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Submission to the ACCC Childcare Inquiry September Interim Report

Introduction and overview

The Centre for Policy Development (CPD) welcomes the ACCC's September Interim Report (the Interim Report) of its Childcare Inquiry. The Interim Report makes a number of important findings about the current childcare system in Australia, providing greater and useful insights than have been previously available. The totality of the ACCCs reporting will be a vital input to ECEC reform in Australia, including through informing the Productivity Commission's (PC's) concurrent inquiry into ECEC and governments' consideration of it.

In this submission CPD:

1. Highlights the issues of greatest relevance to future ECEC system reform in Australia.
2. Suggests some areas for further consideration or elaboration in the Final Report that would help inform future reform.
3. Comments on specific findings and recommendations.

In the Final Report, CPD recommends that:

- The **findings from this Report which clearly show the current system is failing children and families are given much greater prominence** or emphasis due to their importance for future policy and system design. Particularly:
 - the current subsidy system is not effective at using market forces to keep prices low, and demand-side price pressure would be even less effective in a higher subsidy system;
 - the complexity of the system makes it difficult for parents to understand their entitlement and choices; and
 - the extent to which current supply in the system meets demand.

- The **ACCC goes further on their recommendations to more substantially address these failures** and set the conditions for ambitious system reform. Particularly:
 - an approach to funding services, and/or regulating price, on the basis of benchmarked efficient costs (or similar) be considered in the Final Report; and
 - a broader, more ambitious consideration of governments' stewardship role, extending across the whole system and not just in under-served areas and for vulnerable cohorts, is considered in the Final Report.

- Where possible, **further data is included and considered in the Final Report**, or where further data is not available but necessary to inform future policy and system design, that **its collection is recommended to government**. Examples of areas where further and/or additional data is recommended include:
 - Actual demand, including unmet demand.
 - The degree to which the system is delivering a sufficiently high quality service.
 - Land cost variation, including greater consideration and analysis of why there is such large variation.
 - The drivers of labour costs and variation in labour costs. This includes what is driving the differences, and the interaction, between land and labour costs.
 - Provider decision making processes including discretionary and non-discretionary costs.
 - Service and provider profitability, including consideration of providers return on capital or free cash flow as a measure of profitability, in addition to profit as a percentage of revenue and what reasonable profitability may be.
 - Consideration of what is driving outliers. In addition to consideration of averages, also outlining what is happening in the extremes of the system.
 - Detail of the current extent of the workforce constraint, and how it has changed over time.

- Given the importance of having a detailed understanding of the childcare system to underpin future reform and its implementation, **the ACCC should continue its investigation and analysis of the sector beyond the term of this review** and it should become an ongoing feature of their work. This would include
 - Key insights required for Government to address issues and achieve its policy objectives
 - As much data and analysis as possible made publicly available for others to draw from to inform their work.

1. Key issues raised by the Interim Report

CCS has limited effectiveness as a price signal

The ACCC's findings on the unique characteristics of childcare markets shows that the current system is not effective at using market forces to keep prices low, and demand-side price pressure would be even less effective in a higher subsidy system where parents are even less price sensitive. Further, the "inherent complexity" of the CCS "can make it very difficult for parents to understand what they are entitled to and their choices. This is a critically important finding, especially as the Productivity Commission has been specifically asked to investigate how a universal 90% subsidy may work. CPD considers the findings about the suitability and effectiveness of the current system could be strengthened, especially in the context of efforts to improve access, affordability, equity and quality.

Cost differences

The overall finding that costs 'do not appear to differ greatly' (with the exception of areas of most remoteness and of highest socio-economic advantage), is significant. CPD considers that this finding supports an approach that funds services, and/or regulates price, on the basis of benchmarked efficient costs (or similar) is more viable than some of the commentary in the Interim Report suggests. Any approach to funding or price regulation will have risks and benefits, but CPD considers this approach should be considered in the Final Report, and that the benefits could be significant and the risks managed well - especially in comparison to other alternatives. We also note that the Interim Report identifies several other countries pursuing a similar approach, and that such an approach has been taken in Australia in a variety of settings that pose similar or greater challenges, including schools and public hospitals.

Stewardship

CPD welcomes the recommendation that Governments consider a stewardship role. This implicitly recognises that a subsidy- and market-driven system cannot, by itself, deliver the outcomes governments want from the system. We note that governments are already acknowledging this - see, for example, the Draft National Care and Support Economy Strategy "*The Australian Government will be a good steward of these markets. The role of market stewardship is to ensure the market is delivering policy objectives, including by addressing market deficiencies or failures and by creating incentives that shape market behaviour towards desired outcomes*"¹, or the Draft National Vision for ECEC "*Governments take a holistic approach as stewards of the ECEC system in partnership with the sector, shaping a system that is nationally coherent and connected and responsive to community needs and outcomes for families, providers, and the workforce.*"

The Final Report could therefore be more ambitious and extensive in its consideration of governments' stewardship roles. CPD would encourage the ACCC to take a broader view of stewardship across the whole system, not just in under-served areas and for vulnerable cohorts. There are significant challenges of access, quality and equity across the system, and there are risks and complexity associated with establishing different systems for different geographies or cohorts, including the challenges of identifying where different approaches are needed and confusion for families and providers.

¹ Page 45

2. Suggested areas for further consideration

In this section, CPD identifies some areas that would be helpful for the Final Report to give some or further consideration to, with particular focus on areas that will assist future system design and policy reform.

Representativeness of data sample, including with respect to wage rates

It would be helpful for the Final Report to include discussion about the degree to which the data sets are or are not representative of the broader system. This includes both the provider cost data and the parent survey.

CPD acknowledges the challenges in gathering data from a wide range and large number of services and providers, but suggests that great consideration and emphasis could be given in the Final Report to possible or likely limitations of the analysis.

A particular area of concern about representativeness is the data in the Interim Report about providers paying staff above Award rates, as it is quite different to data from the 2021 ECEC National Workforce Census,² and the recent Fair Work Commission decision.³ CPD urges the ACCC to explain this variation. This is important because, as the Interim Report found, labour costs are the majority of a service's expenditure, and labour has important implications for supply and quality. In addition, an incorrect understanding of how much staff are paid could undermine efforts to improve the level of pay in the sector.

Similarly, it would be helpful for further detail to be provided about the representativeness of the parent survey, and for the Final Report to be clear about the weight given to its results. The June Interim Report does not provide great detail about the methodology used for the parent and guardian survey. It appears to be a self-selected sample (a potential source of bias in the results) that is underweight on families earning \$73k or less (page 58), and overweight (by three times) on children with a disability or complex needs (pages 103-4). No other demographic or service usage data of survey respondents is given, so it is difficult to tell how representative it is of the population or service users, but it appears the results have been a significant input to the Interim Reports' findings about parent behaviour and decision making processes.

Consideration of the overall adequacy of the current system

CPD suggests that the Final Report could give greater consideration to how well the current system is delivering outcomes. The ACCC may wish to consider this in terms of supply and quality.

In terms of supply, CPD considers it is important to distinguish between *relatively* higher or lower levels of supply in an area, and whether or not there is *actually* enough supply to meet demand in an area. It may well be the case that, even in many areas of relatively higher supply, there is still unmet demand.

² See page 13,

<https://www.education.gov.au/download/14567/2021-early-childhood-education-and-care-national-workforce-census-report/30017/document/pdf>.

³ See para 47, <https://www.austlii.edu.au/cgi-bin/viewdoc/au/cases/cth/FWC/2023/176.html>

It is difficult for CPD to obtain accurate data about unmet demand, but it is difficult to overlook the widespread and persistent challenges families report in finding places. By not considering this issue in detail, the Interim Report implies that the system is broadly meeting demand, however CPD suspects this is not the case - that the reliance on the market to provide supply is, for a variety of reasons, failing much more broadly than the Interim Reports contemplate.

CPD suggests that explicitly considering actual demand (including unmet demand) is an important piece of overall market analysis. In addition to the broader question of making ECEC available to support government's policy objectives, widespread unmet demand could help explain some of the lack of demand-side price pressure in the system. Unmet demand could be resulting in price rationing access (with implications for equity, among other issues) and could also be having a significant impact on price setting, pricing power and the willingness of parents to accept a place rather than shop around on price. Even the expectation by parents and/or providers of widespread unmet demand could be influencing their decision making processes.

It would also be useful for the ACCC to provide more detailed consideration of the degree to which the system is delivering a sufficiently high quality service. In addition to measures of quality, the ACCC should also consider the quality outcomes that the government desires from the system, particularly child development outcomes. It would be useful for the Final Report to consider whether the current system is delivering high quality support for children's education, development and wellbeing, in addition to the Interim Reports consideration of access and affordability. While some reference is made to National Quality Standard ratings, it would be helpful to acknowledge this is only one possible measurement of input quality, that in many cases NQS ratings are old, and some evidence exists that meeting or even exceeding the NQS is insufficient to lift child outcomes.⁴ Other data that could be considered includes results of the Australian Early Development Census.

Assessment of quality should also consider the equity of current system outcomes. As discussed above, many systems, including most education systems, recognise that there needs to be additional support for higher-needs children, such as needs based funding in schools.

The Final Report could also give further consideration to data on the degree to which lack of affordable access to ECEC is constraining workforce participation.

Greater consideration of the cost differences in different ages of children

The Interim Report notes that services with higher proportions of younger children have higher *average* costs, and identifies different staffing requirements as the main driver of this.

CPD considers that this significantly understates the impact of the cost differential on the operation of services and the overall functioning of the system. The *actual* cost of providing ECEC to a younger child is, as the Interim Report identifies, significantly higher and using the service-wide average costs conceals this significant variation.

⁴ See Taylor (2016) [The E4Kids Study: Assessing the effectiveness of Australian early childhood education and care programs](#), p.11.

The current system, with undifferentiated subsidy levels and an undifferentiated hourly rate cap, does not recognise this cost difference, and effectively requires services to use older children to cross-subsidise younger children.

This has significant implications for the availability of places, parent fees and funding design, and should be considered in further detail in the Final Report.

Consideration of provider decision making processes - discretionary and non-discretionary costs

In order to better understand what is driving provider decisions, it would be helpful for the Final Report to consider in greater detail the choices available to them, and what are considered discretionary and non-discretionary costs.

For example, if land costs are non-discretionary, and prices relatively constrained within a local market, then it may be that for-profit providers are *unable* to pay their staff more because they face higher non-discretionary costs (eg. land costs and payroll tax). However, if land costs are more of a choice by providers, some providers may be making a business judgement that they are better off investing in a building and paying the staff a lower rate, as this will not impact revenue or profitability (but, as the Interim Report points out, has implications for quality).

These different conceptual models of the operational decisions of a provider may lead to different policy choices and funding design by governments if they are trying to, for example, improve pay and conditions and/or quality in the system. Further explanation of these dynamics in the Final Report would therefore be helpful.

Consideration of what is driving outliers

It may be helpful for the Final Report to consider not just averages, but also what is happening in the extremes of the system - for example, what are the common characteristics of very high fee services? Are they providing a premium service to high income families who can afford high fees? Are they facing high costs due to local conditions? Do they have particular pricing power?

Similarly, it would be helpful to understand low fee services more. Do they have unusual land cost structures? Are their cost/expenditure patterns different to other services? Are some providers choosing to operate at a loss, for example as a community service that is cross-subsidised by other funding sources or other operations of the provider?

Further detail on reasons for findings

It would also be helpful for the Final Report to include comments on the reasons for findings, as this will be most helpful in informing future reform and system design. While the analysis provided in the September Interim Report is often helpful and is an important contribution to our understanding of the system, the question of 'why is it so?' is in many cases the key insight required for Governments' to address issues and achieve its policy objectives. Identifying challenges or variation in the system is helpful, but understanding the underlying drivers and causes is also essential to successfully addressing them.

For example, it is useful to know that for-profit providers pay a significantly higher proportion of costs on land-related costs, but the key question from a policy-making perspective is why this is the case. The policy response, if any, may vary depending on the cause of the disparity.

Public availability and transparency of data

The ACCC's cost data and parent surveys are significant new sources of information for those of us studying the system. They are, in many ways, unique in Australia in terms of their ability to inform policy makers and other interested parties about the operation of the sector.

Coupled with our recommendation for an ongoing role for the ACCC, in the immediate term, it would be helpful for as much data and analysis as possible from this Inquiry to be made publicly available for others to draw from to inform their work. As recommended, the ACCC should undertake this analytical role beyond the terms of this investigation and data should regularly be made publicly available. This could include publishing:

- ranges of data (eg. interquartile ranges) for key data points, in addition to averages;
- data for all the charts in the Reports (many have unlabelled data points); and
- further detail about the sample sizes and composition of key data sets.

3. Comments on specific findings and recommendations

Costs

Finding 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.

In the Final Report, CPD encourages the ACCC to provide further analysis on this finding including:

- the drivers of labour costs and variation in labour costs. This includes what is driving the differences - for example, the prevalence and impact of higher wages, over-ratio staffing, and non-direct costs such as professional development and additional time away from the floor for planning could each contribute to differences in staffing costs, but may have different levels of desirability or prompt different policy responses.
- the interaction between land and labour costs. Are providers setting wage levels based on how much they have 'left over' to spend after paying (relatively) fixed land costs? Or are some providers limiting their land costs because they have to allow a certain level of labour costs due to local market conditions? The differences have implications for future growth and pay and conditions in the sector.

CPD notes that payroll tax is classified as a finance and administrative expense in the Interim Report, but it is likely that from a provider decision making perspective, it would be viewed as a labour cost (or at least a cost directly linked to labour decisions). It may be helpful for the Final Report to classify payroll tax as a labour cost, or at least break out payroll tax from other finance and administrative expenses so its role and impact can be clearly understood. This could include consideration of the role payroll tax plays in the difference between for-profit providers and not for-profit providers' labour decisions, noting not for-profits are generally exempt from payroll tax.

Findings 2 and 3

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

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

It would be helpful to understand these land cost differences in greater detail. Given the Interim Report finds limited prevalence of 'peppercorn rents' for not for-profit providers, it seems unlikely that provider management type alone determines property costs. It seems more likely that there are other variables that explain at least a material proportion of the difference.

Possible explanations for this difference could include service location (are the for-profit services in materially different places, with higher land costs?); service physical condition/quality (do for-profit services invest more in physical infrastructure as a proxy for

quality to attract parents?), service age (if rents have increased significantly in recent years, the long leases typical in the sector could distort the averages [as almost all recent growth has come from for-profit services as recent increases haven't flowed through to leases entered some time ago]).

It would also be helpful to understand whether childcare land costs, and trends in land costs, are reflective of the broader property market, or whether there is something unusual about the childcare property market. If there were something unusual about childcare, this could suggest that additional profits (perhaps in part due to funding system and entitlement design) are being earned through the property sector rather than service operations.

The reason(s) for the difference in land costs has significant implications for the future growth of the sector, especially if providers view land as a fixed cost that they consider first, and then consider how much they can afford to pay staff.

The ACCC may also wish to consider further the implicit insight into capital decisions and their flow on impact. If, as the Interim Report says, competitive pressure means fees need to stay fairly similar within a local area, then for example, what are the impacts of capital decisions for wages? This has significant implications for future system design, including to address historically low rates of pay in the sector.

Finding 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.

It may be helpful for the Final Report to consider how this compares to other sectors or systems. For example, do health services face similar cost differences in more advantaged and remote areas? If ECEC is different to other sectors, it is important to consider why before seeking to address it.

Competition

Finding 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

This is a significant finding with significant implications for future system design. Service quality is a key factor in achieving governments' objectives for ECEC, because of the links to children's outcomes.⁵ If parents do not make service choices based on actual quality (as opposed to informal perceptions) this may mean the system is not effectively selecting for or producing high quality. This should be considered a form of market failure. To help address

⁵ This is covered extensively in other places, including CPD's PC Submission.

this, the ACCC should make recommendations on how to improve information in the market to assist parent decision making on quality measures.

Finding 7

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

CPD notes widespread reports that the implications of staffing constraints also extend to restricted utilisation of existing capacity (eg. services having to cap enrolments below licensed capacity due to staff shortages), in addition to limiting the establishment of new services or expansion of existing services.

The impact of staffing shortages on supply is an important finding with significant implications for future funding system design to address workforce pressures and meet current demand levels and enable growth.

To the extent the ACCC is able to do so from its data and analysis, it would be helpful for the Final Report to include detail of the current extent of this workforce constraint, and how it has changed over time.

Finding 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.

CPD suggests that this draft finding could be clarified or explained in greater detail in the Final Report, particularly as the suggestion that price plays a less influential role once households have chosen how much childcare to use is somewhat counterintuitive. Is it the case that price is highly influential in choosing how much childcare to use, and thereafter minor variations in price within a local market (eg. \$120 per day compared to \$140 per day) are not determinative because of the operation of the subsidy? It would be helpful to clarify as this finding could be interpreted as implying that price is not a barrier to access or does not create material financial pressures on families, when much evidence suggests otherwise.

It may also be helpful for the Final Report to consider the market dynamics at play with respect to price and demand, and how much demand is truly discretionary (for example, because parents perceive the need to maintain workforce participation for career progression reasons, or to generate income to meet mortgage obligations). If demand generally exceeds supply, providers may have at least some pricing power, and parents have limited real choice if they want to (or need to) maintain their workforce participation levels.

It would also be helpful for the Final Report to consider the finding that providers are not competing on actual quality, rather on perceived quality, and the impact this is having on driving up real quality in the system.

Profitability, viability and quality

Finding 9

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

Given the system's reliance on private investment in increasing supply over recent years, more analysis of provider decision making and the nature of their operations would be helpful to understand the system and inform future system design. It would be helpful for the Final Report to consider service and provider profitability in greater detail, to improve our understanding of provider decision making and market dynamics, and inform future system and funding design.

For example, the Final Report could consider providers' return on capital or free cash flow as measures of profitability, in addition to profit as a percentage of revenue. While profit margins are helpful in considering the ongoing viability and sustainability of a service, investors typically consider return on investment or free cash flow generation when making investment decisions, and these measures may give a truer indication of the profitability of the sector and the future willingness of new and existing providers to invest in the sector.

In addition, it would be helpful for the Final Report to include some analysis or commentary about what reasonable profitability may be. This could consider the level of financial risk being taken by the provider (including noting heavy government investment), the need for prudent reserves and contingency to manage a service over time and to be able to respond to an emergency (e.g. urgent repairs), and comparable sectors or industries.

The Final Report could also consider whether services typically take a period of time to become profitable after opening; and the degree to which a service's profitability is a choice by the provider and the degree to which it is determined by external forces (eg. family ability to pay, competitors' prices, land costs).

Finding 10

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

It would be helpful for the ACCC to consider the implications of this for areas where occupancy can be a challenge (for example, communities with low, transient or variable populations) and the implications for future supply and funding design.

The Interim Report notes the breakeven point (in terms of occupancy) is higher for not for-profit providers than for-profit providers. The ACCC may wish to consider this in further detail, and develop a hypothesis as to why this is the case, as the not for-profits' lower land costs and higher staff costs would otherwise suggest the opposite.

Price regulation mechanisms

Finding 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.

CPD notes that this is the result of a complex funding and entitlement system - providers and parents respond to the incentives set by government and seek to maximise the benefits of the policy and funding available. CPD notes that the more complex the funding or entitlement system, the greater scope there is for this to occur and result in unintended or perverse outcomes. This finding underscores how important it is that careful thought be put into the design of the subsidy and entitlement system to align incentives and price signals sent with the outcomes being sought by government for its investment. It also highlights the need for the system to not be so complex that key participants are unable to comprehend or act on these incentives and price signals. More explicit consideration of the incentives that are or are not included in the current system could help inform future policy design.

International childcare costs and price regulation mechanisms

Findings 17 and 18

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

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.

CPD suggests that the Final Report confirms what is meant by 'supply-side subsidies' as this terminology can have different interpretations and is sometimes used to mean different things. For example, per child funding to a provider is demand-driven but can be considered supply-side if it reduces the fees charged by the provider to the parent, even if it varies according to the characteristics of the child, whereas block funding (eg. based on the number of places available) is supply-side funding but not demand-driven. The current system is generally considered demand-side funding as the conditionality attaches to the parents (eg. the activity test), and it reduces the fee paid by parents, rather than reducing the fee charged by services, despite the fact that the funding flows directly to the provider and serves to reduce the parents' out of pocket expense.

This clarity is important because of the limitations of the current demand driven system in delivering an accessible, affordable and high quality system, and as such serious consideration must be given to other funding approaches.

Existing regulatory arrangements – areas for further consideration

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

CPD supports this recommendation as in order to design a system to achieve specific objectives, governments must first be clear on what those objectives are.

CPD considers that realising the potential of the ECEC system requires clear dual objectives that are pursued by all governments:

- 1) Support children's education, development and wellbeing; and
- 2) Support families to balance work and family life.

CPD suggests that restating the objectives in legislation will provide clarity and common purpose to all parties.

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. 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.

CPD supports this recommendation in principle if the current broad system is retained, noting that this may introduce *greater* complexity to the system and continue to be ineffective in restraining prices. CPD reiterates that based on the ACCC's findings, and our own analysis, that the current subsidy based funding system is insufficient regardless of any changes made to it. A new funding approach is required if the system is to achieve the outcomes wanted for children and families.

CPD supports the principle of the funding system better reflecting the actual and reasonable costs of delivery of a quality service, and that the funding level (if not system) needs to change over time to reflect underlying changes in this.

CPD supports the abolition of the activity test and consideration of a specific entitlement built around a certain number of days of care. CPD notes its longstanding recommendation for an entitlement based on universal access to three days of free or low-cost high-quality early childhood education and care before children start school, including two years of preschool education.

CPD suggests that the Final Report gives further consideration to the likelihood of the further price regulation mechanisms outlined on page 201 of the Interim Report proving efficient and/or effective, particularly in the context of government's stated consideration of a universal 90% subsidy.

If outlined price regulation approaches are not considered likely to be effective, the implications for future funding and system design should be made clearer, and the Final Report could include further discussion about possible future directions.

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.**

CPD supports this recommendation, however suggests that addressing the complexity of the system should also be the focus of government in addition to providing further information to assist with understanding it.

CPD further notes that a website cannot be the only way for people to gain an understanding of the system, noting issues of access and equity, including in lower socioeconomic communities and where English is not parents' first language.

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.

CPD suggests the Final Report includes further detail to clarify this recommendation.

CPD acknowledges that workforce shortages are having a significant impact on the availability of ECEC in Australia. However, CPD considers staffing ratios and qualification requirements are essential to achieving governments' objectives for the system and providing safe care for children. CPD is therefore strongly opposed to amending regulations to lower workforce ratios or qualification requirements.

Weakening workforce qualifications or ratios would be contrary to the evidence on the importance of the workforce to quality and child outcomes. It is also unlikely to address many of the workforce challenges currently being experienced, which are driven by the nature, pay and conditions of the work, rather than there being a large number of people wanting to enter the workforce but being restricted by qualification requirements. This would not enable the system to meet demand for ECEC services by families, or support the developmental, and ultimately social and economic, benefits of early learning for young children. It would also undermine parental confidence in the system to provide safe and effective care and education for their children, lessening the system's ability to support workforce participation.

CPD would support consideration of the administrative and other burdens on staff caused by regulation. Governments, as stewards, should provide greater assistance to services, review their regulatory approaches to maximise impact and focus on risk while minimising unnecessary paperwork.

Broader policy considerations for more fundamental 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.

CPD supports this recommendation in principle, noting the interim findings of the Productivity Commission Review of the National Agreement on Closing the Gap that found that in a broad range of service delivery areas, Aboriginal and Torres Strait Islander community controlled services generally achieve better results for Aboriginal and Torres Strait Islander people.⁶

CPD suggests however that further context and explanation for the recommendation be provided in the Final Report. CPD notes the Interim Report specifically did not find that services face higher costs if they have a higher proportion of First Nations Children attending (page 84), and that while cost differences were found in some categories (eg. remote and very remote communities), this is neither exclusive to Aboriginal Community Controlled Organisations (ACCOs) nor relevant to all ACCOs.

⁶ Page 3

CPD suggests that the issues underlying this recommendation are much broader problems with the system, including that the level of funding available to a service is not based on the needs of the children/families, and is in many cases *inversely* related to need (eg. richer families can afford to pay more so services supporting advantaged children can have more resources). This should be considered as a broader problem, particularly in the context of how this affects access, quality and children's outcomes. The ACCC could consider how other areas of education, for example schooling, utilise a needs based funding system that aims to fully meet all children's needs.

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.

CPD supports this recommendation in principle, but considers the stewardship role for governments described is too narrow and should be broader. There are challenges across the system - including in terms of access and quality - and disadvantage and developmental delay are found across the country. Undersupplied areas and vulnerable cohorts are just two areas where government stewardship would improve outcomes and value for taxpayer's money.

CPD does not support the use of tendering for the provision of ECEC in underserved areas. Tender processes would benefit large scale for profit operators who have the capacity to engage in the process, and would drive out smaller local providers such as ACCOs in many circumstances due to the demands of the tender process. This would be a poor result for local communities who are best served through harnessing local knowledge and community connections.

CPD suggests further consideration could be given to the extent to which widespread undersupply represents a systemic problem of the current system, and therefore a systemic change is required.

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.

CPD supports the further consideration of supply-side subsidies and direct price controls. CPD is undertaking work on system design for a universal ECEC system. As part of this we are considering a funding model that provides services with:

- Base funding that covers the core costs of providing ECEC, based on the age of child and number of days of ECEC provided,
- Additional funding based on the needs of children, including children experiencing disadvantage, and First Nations children, and the proportion of these children in the

service. A separate stream of funds would support services to meet the needs of children with a disability.

- Additional funding if services provided a high quality service or a preschool program, and if they incurred significant, higher costs outside the service's control (such as operating in a remote area).

Parents would be charged a low, fixed fee, or for families experiencing disadvantage, no fee would be charged.

For underserved areas where there are 'thin markets' government could incentivise investment to fill current service gaps, and invest directly, to establish new services so supply meets demand.

We are happy to provide more detail on this model to the ACCC if that would be useful. Supply side subsidies and direct price controls should be the subject of detailed consideration by the Productivity Commission.