[redacted]

[redacted]

Introduction

What is your name?

Name:
[redacted]

What is your email address?

Email:
[redacted]

Are you responding to this survey as:

Childcare provider

What is your organisation?

Organisation:
Nido Education Limited

Do you consent to the ACCC publishing your submission?

Yes, but do not publish my name

Open written submissions

Confidentiality and personal information

Choose File:
No file uploaded

Choose File:
No file uploaded

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

Guided submissions

Draft Findings - Costs

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

Agree

Please provide further comment if relevant:

We agree, however this is not exclusive to large Service based day care providers. Labour is the main driver of cost for supplying childcare and there have been significant increases over the past 5 years.

It should be noted that through Covid, operators who received Government funding, were forbidden to increase fees at their Services. The FWC gave this no consideration and increased wages significantly with an increase of 4.5% in July 22 and 5.75% in July 23 in a market that was already challenging. Further superannuation costs increased by 50 basis points per year leading to an extra 100 basis points in 2023. That is, as an employer superannuation has increased from 9.5% in FY21 to 10.5% in FY23.

We have also seen a significant increase in workers compensation and insurance nationally, and payroll tax in Victoria.

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

Agree

Please provide further comment if relevant:

We agree that land and related costs are a significant cost for Service-based day care providers however they are not the 'driver' of cost per se'. That is, location is a driver and/or determinant of cost.

Land costs are typically re-set to market rates and given those costs are in the order of 15% it shows that fees have not increased ahead of the cost base.

The ACCC received comprehensive data. The rents are either lower or they aren't, the ACCC has the data and needs to reach a definitive fact-based conclusion.

I suspect this is heavily weighted to the fact that the largest not-for-profit (NFP) was once the biggest for-profit operator (FP). Many leases with Folkestone (now Charterhall) have set increases which diminishes over the term of the lease. This will contain the rental costs, but as the vast majority of the sites are owned by FP property owners, there will be a point in time where Goodstart's leases are reset to market rates.

In regards to Goodstart, it should also be noted that the majority of leases under Goodstart were negotiated under ABC Early Learning. Many of the leases had side capital contribution agreements which had the effect of reducing the rental payment. By way of example, ABC would contribute say $2mil to a landlord and receive a rental reduction of $100K a year over the 30 year lease term.

The ACCC needs to better understand the history of the sector. Further, the ACCC should be looking at rent as a cost per licensed place as a % of cost or a percentage of revenue as this does not reflect a like for like comparison.

The age of the Service, the size per licensed places and square metres, what the tenant contributed in capital (we are aware of multi-million-dollar capital contributions) all impact on rents. A cursory review of leases would be misleading without a deeper understanding of these factors.

It's also important to consider that older Services, do not have the same capital investment required to support increased demand through building new Services. Construction costs for example are up 60% from 18 months ago, which leads to a higher rental cost.

We are expecting a decline of up to 50% in new childcare Services, further impacting families. We have never seen the NFP fill the void that the FP operators have provided, who have underpinned new Service openings in this sector.

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

Unsure / No View

Please provide further comment if relevant:

We agree that Not-for-profit providers appear to face lower land costs than for profit providers. However, we disagree that not-for-profit providers invest these 'savings' into labour.

We would again ask the ACCC to refer to the NFP leases. These legacy transactions that occurred have provided the likes of Goodstart with a lower rental cost. We would also stress that the ACCC consider the age of the NFP Services compared to the age of the for-profit providers who acquire high occupancy, high-quality Services. The for-profit providers that the ACCC analysed were predominately 'roll-ups' such as G8, Affinity, Guardian, and Busy Bees.

In Goodstart's annual report, they refer to the fact that they need to closely manage wages, occupancy, etc. Goodstart are not attempting to be a loss-making enterprise.

The fact that employees in the not-for-profit sector are paid more does not speak to what other benefits for-profit operators provide to attract and retain employees. For example:

• Nido offer 95% discount on fees for Service based employees, saving families up to $300 per week
• Quality professional development
• Extensive career advancement possibilities
• New facilities vs. old Services that do not have significant ongoing CAPEX investment
• Comprehensive capital investment program and upgrades
• Planning time
• Focus on quality and staffing accordingly.

Again, we recommend the ACCC consider:
•The lower rents are based on old leases from low CPI environments, lower capital cost to be build, Services built to a lower standard with basic amenities and largely built to meet ratio requirements.
•High wage spend - typically large providers are inefficient at wage management. They have Services with high rent, but you will still see inefficient wages. Wages are not an investment and you do not invest in wages. Wages are an all the time cost and using terms like 'appear' gives us concern that the ACCC does not fully appreciate what is happening in the sector.
•A review of what technology, what data, how the Services roster, what the labour costs per child per day, what is the ratio of Area Managers, are there other Service support employees not employed at the Service level? Note that at lower occupancy you will experience a higher cost per child per day. What are the ratios of children under the age of 3 and over the age of 3?

Nido deliberately incurs an extra cost by having a Service Administrator at all our Services. The intent is to allow the Service Director more time to focus on supporting Educators, Children and Families. We also employ Educational Leaders and provide 20 hours a week of out-of-the-classroom time. The total cost is over $150K per Service in order to allow a focus on the quality of the education we deliver.

As an example, you could compare the New York murder rates - It is a fact that the sale of ice cream in New York directly correlates to an increase in murders in New York. The reason is simple, hotter nights, more people out, more aggravated by the heat, more risk of interactions with others and conflict leading to the murder rate increase. Whilst there is a correlation to the sale of ice creams, it does not cause the increased murder rate.

The ACCC should be very careful in making assumptions without a deep understanding of the data they are looking at. The ACCC will not gain this deeper understanding with the data they have collected.

The ACCC stated that “We also find Service based day care services with a higher proportion of staff paid above award and with lower staff turnover also have a higher quality rating under the National Quality Standard. This may be influenced by longer-serving staff members having stronger connections to children and their families”. It may, however quantify a higher proportion. The age of FP Services would also affect the rating as it takes time to embed quality practices. Again this ''maybe'' position is not a basis to make a recommendation.

The ACCC has a great responsibility. Taking the enormous data you have amassed and delivering to a timetable set by the Treasurer, who is only concerned about getting voted back in is completely reckless and the Treasurer should be called to account.

"Maybe", "appear", "think", "suspect" are certainly not a basis for making recommendations. What the ACCC recommends will affect a sector for decades to come. We suggest that a deeper understanding of the data is needed and working to an arbitrary timetable could lead the ACCC to be forced to make assumptions that affect the well-earned reputation and a sector that is critical to the nation.

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

Agree

Please provide further comment if relevant:

We agree location influences costs for both rent and wages.

We disagree that areas of remoteness and socio-economic advantage do not differ greatly. Depending on the economics of the areas (i.e. a mining town that pays employees high wages, or cities such as Canberra who have a high proportion of government roles that pay higher wages), these costs can differ greatly depending on the location of each individual Service.

We would caution the ACCC to consider the data set they have obtained and to consider that a wider range of factors determine the influence that these drivers have on costs for both rent and wages.
It would be important for the ACCC to consider that Childcare Educators typically do not live in areas of "advantage" so Providers need to do something to encourage Educators to travel.

The ACCC stated that “Land costs in 2022 for Service based day care and outside school hours care providers were highest in areas of greatest socio-economic advantage (decreasing significantly as the level ACCC Childcare Inquiry – September interim report 13 of socio-economic advantage decreases). This is potentially due to providers competing for access to land in metropolitan areas.” Its important for the ACCC to consider that operators do not typically compete for land. It is the developer that competes for land.

Typically the best use of land is not for childcare and developers compete with other commercial uses and/or multi-dwelling residential uses. Developers should be applauded for developing a single use building for the benefit of the community. If a childcare Service fails, a developer is significantly exposed, as the cost to convert to a residential property would be considerable and with many Services built on residential land there is no option to convert to other commercial use, except for a place of worship. These developers can end up with a very expensive big house with lots of little toilets.

Draft Findings - Competition

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

Agree

Please provide further comment if relevant:

We agree that parents and guardian’s demand is driven by a complex combination of factors. Market price and quality (which is strongly correlated to formal NQS quality measures) is certainly a consideration. However, convenience/location prevails first and foremost for families. When you ask families why they attend a particular Service they will give a simple answer, the reasoning is that they do not understand the intricacies and depth of the obligations of a Service Provider to comply with laws, regulations and the NQS. The families will see the net result and certainly comment on that but not understand what has driven the input to achieve the result.

Like tasting food, you don't understand the effort that has gone into the preparation, the ingredients and how these ingredients have been handled, typically all we know is that it simply tastes good. So for the ACCC to state that "informal measures" are key considerations is the equivalent to "because it tastes good".

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

Agree

Please provide further comment if relevant:

We agree that supply decisions are influenced by the expectations of viability - and this would be the case for for-profit and not-for-profit providers. We strongly disagree that these decisions are influenced by the relative socio-economic advantage of the demographic of the location. Nido's purpose is to create an environment that supports teachers to rise and make a positive impact on the lives of children. As the biggest developer of Early Learning Services in Australia, Nido operates and develops early schools in suburban Australia to standards normally reserved for the advantaged, delivering families' affordable, high-quality early education.

That is why, you will rarely find Nido services in areas with high socio-economic advantages such as Toorak in Melbourne or Mosman in Sydney. Instead, we build services in areas in the mortgage belt primarily with low to middle-income families where both parents need to work to meet the cost of living pressures.

We encourage the ACCC to look at the data of Services that have been opened in the last 5 years. The data pool the ACCC has obtained may be skewed towards operators that have roll-up and purchased Services at high occupancy and high profit margins in areas of advantage (not greenfield Services).

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

Do Not Agree

Please provide further comment if relevant:

We disagree with this statement.

The barrier to more suppliers entering or expanding their operations in childcare markets is actually 'developer driven' and the fact that the cost of construction is up 60% - and it is unrealistic for most Providers to increase fees by 60% or rents by 60%. Rents haven't increased in line with the movement in the cost of construction, nor have fees. Further exacerbating the supply of new Services, yields have moved from a 5% to a 6.25% yield, making these developments unviable or unattractive developments to establish these Services.

Cost of Build 2019 2023
Land $1.2mil $1.4mil
Construction $2mil $3.2mil
Total $3.2mil $4.6mil

Rent $200K $300K (50% increase in rent)

Value of property $4mil (5% yield) $5mil (6% yield)

Profit $800K $400K (with risk)

Profit Margin (over 2 to 3 years) 25% 8.7%

Based on the risk and opportunity to develop alternate assets, many developers have moved back to residential developments, and we have seen a 44% decline in the number of development approvals for childcare Services.

Supply of Educators and Teachers
Very few operators know or have a source to analyse what "staff" are available in an area to employ once a Service has opened. Again, we disagree with the ACCC on this statement.

Most operators that have provided data in this analysis have purchased Services that are already opened. This hasn't included operators who are building new Services to increase the supply of childcare in the market.

Nido is the largest leasehold developer of new childcare Services in Australia. We will open 24 Services in 2024 with the next largest provider opening around 8 new Services. We look at over 50 opportunities each month from developers. We have never had a developer talk about or raise the supply of employees in an area or market.

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 retainchildren and families.

Agree

Please provide further comment if relevant:

We agree.

The ACCC stated that the "willingness to pay for childcare within a local area is heavily influenced by household incomes, as this influences the opportunity costs of not using childcare services. Demand is also likely higher for households with 2 working parents or guardians." We encourage the ACCC to consider that the key theme here is working parents. This is far more typical in the mortgage belt areas and less prevalent in "advantage areas".

Yes, sites are influenced by "household incomes". Nido actively place Services in areas of middle to lower incomes but builds quality environments that you would expect to see in more advantaged areas.

The ACCC also stated that some "factors encourage supply to markets where demand for childcare is highest, and parents and guardians are likely willing to pay higher prices. In particular, for-profit providers are more likely to supply these markets as the opportunity for profit is greater". We encourage the ACCC to consider Not-for-profit is a category of business and not a business intent. An example are the fees charged by NFP in many cases over $160 per day. Goodstart recently developed a 123 place Service in Double Bay with rent circa $1.8mil and fees $199.50 per day 0 to 24 months. There was also a new 200 place Service opened in the Brisbane CBD.

The intent of Goodstart was to generate a "surplus" to fund other social ventures for the three owners. With 600 Services, the advantage of not paying payroll tax, you would expect a surplus in the $200-$300mil range. However, they are lucky to break even and reported post-AASB16 a $60mil deficit, which is not consistent with what they set out to achieve.

This means that they cannot invest the capital to maintain the standards to the level of other operators and given they have old leases the future looks quite scary.

Draft Findings - Profitability, viability and quality

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

Agree

Please provide further comment if relevant:

We agree, however we note the word "appear" does not feel conclusive. We would ask the ACCC to be more precise and define what they consider to be financially profitable & viable. What is the expectation of the term 'financially viable' i.e would this be be a 20% ROI as a minimum?

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

Agree

Please provide further comment if relevant:

Yes we agree.

Whilst occupancy is a key driver of revenue, profits & viability, it is important to consider the impact that the ratio mix of age groups of children within a Service has. Operators offer care to children aged 6 weeks to 6 years. Any changes to the model, even subtle, could have a devastating impact on providers' ability to continue to offer care to children under 3 years either in their entirety or by reducing the number of children they can educate and care for within this age group. Many operators use the older children's fees to subsidise fees for children under 3. If we moved to a pay-per-use model you would likely see fees of $220 for under 3's and maybe $140 for over 3's. The impact would have a devastating impact on the use of care, particularly for young mothers/families seeking to re-enter the workforce or beginning their journey to establish a career.

11. On average, margins are higher:

Agree

Please provide further comment if relevant:

We agree that for for-profit providers of Service based day care margins are higher on average, than not-for-profit providers as noted in the publicly available accounts.

We are unsure if margins are higher in Major Cities and more advantaged areas as we haven't been provided data. However, we find that this is not the case for the Nido business which includes data from 167 Services.

We agree margins are higher for services with higher quality.

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

Agree

Please provide further comment if relevant:

We agree.

We also note that we have seen the failure of Government, both State and Federal, across many aspects of the Childcare Sector that have precipitated this current issue. Some of these include:

•Requirement for all employees to have a childcare qualification. 20+ veterans in the sector whom felt they were too old to study left the sector. They were replaced, not fully, with brand new students. This was a significant loss in knowledge that was replaced with inadequately trained students.
•Increasing the qualification ratios. There was no coordination of the supply of Diploma and ECT qualified educators to meet the new requirements. The vocational sector funding is so poorly designed that it requires students to pass through the system quickly for it to be viable for the RTO. This leads to a

"tick and flick" mentality, leading to a poor standard of supply of Educators into the sector.
•High fees to study for a role that is low income makes the childcare sector unattractive when compared to other careers.
•There has been research around for many years showing the need for ECTs and the massive shortfall in those studying that would eventually work in childcare without having to significantly pay over the award.
•Government Bureaucrats belief that the issue will fix itself has prevailed for many years in the sector. With the burden ultimately falling on the Providers to ensure compliance.

Draft Findings - Price regulation mechanisms

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

Agree

Please provide further comment if relevant:

We agree, however we encourage the ACCC to consider that we are operating post-COVID, with high wages, and a higher cost to operating these businesses.

Fees are a factor of costs, with all operators facing similar inputs. The CCS is means tested and whilst indexed it doesn't necessarily align to an operator's costs. The hourly rate cap is not aligned with the costs of an operator increasing wages, nor with construction costs 60% up, therefore driving rent increases for those with new Services.

We also urge the ACCC to consider the contribution to society that the Sector provides. Nido understands that for every $1 spent in childcare, this generates $3 in productivity through the economy. There are many papers on the subject and we are unsure why the ACCC hasn't used this research when discussing taxpayer "value for money".

Further, the investment by the for-profit providers in the sector is in excess of $30 billion into speculative freehold properties, in the sector that has allowed Goodstart (with the assets from a for profit operator), and others to deliver early education.

The developers and the for-profit operators are taxpayers. If it wasn't for their investment, childcare would cost far more, quality may be lower as the premises wouldn't be of the quality that has been built and there would likely be 50% less Services available. The cost to the Australian economy in the loss of workforce participation would dwarf this perceived "taxpayer value for money".

We suggest that the ACCC consider that 70% of for-profit operators, of approximately 9,287 Long Day Early Education Services at $4mil each = $26billion invested in property and possibly a further $13bil in businesses. Without FP operators the tax base in Australia would be considerably reduced.

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.

Do Not Agree

Please provide further comment if relevant:

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

Do Not Agree

Please provide further comment if relevant:

Every operator has mandated software that can provide quotes to families on the spot and there are calculators online that can do the same.

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

Unsure / No View

Please provide further comment if relevant:

Unsure, this is a government website.

Draft Findings - International childcare costs and price regulation mechanisms

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

Unsure / No View

Please provide further comment if relevant:

Unsure. We would ask the ACCC to consider other factors that should be compared. We urge the ACCC to understand what quality, standards, environments and educational outcomes there are for children and families. We also urge the ACCC to consider what the broader economic outcomes are for society when looking at these comparisons.

Using a statement such as 'indicates' is dangerous and reckless. A deeper analysis is required to consider the full range of factors and outcomes when comparing early educational providers across countries. We would also encourage the ACCC to benchmark this statement to the access, uptake of childcare usage, the percentage of women that participate in the workforce, the living standards of these countries, and what staff are paid in these 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.

Unsure / No View

Please provide further comment if relevant:

We urge the ACCC to consider at what expense to quality and educational outcomes for children.

Draft Recommendations - Existing regulatory arrangements

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

Support

Please provide further comment if relevant:

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

Support

Please provide further comment if relevant:

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

Support

Please provide further comment if relevant:

We agree that currently the cap is not aligned.

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

Support

Please provide further comment if relevant:

We strongly encourage the ACCC to consider the impact of what will happen if they change the pricing model and the repercussions that could happen once they do this. Quality environments and education come at a price, and whilst the Services are rewarded with high occupancy, the funding for a working towards Service is the same as an Exceeding Service. The challenge here is the highly subjective nature of the assessment and rating process. We have seen the open market allow Providers to operate on quality, location, services, price, and environment.

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

Support

Please provide further comment if relevant:

Nido agree with ACCC's statement that "market forces alone are unlikely to ensure equitable educational and or developmental outcomes across all children and households". We strongly encourage the ACCC to consider children of the long term unemployed families who are often denied access to early education because they do not meet the requirements of the CCS criteria.

The Labour Government had the opportunity with the new CCS to rectify this and completely ignored this factor. They clearly considered that votes were more important than making changes to positively impact the intergenerational unemployed families. It should be noted the opposition were advocates of allowing these children to have access to early education and not punishing them for the circumstances they find themselves in because of their parents, yet the status quo continues.

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

Do Not Support

Please provide further comment if relevant:

Margins are between 5-9% now, which means you will decrease quality, and flexibility, and reduce the number of days available to younger children (under 3) that require a higher ratio of staff. Nido Services typically offers 60% of our licensed places to children under 3 years of age. 10 years ago, 40% of licensed places would have been for children under 3 years of age, this has resulted due to an increase in wages and also had a flow-on effect on the fees charged.

"Supported by a credible threat of intervention, to place downward pressure on fees" this sort of inflammatory politically driven statement has no place in an ACCC report. The Government has not stated what they seek to achieve from childcare. If they seek to achieve the maximum number of children in care for the "cheapest price" with no consideration of quality, then maybe it has a place.

To reduce fees will reduce quality and the educational outcomes for children.

Draft recommendation 3 - The ACCC supports reconsideration of the information gathered for and reported on StartingBlocks.gov.au so that it is better focused on meeting parents and guardians' information needs, and balanced against the costs of collecting and publishing information. This could include:

Support

Please provide further comment if relevant:

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

Support

Please provide further comment if relevant:

Draft Recommendations - Broader policy considerations for more significant change

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

Support

Please provide further comment if relevant:

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

Support

Please provide further comment if relevant:

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.

Do Not Support

Please provide further comment if relevant:

Consider the impact to the quality of supply. The old asbestos house vs brand new Service with quality resources, and investment in the people, provide better educational outcomes. This would be a race to the bottom of quality or at least a race to the middle.

If you ask or indeed tell all restaurants that a 200-gram steak can only be sold for $20, you will get a reduction in the quality of what is being delivered. The environment, the location, the service, the investment into the people, premises would all be affected, why does the ACCC think childcare would be any different.