oversupplied resulting in an inefficient use of government resources. Simply making adjustments to the CCS may not deliver the outcomes we need for a fairer system for Australian children and families.

Draft recommendation 2 (a) - Consideration be given to determining an appropriate base for the rate cap and indexing the cap to more closely reflect the input costs relevant to delivery of childcare services. This could include consideration of labour costs as well as the additional costs associated with providing childcare services in remote areas and to children with disability and/or complex needs

Support

Please provide further comment if relevant:

Any funding model needs to be underpinned by an accurate pricing mechanism to determine the true costs of service provision, and regularly indexed to keep pace with inflation. A mix of funding types can be utilised to address the complexity and variability within the system. For example, supply side

funding can help maintain service delivery, notably in thin markets or for particular cohorts from whom additional support may be required to achieve desired outcomes (e.g. children with complex/additional needs). The funding model should also account for labour costs, which the ACCC has identified as a main cost component for providers. There is a clear connection between investing in the workforce and quality outcomes for children. Wages and conditions must be uplifted, supported by government funding and careful monitoring to ensure that funding for labour flows through to the workforce. These costs must be accounted for in a future funding model.

Any future funding system also needs to be mindful of adding complexity to the system, particularly where funding is distributed to both providers and consumers. While complexity in and of itself is not necessarily a disadvantage, complexity for families can act as a disincentive to participation, particularly where the service is not compulsory. In ECEC, those families most likely to be eligible for multiple funding streams are those experiencing vulnerability and where the benefits of participation are highest. Any added barriers to accessing affordable services should be minimised.

Draft recommendation 2 (b) - Consideration be given to changing the hourly rate cap to align with the relevant pricing practice for the servicetype. This could include consideration of a daily fee cap for centre based day care. Consideration will need to be given to setting and monitoring minimum requirements to avoid creating incentives for childcare providers to reduce flexibility or quality.

Support

Please provide further comment if relevant:

Consideration should be given to funding approaches that deliver on the overarching objectives and purpose of early learning and care: universality, equity and inclusion, affordability, and quality of provision and outcomes for children. The CCS is not delivering on these principles and simply modifying the current system will not result in the changes we need. Different funding approaches should be modelled to better understand the real cost of service delivery across different service types, how different models would work in practice, including identifying any unintended consequences that might impede access, affordability, and sustainability of service provision.

Draft recommendation 2 (c) - Consideration be given to removing, relaxing or substantially reconfiguring the current activity test, as it may be acting as a barrier to more vulnerable children (for example, households with low incomes or disadvantaged areas) accessing care and creating a barrier to workforce entry or return for some groups. An alternative would be to consider a specific entitlement, such as a certain number of days of care.

Support

Please provide further comment if relevant:

The Activity Test should be abolished. Every child in Australia should have universal access to the supports and services they need in the first five years of life, including early learning and care. Universality is a key concept for transforming each child's equity of access. The Activity Test prevents all children benefitting from early education.

The Prime Minister and his government have made a commitment to "bring the principle of universal, affordable and quality service to Child Care" (<https://anthonyalbanese.com.au/media-centre/budget-reply-2022>). This can only be achieved by removing all barriers to access. The Activity Test is a particular barrier to children and families experiencing vulnerability and disadvantage - children who stand to benefit the most from engaging in early education.

In removing the Activity Test, consideration should be given to managing any unintended consequences such as exacerbating pressure on demand for places. This could be addressed with supply-side funding.

We also support an alternative approach to guaranteeing equity of access via a universal entitlement such as three days of early learning and care for all children with access to additional hours/days to children and families who need it.

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

Support

Please provide further comment if relevant:

As evidenced by the ACCC inquiry revealing that childcare costs have risen by 20% over the past four years, rising faster than inflation and wage growth, government must take a stronger monitoring and interventionist approach. The market-based approach is not working for children, families or for the sector.

Our Families Survey confirms that affordability is a major issue for families. We asked parents with child/ren aged 0-5 years not yet at school who were not currently using any form of paid education and care, about the reasons for this arrangement. The main reason identified by 39% of parents was affordability; a finding consistent with our 2021 Work and Play study (<https://www.thefrontproject.org.au/impact-foundry/research/work-and-play-report>).

Whilst the recent changes to the CCS were recognised and welcomed by many families in our survey, the benefits are not flowing through to all intended families and children. 74% of families said they were aware of recent changes to the CCS but of that group 61% had noticed the service/s they use had raised their fees, 42% were now paying less overall for the services their children use, and 5% had increased the number of hours/days they use.

Our research suggests that the impact of CCS changes on affordability has been inconsistently felt, with many not noticing any difference, and indications that some services are absorbing changes to the subsidy into increased fees. Alongside this, parents also question the appropriateness of extending the

CCS to very high-income families.

Government should play a greater role in price setting, regulation and monitoring, along with a credible threat of intervention.

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:

#### Support

Please provide further comment if relevant:

a) Parents in our Families Survey reported that finding useful information can be difficult and the ECEC system complex to navigate, and this in turn can limit their decision-making. Parents mentioned high costs of centre-based/long day care and the lack of transparency in how fees are set. Issues regarding fees and costs included:

- \* Complex and difficult to understand payment records/invoices;
- \* Lack of transparency around what determines the prices that are charged and why these vary so much from service to service;
- \* Lack of transparency around how services apply government subsidies, like the CCS, intended to increase affordability of ECEC;
- \* Having to pay fees for services even if they are not used or provided, for example on public holidays;
- \* Services with low vacancy rates requiring parents to pay fees in advance to hold a place for their child.

Government needs to look at not only the StartingBlocks website, but the provision of information more broadly to ensure parents have access to information that is more transparent, current, accurate and translated to a diverse range of languages.

b) Families should have easy access to information that enables them to estimate out-of-pocket costs. As noted above, families don't always have the information they need to assess costs.

On the issue of quality, parents in our Families Survey expressed a belief that the quality of ECEC is high relative to some other countries, but it also varies across settings and locations across Australia. While quality in the sector is felt to be governed appropriately by regulation, parents also felt that the number and type of services available in different locations, as well as worker shortages and poor pay and conditions across the sector, all exert pressures on the delivery of quality care and education.

Parents reported that they do not see the NQS quality ratings as a meaningful indicator of quality. Rather they assess quality on how staff interact with children and each other, and would value having access to other information including objective measures of outcomes for children, user satisfaction, and issues that pertain to particular centres. It is evident that assessment of quality through the NQS and Assessment and Ratings system does not always translate into meaningful information for families and more work could be done by government to support parents in understanding quality indicators and what to look for in a service.

c) Engaging the BETA could provide useful insights and advice in shaping a future funding approach, but it cannot replace thorough and genuine consultation with the early childhood sector and parents/caregivers.

d) Our work on system stewardship (<https://www.thefrontproject.org.au/media/attachments/2022/10/25/tfp-case-for-system-stewardship-full-3-new.pdf>) identified that rich and transparent information is essential for a healthy functioning system. If Government choose to play a stronger role as system steward (and we recommend they do) it will be necessary for them and associated ECEC authorities to play a key role in disseminating information effectively to parent and guardians.

This should go beyond information shared on StartingBlocks with consideration of a public campaign that raises the profile of early learning and care and it's benefits for children.

Draft recommendation 4 - The ACCC recommends that the governments further consider how the existing regulatory frameworks support and influence the attraction and retention of educators and workforce in the early childhood education and care sector.

#### Support

Please provide further comment if relevant:

The evidence from the ACCC and elsewhere is clear. Investing in the workforce is directly connected to less turnover, fewer staff vacancies and better outcomes for children. Governments must consider their role as system stewards to support and influence measures to attract and retain staff. We acknowledge the ten-year national workforce strategy, Shaping our Future, and reiterate our call on governments to fund the initiatives of the strategy to ensure the workforce is built, retained and well supported.

There is strong support from early childhood professionals and parents to do this work. When participants in our Families Survey were presented with 11 ways that ECEC system could be potentially adjusted to better suit the needs of parents/guardians, both parents (79%) and professionals (90%) agreed that wages and conditions should be improved.

Together with lifting pay and conditions for the early childhood sector, governments should also invest in the following initiatives:

- \* Support for upskilling for VET-qualified educators
- \* Extend support for traineeships

- \* Lift the priority of early childhood educators and teachers in skilled migration
- \* Create a National Rural, Regional and Remote Early Childhood Education strategy
- \* Incentives to attract staff to hard-to-staff locations and to build a diverse workforce
- \* Additional financial support for studying and upskilling, including paid placements

## Draft Recommendations - Broader policy considerations for more significant change

Draft recommendation 5 - The Australian Government should consider maintaining and expanding supply-side support options for Aboriginal Community Controlled Organisations that provide childcare and additional support services for First Nations children, parents and guardians.

### Support

Please provide further comment if relevant:

More must be done to close the gap between outcomes for Aboriginal and Torres Strait Islander children and non-Aboriginal and Torres Strait Islander children. Australian Early Development Census data from 2021 shows that 42.3% of Aboriginal and Torres Strait Islander children are considered developmentally vulnerable in one or more children's development domains by the time they start school compared to 22% of the general population.

The Maari Ma Health Aboriginal Corporation provides an example of a place-based approach that integrates health with the delivery of ECEC to support families. A focus on building trust and relationships with families in the region has contributed to greater participation in preschool programs and broader health, wellbeing and educational outcomes.

Maari Ma is a community-controlled organisation operating two culturally sustaining and culturally safe playgroups for Aboriginal and Torres Strait Islander children and families in far western New South Wales. Maari Ma provides holistic support to families, and has achieved positive outcomes in health, wellbeing and education, including preschool enrolment. A majority (70 per cent) of Maari Ma employees are Aboriginal and Torres Strait Islander peoples. The local Aboriginal language, Barkindji, is used throughout the day, and all new staff have a cultural orientation, with non-Indigenous staff buddied up and mentored. A range of health professionals are integrated into the program, including a social worker, nurses, a mental health professional, a dietitian and a dental assistant. These staff, along with ECEC staff, build trust and positive relationships with families. This means that in addition to providing services, they act as navigators for other services, including addressing misconceptions about preschool, and increasing enrolments and attendance. From 2006 to 2016, the percentage of Maari Ma region's Aboriginal children attending preschool increased by 17 per cent (Sumithra S, Kennedy C, Alperstein G, Best E and Dyer C. (2019) Health, Development and Wellbeing in Far Western NSW. Our children and youth. Maari Ma Health Aboriginal Corporation).

Draft recommendation 6 - A market stewardship role should be considered for both Australian and state and territory governments, in identifying under-served areas and vulnerable cohorts, along with intervention whether through public or private provision. A competitive tender process is one tool that could be used by governments to facilitate delivery in these areas.

### Support

Please provide further comment if relevant:

The Front Project recommends Governments, both Australian and state and territory, take on a more prominent role as system stewards to ensure better coordination of, and collaboration for, the early childhood education and care sector.

The market-based model is challenged by limitations to family choice, a diverse range of operating models, difficulty understanding quality or outcomes for children, and balancing a demand-driven market with societal benefits of participation in early childhood education. Given these challenges and associated opportunities in Australia's ECEC system, it is relevant, necessary and timely to consider options for reform at a system level. System stewardship provides an opportunity to improve the health, performance and efficiency of the ECEC system by uniting the sector towards common goals.

What makes the case for system stewardship so compelling is its ability to address many of the shortcomings that have resulted from the spread of market reforms against a backdrop of increasingly complex societal needs. The unique nature of human services, such as ECEC, means their system-wide management and delivery requires approaches which reflect the specific market forces at play. A system stewardship approach can also help guide the ECEC system towards favourable outcomes for its beneficiaries, including children, families and the workforce.

The ACCC rightly identifies under-served areas and vulnerable cohorts are two areas which would benefit from system stewardship and intervention, and a competitive tender process could be part of the mix of funding levers. A competitive tender process could be directed to the not-for-profit sector where there is evidence of these providers investing back into services for the purpose of generating higher quality outcomes for children, including investing in staff.

Relying on market forces alone will continue to fail children and families as providers tend to establish new services where there is lowest risk and highest reward (i.e.: areas where providers can charge higher fees) (<https://www.vu.edu.au/mitchell-institute/early-learning/childcare-deserts-oases-how-accessible-is-childcare-in-australia>) exacerbating issues of accessibility and affordability. Our research identifies that 10% of parents surveyed are considering or have stopped children's paid education and care arrangement altogether due to high costs. This escalates to 17% of parents earning less than \$70,000 considering this option (whose children stand to benefit the most).

Greater government intervention would be welcomed by the community. Our Families Survey research found that 84% of parents in our research agreed that some families need more support than others to ensure their young children receive quality care and education due to historical/ situational factors. The Australian public is looking for a better early learning and care system and they are looking at government to take on a more prominent role.



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

Support

Please provide further comment if relevant:

Supply-side funding, direct price controls and operating grants should be given serious consideration as a means to improving access and affordability, and as a way of leveraging quality. Supply-side funding needs to account for the reasonable cost of service delivery including the essential costs involved in an acceptable level of delivery quality (e.g. meeting the National Quality Framework standards), including staffing, rent and administrative costs.

Supply-side funding enables government to also address some of the complexities and variabilities in the system, with additional funding for regional/remote services and thin markets, for children with additional and/or complex needs, and within communities experiencing higher levels of need (i.e.: the School Readiness Funding “equity” model in Victorian kindergarten services). An estimation of the reasonable cost should be appropriately parameterised to not penalise services for employing staff with higher than required qualifications and/or paying above award wages and conditions.

A combination of funding types is most often used to allow for different components of the overarching funding model to meet different needs. Similarities between activity-based, individualised, needs-based and outcomes-based funding types mean that these are more often paired with a combination of block-based and programmatic funding. Different components of the overarching funding model are calibrated to meet the different needs of the sector. For example, supporting appropriate access to ECEC can be achieved through:

- \* Needs-based funding: through incentivising services to enrol students with additional support
- \* Block-based funding: through ensuring services are able to operate sustainably in thin markets
- \* Outcomes-based funding: by linking funding to the participation of key cohorts
- \* Programmatic funding: by targeting programs at initiatives directly linked to access and participation.

In ECEC, there are many localised interconnected markets that operate under different conditions. Flexibility in how these funding types are implemented and combined is most likely to ensure that they can be aligned to the needs of services operating under various conditions. There is not a “one size fits all” approach, rather an opportunity for government to deliver a funding system and associated policy settings that support the key principles of access, affordability, equity and quality for children and families.