# Guardian Childcare and Education

## Submission to the ACCC September Interim Report

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**October 2023**

**INTRODUCTION:**

As CEO of Guardian Childcare and Education, I approach this submission from a unique perspective.

I have been responsible for directly overseeing the operations and viability of more than 800 services in metropolitan, regional and remote locations in all states and territories. This means I have been responsible for the viability of more services than any other individual or organisation in the country, and I have detailed knowledge and first-hand experience at the most senior decision-making levels of the operations and approaches of both large scale for-profit and non-profit organisations.

I have been the CEO of Guardian Childcare and Education, one of the largest, best performing and highest quality for-profit providers, for over 4 years now and I also served for almost 6 years as the Chief Operating Officer at Goodstart, the largest non-profit long day care provider, where I oversaw all aspects of their 650 centre network from an operational, business and quality perspective.

I have detailed knowledge of both for-profit and non-profit operating approaches, their philosophies and their relative areas of strength and weaknesses.

**ABOUT GUARDIAN CHILDCARE AND EDUCATION**

We are a for-profit provider who operates over 160 services.  We focus on high quality education and care for the more than 15,000 children who attend our centres each day.

We have one of the highest NQS quality ratings among large, long day care providers with 30% of the centres we have taken through the Assessment and Rating process being rated Exceeding (98% are Meeting or Exceeding).

Our average occupancy levels are well above industry averages because of the quality of not only our practice but the experience we offer families and our teams because of the intentional investments we make in these areas.

We predominantly operate in metropolitan areas due to the benefits of operating a clustered network but we also have services in Albury, Townsville, Murwillimbah, Central Coast NSW, Sunshine Coast QLD and regional Victoria.

We do not pay dividends to our owners or shareholders.

**COMMENTARY ON FINDINGS**

We welcome many of the findings in the ACCC second interim report:

- The acknowledgement that the Early Childhood Education and Care (ECEC) market is an efficient, competitive market where competition thrives in very localised markets, where there is no evidence of systemic misbehaviour by providers. We alone compete with over 1,100 other long day care providers (excluding kindergartens and pre-schools) in the catchments within which our 160 centres operate.
- The acknowledgement that labour costs have increased significantly for large providers and have outpaced the economy's Wage Price index
- The acknowledgement that fee increases have not been excessive – and in fact have been lagging cost increases over a five-year period (20% increase in fees vs 27% increase for costs and 28% for wages)
- The acknowledgement that margins being made by for-profit and non-profit providers are reasonable.
- The acknowledgement that parental choice is not driven by price but instead other factors such as quality, and that the provision of quality education and care costs more.
- The acknowledgement that every catchment is different, and that competition reflects the unique demand and supply factors of each hyper local market.
- That occupancy rates are a key determinant of margins.
- The acknowledgement that the current indirect price control mechanism has led to a constraining of prices (demonstrated by fee increases lagging cost increases), which in a market where margins are reasonable, costs increasing more than fees, and quality is the primary driver of choice, is a positive outcome.
- That land costs, which are the second largest cost item in ECEC, for for-profit providers are almost double, on a percentage of revenue basis, those of non-profit providers.
- That for-profit providers are exposed to costs not borne by all non-profit providers, although we believe the ACCC has downplayed the true extent of the un-level playing field in this regard. Non-profit's benefit from a range of tax relief – payroll tax, income tax, fringe benefits tax – as well as access to state government funding not available to for-profit providers.
- The acknowledgement that the current workforce shortage is impacting the costs of provision, the ability of providers to ensure high quality practice and also resulting in providers not providing supply to some markets. Note this is not just regional and remote – the ACT has for a long period of time been a market where experienced providers do not open new centres due to chronic workforce quality issues.
- The acknowledgement that the current hourly rate cap indexation has been inadequate and that there is merit in considering an ECEC cost index to support any future hourly cap indexation.
- That there is merit is reconsidering the design of CCS and the Activity test to support the provision of care to vulnerable children.
- That supply side support should be explored to provide more services to vulnerable and remote communities.
- That increased transparency may be beneficial to support families' decision making.

We disagree or question a number of the findings:

**We disagree with the approach of using hourly fees paid as a measure of price for the purposes of comparison.** Parents choose a session of care. They pay a fee for the session. Centres promote the costs of a session of care because parents attend for a wide variety of hours pending on their daily circumstances. They do not think of fees in terms of hourly rates, they do not think of their subsidy in terms of hourly rates. So, while hourly rates may be a convenient statistical analysis tool, it is not a valid metric for the assessment of the relative fees of centres. This is the equivalent of comparing hotel room prices based on a per square metre per hour used basis. It is not how the market works and we believe it is one of the reasons the ACCC's analysis in many fee related areas in this report is not accurate.

**We disagree with the finding that the current indirect price cap mechanism – the hourly CCS cap – has been ineffective in exerting downward pressure on prices.** The ACCC's own analysis disputes this finding. Prices are coalescing around the cap because the cap is taken into consideration by providers when setting fees. It is constraining prices as intended as evidenced by the fact that prices have increased at a slower rate than costs. The charts in Figure 4.1, where there has been a modest increase in the number of services above the cap, simply highlights the fact that the current indexation method – based on a December broad based CPI figure but only applied in the subsequent July – is not keeping pace with the cost increases in the sector as the ACCC analysis has proven.

**We challenge the ACCC's seeming assertion that because prices aren't increasing at an even slower rate than costs, that the current price control mechanism and market structure needs reviewing.** The belief that prices should be more significantly constrained, or even reduced, due to competition and the price cap, in a market experiencing rapidly increasing input costs and where price is not the primary determinant of choice, and where to provide the most important determinant of choice – quality – costs more – is not a sensible conclusion.

**We also challenge the ACCC's assertion that the current indirect price cap and market structure is not effective in markets where most providers are above or below the cap.** We operate in many markets where the prevailing prices are above the cap due to higher input costs, and absolutely consider the cap when setting prices. This is evidence of the effectiveness of the current hourly cap as a price control mechanism and evidence of it delivering on the original objective of constraining prices. This is borne out by the ACCC's analysis. Likewise, if the cap and market structure was not working effectively in markets where all providers were below the cap, then we would see a replication of what is happening in the NDIS where over 75% of all providers simply charge the cap. This does not occur in ECEC, as proven by the ACCC's analysis, demonstrating how market-based competition can also constrain prices in markets where the prevailing price is below the cap.

**We disagree that the hourly cap is not visible to families or is difficult to understand**. The subsidy available to families is visible at all stages of their journey. There are any number of CCS calculators available to families – a simple google search produces hundreds of calculators. Every family receives a quote prior to joining one of our centres that details their estimated subsidy and resultant out-of-pocket cost. They then receive regular statements that display their subsidy amount. We therefore question the need for a move to a daily cap rate. We encourage the ACCC to consider any unintended consequences of moving to a daily fee cap as discussed in our commentary on Recommendation 2b below.

**We disagree with the finding that there is little variance in fees within local markets. Our own analysis of the catchments within which we operate shows significant variation in fees.** Analysis of the markets within which we operate demonstrates that fees pre subsidy can vary regularly by 30% or more within a local catchment. We would encourage the ACCC to undertake a more nuanced review of catchments. Many of the findings within this report are based on a definition of catchments driven by existing statistical definitions and not on the true nature of the competitive catchments that exist within the market, and this combined with the focus on hourly fee rates means many of the resultant insights are not accurate.

**We disagree with the finding that service delivery costs do not vary greatly across markets, and instead contend that they can vary significantly not only across markets but within single catchments.** In reviewing a selection of our catchments where we have multiple services located within 3km of each other, we see significant operating cost variances on a booked place basis.

- Outer suburban Brisbane – 4 centres - 25% variance (centres of similar occupancy 15% variance)
- Eastern Melbourne – 4 centres – 38% variance
- Western Sydney – 2 centres – 11% variance (both centres at 100% full)
- Far southeast Melbourne – 2 centres – 13% variance (both centres approaching 100% full)
- Inner Melbourne – 5 centres – 64% variance (centres of similar occupancy 6-9% variance)

These are significant variances and are occurring just within our own business where we operate with one set of operating procedures, one approach to quality, centralised procurement expertise and an extremely efficient operating approach – all while delivering high quality.

The factors that drive these differences are many and varied; number of places, occupancy, property type (converted house, purpose built, single level, multi-level), property age and condition, children's dietary requirements, children's medical requirements, children's behaviour support requirements. The list goes on.

To determine a satisfactory benchmark cost of provision that adequately caters for the variations in the cost of provision within my own business would be incredibly difficult. The ability of a government body being able to get this right across all providers in a single catchment without unintended consequences is low. To then assume they could get it right across the entire country – is almost impossible to believe without major unintended consequences.

**We disagree with the finding that providers locate new services solely in areas that have more advantageous demographics**. Providers when building a new service or occupying a new centre, are committing to long terms leases - typically 10-15 years - with rents based on the total number of licensed places in the centre, whether those places are occupied or not (i.e., income generating or not).

Providers typically have a choice of locations to choose from. It makes economic sense to choose those locations that give the greatest certainty about viability and surplus. The key drivers of this are number of children likely to participate in ECEC per available place, the existing supply of places and the nature of that competition, as well as average expected fee. So, in two markets with equal child demand and existing supply, but with differing fees, a provider will certainly choose the higher fee market to increase their probability of ensuring viability.

In most catchment areas commercial market dynamics means that supply and demand reach a point of balance where families have a choice of provider to meet their needs and centre occupancy levels (which average ~73% across the county) will produce a reasonable surplus for the provider. High quality providers will have a higher occupancy and lower quality providers will have a lower occupancy.

**We disagree with the conclusion that the reason non-profits have higher quality ratings than for-profits (on average) is due to the reinvestment of lower land costs into staff**. We believe this to be a 'superficial' conclusion by the ACCC. Analysis of ACECQA data proves that smaller centres have a greater likelihood of securing higher NQS results than larger centres. The average size of non-profit centres is smaller than for-profits, so size of centre could just as easily influence this conclusion by the ACCC. We would also argue that the NQS system does not effectively screen out biases that result from the inherently subjective, point-in-time, nature of the assessment process. This could also explain NQS results between for-profit and non-profit providers. We would also argue that paying people more does not necessarily produce higher quality results.  We are aware of non-profits who pay more than we do but whose NQS ratings are lower than ours.  We also contest the finding that any savings non-profits make from lower input costs are invested in quality – non-profits may also choose to invest in non-child and family facing resources and programs e.g., research teams, advocacy teams, policy advisors etc.

**We would also encourage the ACCC to consider the relative business and operating efficiency of non-profit and for-profit providers when considering their margins.** In my experience, for-profit providers are intensely focused on ensuring they are as efficient as possible.  This level of efficiency or focus is not always evident within the non-profit space.  Non-profit organisations are often intent on not making a profit and as a result do not operate with any significant commercial discipline and so can be inefficient and lazy with their operational and financial management. This can often lead to them being in some form of financial distress and relying on grants and other sources of government funding to remain viable.  The inefficiency is not always obvious from financial statements as it can be contained within headcount costs, or in program costs, and regularly noted as being an 'investment in quality'.  The government is effectviely funding this level of inefficiency and operating discipline laziness.

**We believe the ACCC failed to fully highlight the cost advantages that non-profits have when compared to for-profit providers when discussing financial outcomes.** Many non-profits benefit from significant cost advantages, beyond just lower property costs.  They are not required to pay payroll tax (between 4% - 6.85% of wage costs) which can equate to 2.5% - 5% of revenue – which more explains the difference in average margins between non-profit and for-profit providers. Some non-profits also benefit from FBT Exemptions, income tax exemptions and often receive government funding that is not available to for-profit operators.  It is also worth noting that non-profits are able to offer a range of salary sacrificing options not available to for-profit operators and this can support higher wages, better recruitment and team retention outcomes.

**We disagree with the ACCC's assertion that a higher percentage of full-time employees is somehow indicative of a better solution than the mixed use of full-time and part-time team members.** ECEC is a shift-based business where centres are open for up to 12 hours per day.  The use of part time employees is considered an appropriate, and required, strategy in all shift-based businesses to ensure labour is rostered efficiently.  The use of more part timers is not 'bad' as the ACCC seems to be suggesting, it is just a more efficient approach.  We would also encourage the ACCC to consider the average number of hours worked by part timers as the prevailing industry practice within ECEC is for a large proportion of part time employees to work a significant number of hours per week.  We have also noticed post-COVID, that part time work is the preferred choice of many prospective team members.

**We disagree that property costs in higher areas of socio-economic advantage are higher than in lower socio-economic areas is due to competition from providers** - this is not accurate in our experience. The difference in costs is driven by the relative cost of land for landlords and developers who are building the centres.   Land costs are higher in higher socio-economic areas than in lower socio-economic areas and so the rent required to deliver a return to the landlord is higher.  It is not competition between providers but higher input costs for landlords and developers that drives higher property costs.

**We find the ACCC's analysis of the affordability of care in Australia vs OECD comparators to be overly simplistic** in that the analysis does not appear to consider the differing tax regimes and philosophical approaches of the various countries quoted.  We note that when the sample set is restricted to non- 'social democracies', and when refined to the countries considering more direct price control, the stated 'above average' difference in out-of-pocket costs changes significantly.

The ACCC's own analysis shows that the out-of-pocket costs in Australia are equivalent to (UK) or less than the other countries it quotes (Ireland, Netherlands, US, NZ).

**We believe the ACCC's analysis of overseas markets fails to take into account recent changes to the Australian funding system.** Inclusion of the Cheaper Childcare Bill changes and the previously announced increased subsidy for second children would bring down the effective out of pocket fee for families to a level well below any of the markets the ACCC proposes as potential comparators.

**We also note the OECD notes limitations of the service provision models used by several OECD countries used in the ACCC analysis as possible options for consideration.** *"However, direct provision can be expensive for government, and the supply of places is dependent on the level and efficiency of public funding. France, for example, provides children with either free or low-cost public services, depending on age; however, in practice, there are frequently shortages in the supply of public places, especially in public crèche facilities for children under age three (HCFEA, 2018[9]). Germany faces a similar shortage of places in services for young children (BMFSFJ, 2019[10])."*

Source: Is Childcare Affordable? POLICY BRIEF ON EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS (oecd.org)

## COMMENTARY ON RECOMMENDATIONS

### 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.

We would welcome any restatement of the Government's key objectives for ECEC. If the current funding system remains in place, then we disagree with the recommendation to consider a different price regulation mechanism. The current mechanism is constraining prices, the current market is competitive, efficient and with no evidence of excessive margins. We would also encourage the ACCC and Government to acknowledge that price regulation is an assurance mechanism and that a different form of price regulation should only be considered if it is absolutely necessary to assure the delivery of the government objectives.

### 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.

While we support a review of the CCS, we note that since its introduction participation rates have increased at a faster rate than they did during the CCR/CCB period and hours of care have increased at a faster rate as well. This means more children are benefiting from ECEC for more hours per week than prior to CCS. So, any change should be carefully considered to ensure there are no unintended consequences.

In terms of the sub-recommendations:

We support recommendation 2a – given the fact that the ACCC have proven costs in childcare are outpacing the economy we agree with any approach that more closely aligns subsidy rate indexation with childcare provision cost increases.

We do not believe recommendation 2b will do anything other than increase the costs of care and therefore reduce affordability. Removing sessions and aligning on a daily cap – particularly if it does not consider the operating hours of services (which can range from 9-12 hours per day) could result in the unintended consequence of making care more expensive for all families currently using some form of session by reducing the number of subsidised hours they have access to.

We support recommendation 2c for the removal of the activity test to increase affordability of care and therefore access.

Despite the ACCC finding no evidence of conduct that would require a stronger price and outcomes monitoring role by government, we do not have an issue with the government requiring transparency from across the entire sector, provided there is a like-for-like comparison used. Non-profits should not be able to disguise inefficiency in operations as investments in quality.

**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-ofpocket 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.

Starting Blocks can be enriched simply by using information the government already has within its CCS system – which is the most up to date information available. The government has fee information, can calculate average out of pocket expenses and provide attendance information.

Vacancy information is often requested by families but is notoriously difficult to quantify with any accuracy. Vacancies occur at the room and day level. Existing families using casual days (not part of their regular booking pattern) and the widespread practice of booking commencement dates into the future for new families, which then very often move as family circumstances change makes it almost impossible to publish accurate vacancy information. For example, a room may have vacant places today but has a family starting in 6 weeks, this family then changes the number and days of the week they want and then moves their starting date back two weeks. As a result, any published vacancy information is likely to lead to dissatisfied families.

**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.

As a sector we have been encouraging Governments for more than a decade to address the impending – and now arrived – workforce shortage – both in terms of number of suitably qualified people and the capability of those entering the sector. So, we support this recommendation.

Priority must be given to supporting educator wages. As an organisation Guardian pays 100% of it's educators above Award wages and we also invest significantly above the award in other areas including professional development, out-of-ratio time for programming and other development activities, reward and recognition programs, conferences and awards.

Because of our focus on providing high-quality care, our permanent educators are paid on average more than 5% above the Award, our room leaders more than 10%, early Childhood Teachers more than 15% and our educational leaders more than 20% above the Award. Our Centre Managers and Assistant Centre Managers are paid more than 25% above the Award. Our cooks and chefs are paid more than 35% above the Award. As an organisation our wages bill is more than 11% above the Award.

We note that very few of the strategies put in place by various state or federal governments have produced any tangible outcomes in terms of increasing the number of qualified educators in the sector, enabling the retention of those educators nor ensuring that those educators coming into the sector with VET or University qualifications are job ready.

We also note the sector's unwillingness – in spite of the ever-worsening university qualified teacher shortage – to even consider competency-based definitions of "suitably qualified person" to include experienced and competent Diploma holders to alleviate some of the issues we are experiencing, and will continue to experience, in teacher shortages. Providers are being forced to hire expensive, inexperienced teachers with no teaching experience and who have not completed a four year degree (different undergrad with a graduate certificate or diploma) just in order to meet ratios. This is not improving quality but is increasing costs.

Recent decisions by the Government to increase the minimum salary level for visa qualification have not helped this situation and unfortunately undone much of the benefit provided by other earlier changes to the visa system as it related to ECEC workforce.

**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.

We support supply side funding and market intervention to enable provision of services to ACCOs and those who are vulnerable or in locations of under-supply.

**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

We note that this market stewardship role is already being enacted by various state governments and the Federal Government and has been in place for some time in some jurisdictions. We note the announcement of 25 October about the Federal Government funding the creation of additional services and earlier announcements by NSW and Vic governments of government funded centres. We also note the 2012/13 program of the QLD government to fund the creation of more than 80 services.

**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

**We do not see any clear need for wholesale change to the structure or funding of the sector. The government's own announcement of October 25 suggests recent changes to the subsidy system are working as intended and this report from the ACCC indicates the market is efficient.**

"The Albanese Government's Cheaper Child Care changes have cut the cost of child care for Australian families, according to the latest Consumer Price Index (CPI) report. Child care affordability improved by 13.2 per cent nationally according to the report released today by the Australian Bureau of Statistics (ABS). The ABS estimates that without the changes to the Child Care Subsidy, child care costs for families would have increased by 6.7 per cent. All major cities have seen child care costs for families drop by at least 10 per cent, with some seeing a reduction of more than 17 per cent. The changes to the Child Care Subsidy introduced in July are clearly benefiting around 1.2 million families across the country.

Source: Cheaper child care cutting child care costs and putting downward pressure on inflation | Ministers' Media Centre (education.gov.au)

The ACCC has found the market to be a relatively efficient market resulting the provision of quality care to families (with the exception of those very few markets that are undersupplied), with no misbehaviour present, with no excessive fee increases being applied and no excessive margins being made.

**This recommendation appears to be a simple catch all recommendation with no basis for being included nor does it provide any concrete conclusions.** The report recommends looking at supply side funding – but is not specific about types that should be applied or even the rationale for why they would be required in any parts of the market other than those that do not have sufficient supply. The report then encourages the consideration of more direct forms of price control if more funding is applied – only to mount a range of reasonable arguments about why the various methods of price control available are unlikely to work, or are likely to be difficult to assure, or may lead to unintended consequences.

We would strongly encourage the ACCC and government to only consider alternate forms of price control when it provides an effective assurance mechanism. For example, price control is not required if the supply side funding that may result comes in the form of wage subsidies as these can be assured via other means that are designed into the wage subsidy mechanism or through more financial transparency obligations.

**For-profit providers are critical to the ongoing success of the sector and the efficient delivery of accessible and affordable education and care**

We note that the UWU and several non-profits have in their Productivity Commission submissions and other public statements encouraged the removal of for-profit providers from the sector. It is our view that without for-profit operators the sector will not be capable of efficiently delivering high quality, affordable and accessible care. It is also our view that a market without for-profit providers is likely to lead to a higher cost to government.

For-profit providers have a significantly greater downside risk than do non-profits, and as a result drive efficiency and competition, which drives investments in quality from both for-profits and non-profits, they drive innovation in provision – not just in care and education – but also in the support system that enables the sector to operate more efficiently e.g. IT system providers.

The recent experience in Victoria where local government funded services in the kindergarten and now LDC space are closing due to a lack of funds to maintain facilities to the required standard is an indication of what may occur if we completely rely on the relatively inefficient, non-commercial operations of non-profits as the only means of supplying ECEC services.

Without for profit providers there will be reduced supply, a reduced competitive dynamic, which will lead to a reduced focus on innovation, a reduced focus on driving quality provision and there will be a level of inefficiency that will not benefit children and families.

**Providing high quality care and education and having for-profit motive are not mutually exclusive. All providers, non-profit and for-profit, are interested in the provision of high-quality care that results in positive outcomes for children and families.** As described previously, there are other simple explanations for the NQS results other than whether a provider is for-profit or non-profit. Providing high quality practice is not exclusively the domain, as some would have us believe, of non-profits. My own organisation outperforms almost all large LDC only providers in terms of percentage of centres rated exceeding including Goodstart, who are often showcased as the leading example of what is possible in a large, LDC only, non-profit organisation in terms of quality of service.

**Large for-profit operators are able to outperform the broader sector, and many non-profit providers, in terms of quality because of the investments we make in quality**. My own organisation outrates Goodstart overall in terms of percentage of the network rated Exceeding and also on 6 of the 7 quality standards. Large for-profit providers such as Only About Children and G8 all outperform the sector when it comes to quality ratings. In recent years, as we have added supply to markets where demand exists, and our network has grown, we have tripled our investment in quality, safety, compliance, and portfolio support. We invest in professional development, above award wages for 100% of our teams, above award programming time, above award off the floor time, additional meeting time, quality support resources, digital learning development platforms and reward and recognition programs.

**Without for-profit providers taking significant financial risk supply would be significantly constrained.** For-profit providers represent 71% of places and if it were not for the for-profit providers taking on substantial financial risk and opening new centres then families would find it even more difficult to find care for their children. In the last two years 86% of new supply has been provided by for-profit operators.

The non-profit sector's inability to drive supply growth is a result of their inability to secure access to capital because their inefficient operations results in a lack of lender confidence, despite the tailwinds they benefit from in terms of reduced or no tax burden and additional funding.

**The topic of non-profits not being able to raise capital to fund development is also a false one.** During my time at Goodstart we were able to not only pay down debt but also raise additional financing – because we operated the business efficiently and with commercial discipline adopting the experience of the leadership group in running for-profit enterprises in other sectors. This enabled Goodstart to undertake significant capital investment in their network and pay down over $150m in debt ahead of schedule. Unfortunately, in recent years as this commercial focus and discipline has reduced, their financial sustainability has also suffered. The question is not one of for profits or non-profits when it comes to the ability to secure financing for expansion – it is a question of efficient or inefficient operations.

**Recent government announcements indicate the extent of the gap between increased government funding and the actual cost of establishing and then operating high quality ECEC services.** We welcome the Federal Government's recent announcement of funding for the creation of 47 services in communities of need. But we also note the inadequacy of this funding.

*"**We have notified 28 providers we will fund them to establish 13 new Centre Based Day Care services and 34 Family Day Care premises in areas of limited supply.** We are giving providers $16 million this financial year and next … A service can receive a maximum of $900,000 over the 2 years: $600,000 for establishment and sustainability support and $300,000 for capital support.*

Source: Helping more Australian children access the benefits of early learning | Ministers' Media Centre (education.gov.au)

To build, fit out and get a single level 90 place centre service approved, to the quality standards expected by families and educators today, *excluding land costs*, is approximately $3m (the least expensive version of a centre) and will take between 18 months (if DA approved already) to 3 years to open. You then need to fund the operating losses as occupancy ramps up – this can be another $300-750K – if operated with commercial discipline – it could be higher if not operated efficiently. The total investment is likely to be $3.3 - $3.75m per service. If the centre is required to be multi level then this cost can double.

To believe non-profits can universally operate with the discipline required to enable this level of investment, let along operate the service without ongoing government support, in the absence of any existing evidence this is currently within their capability, is fanciful.

**There are limited examples of successful price capped overseas ECEC models in comparable economies:** We also note that none of the ECEC specific markets quoted by the ACCC as potential exemplars of what a new system could look like have fully introduced their new systems, and the press coverage on those that are underway is far from positive.

The Irish and UK systems offer a very different product than we do in Australia. Session lengths are shorter, centre sizes are very different, so the base economics are different.

Canada has taken a blunt instrument approach with no visibility of how to provide adequate supply should the for-profit sector opt out of provision. And this approach required an investment upfront of $30bn CAD and an increase in recurring spend by 8x p.a. Capital funding is insufficient for non-profits to provide the additional required places. Family and community unrest is increasing as this, combined with workforce shortages, are resulting in longer and longer waitlists. They are also faced with the challenge of the "haves and have not" where some children are funded and others aren't in the same classrooms.

**There are few examples within Australia of price capped, distributed provision markets working efficiently:** To date there are very few, if any, examples of the Federal Government operating an efficient and effective price control mechanism in sectors similar in nature to the ECEC market. The ACCC concludes that this is not a simple task to undertake, pointing out that one method alone will not work and trying to operate a cost side price control scheme in a highly localised market will be incredibly difficult from their own experience.

The most significant risk from this approach is a race to the bottom in terms of quality. If any form of price control does not adequately account for input cost increases – which the ACCC has stated is extremely difficult to do well in a hyper-local, relatively unique markets – whether these cost increases are general in nature e.g. FWC mandated wage increases, or specific e.g. investment in programs or above award wages to differentiate in terms of quality of provision at the individual service level - then providers – both for profit and non-profit – will naturally be required to adjust their service offerings. This will not result in sustained or improved levels of quality.

We do not want to see a replica of the current schooling system – where government policy has effectively created a "have and have not" model whereby children of families who can afford it often choose to attend private schools.

*Last year, 64.5% of students went to public school – a fall from 69% two decades ago. That makes Australia an outlier in the OECD, where 80% of students on average attend public schools.*

*Experts say the shift is part of a broader crisis in the sector that is further segregating the public and private school system between the haves and have-nots.*

Source: The parents fleeing Australia's public school system – and those choosing to stay | Australian education | The Guardian

*Inequalities baked into Australia's education system*

Another example of where government enforced price capping has not worked is the NDIS, where price capping is now resulting in cost cutting and lower quality provision in some service provision areas, while encouraging profiteering in others. The recent NDIS review has shown that despite 10 years of operation the scheme is still failing on multiple levels -

*Pricing model failing*

*The co-chairs heard payment and pricing methods have focused too heavily on competition, rather than quality and efficiency. They found some participants faced persistent service gaps and that poor design meant incentives for providers were not aligned with service needs.*

*Professor Bonyhady said blunt price caps meant people with complex needs and those in remote areas often missed out. "The result of that is that in some cases the price caps are too high, in other cases the price caps are too low," he said.*

*"Price caps are intended to drive efficiency, improve quality. The question we are raising is, 'has it done that?' and there's not a lot of evidence to say it has."*

Source: Federal government to crack down on 'profiteering' under the NDIS and make overcharging for the same product illegal - ABC News

The report from the review panel into the NDIS made the following comments about the operation and effectiveness of price control mechanisms within the NDIS – after more than 10 years of operation -

*Price caps were meant to support the scheme during the early stages of market development. The intention was to prevent any large providers from using their market power to drive up prices, while also improving efficiency and ensuring scheme sustainability.* [The ACCC report into the ECEC market has found that large providers are not using market power to drive up prices and that the current ECEC market is efficient, and margins are reasonable]

*Ten years on, price caps have continued to be the primary tool used by the NDIA to steward the market and drive a measure of 'cost efficient' service delivery.*

*A lack of independent advice and evidence around pricing decisions has added to uncertainty for providers and can potentially discourage investment in the sector.*

*In 2017, the Productivity Commission noted its concern that while '… the price-setting mechanism is held within the NDIA, there is an incentive for it to be used to offset budget pressures'.[33] The Productivity Commission emphasised the need for prices to be set with market development as the primary focus.*

*Each year, the NDIA undertakes an annual Financial Benchmarking Survey, where it collects information on providers' operating costs. The survey provides only a limited and potentially biased understanding of prices and costs. The 2021-22 NDIS Financial Benchmarking Survey had a response rate of around 15%* [like the survey conducted by the ACCC which only captured a small percentage of the for profit and non-profit provider markets]

*For supports delivered by disability support workers, price caps are informed by the survey and the estimated cost for the lowest cost 25th percentile of providers in each of the four metrics plus a margin. This means, for a given price cap, fewer than one in four providers may incur costs less than the price cap.*

*This design of price caps was intended to help shape the NDIS market by rewarding the most efficient providers while the market developed and stabilised in the short term. Therefore, price caps play a significant role in controlling short-term scheme costs but can have adverse long-term consequences.*

*The approach used by the NDIA sets the 'efficient' or 'benchmark' cost at a lower point than some other social services. For example, the 'efficient cost' for funding public hospitals, or the Nationally Efficient Price, is based on the average cost of an episode of care provided in public hospitals.*[37]

*Getting the level of this 'efficient' price right is hard but vital for encouraging supply.*

*A price level that is too low may not incentivise providers to join the scheme and prevent participants from having access to adequate supports.*[39] The NDS State of the Disability Sector Report 2022 *found that almost three out of five (59%) of surveyed providers said they were worried they would not be able to provide NDIS services at current prices.*[40]

*Price caps can also create unintended service gaps where they do not consider differences in 'market' price at which providers are willing to supply services – such as, for participants with more complex needs.*

*Other jurisdictions have had similar experiences of price caps anchoring prices to a fixed point that reduces price dispersion.*[42]

*Despite this, participants and disability representative and carer organisations report that participants pay more for therapy supports than non-NDIS participants, with some calling this 'price gouging.'*

*Some providers have also suggested that they are unable to invest in the capability of their workforce under current pricing arrangements and where workers can leave and set up as independent contractors or join online platforms. This exacerbates workforce retention challenges. Disability support workers and unions have also raised issues with workers not necessarily being paid wages that reflect the complexity or difficulty of the work.*[47]

*On this same basis, without competitive market pressure, price caps may create a disincentive for providers to register.*

*Another challenge arising from price caps acting more as a price anchor is that the same corporate overheads and supervisory costs are built into the price caps irrespective of the delivery approach.*

*Despite this, participants and disability representative and carer organisations report that participants pay more for therapy supports than non-NDIS participants, with some calling this 'price gouging.' That said, there is a high prevalence of providers charging at the price cap. In 2021-22, just under three in four (72%) therapy sessions delivered to agency- and plan-managed participants were charged at or close to the price cap.*[57]

Source: 3. Price caps remain the primary market tool actively used by the NDIA | NDIS Review

This independent review clearly provides numerous points of evidence that the government has been unable to get the price capping right – despite 10 years of effort. Prices are higher than in the market-based section of the service system, disincentives for investment in workforce exist, disincentives for investment in quality exist, disincentives for supporting the most vulnerable exist and there are reports of loss making price caps in parts of the system and profiteering in other parts.

If this is what we can hope for after 10 years of anything similar being imposed on the ECEC sector, then I worry about the future of Australia's children for we would have created a market that is in far worse shape than the relatively healthy and high quality market we have today.