



29 September 2023

Ms Nicole Ross  
General Manager  
Australian Competition and Consumer Commission  
Land of the Wurundjeri people of the Kulin Nation  
Level 17, 2 Lonsdale Street  
Melbourne Vic 3000

Dear Ms Ross

**RE: ACCC Childcare Inquiry**

ELACCA welcomes ACCC interim report released in July.

ELACCA is keen to provide some insight into some of the preliminary findings, backed by disaggregated data across our membership. As you are aware, ELACCA comprises large providers in the for-profit and not-for-profit sectors.

The following are key points of interest from our analysis:

- quality ratings are stronger for larger providers across a range of different time periods
- fees among ELACCA members are not materially higher in areas with a high concentration of supply
- spreading fixed costs over less occupancy drives higher fees

Attached is a brief paper detailing our response to some of these concerns, and providing some additional analysis for your consideration. We would be happy to discuss this with you or provide further clarification.

We look forward to engaging in the upcoming public submissions process to inform your final report.

ELACCA and our 19 CEO members remain committed to supporting the ACCC's capacity to undertake this important inquiry.

Kind Regards



Elizabeth Death  
CEO, ELACCA



Early Learning  
& Care Council  
of Australia

# ELACCA response to ACCC Interim Report – Inquiry into the price of childcare

September 2023



The Early Learning and Care Council of Australia (ELACCA) invites the ACCC to consider our response to key findings in their Interim Report on the Childcare Inquiry.

## About ELACCA

The Early Learning and Care Council of Australia (ELACCA) was established to promote the value of quality early learning and care as an integral part of Australia's education system. Our 19 CEO members include some of the largest early learning providers in the country, representing not-for-profit and for-profit services.

ELACCA is a peak body representing the nation's largest providers of early learning and care services including preschool/kindergarten, long day, outside school hours and family day care. ELACCA members comprise a significant percentage of the nation's not-for-profit and for-profit providers operating 2,473 services, employing a workforce of 56,708 and providing early learning and care to 369,776 children across metropolitan, regional, rural, and remote locations across Australia.

As well as promoting the value of quality early learning and the need for greater public investment, ELACCA advocates for the right of all children to access quality early learning and care, particularly children facing disadvantage. We do this by drawing on the knowledge and practical experience of our members and representing their views to decision makers in government, the media and the public.

## ELACCA engagement with the ACCC

ELACCA and our members have been active participants in the ACCC's inquiry into the price of childcare, including through:

- Targeted meetings with Inquiry Executive General Manager and Commissioner
- Compliance with compulsory requests for data and information
- Invitational roundtable/s
- Voluntary information, including survey participation.

## Data in this paper

An overview of the dataset that informs this analysis, comprises input from 17 ELACCA members<sup>1</sup>. Note the following features and limitations of the dataset:

- The data covers 2,268 services (although we only received substantive time series data for about 2,219 services, and session-level data for 2,105 services).
- All providers gave some provider-level information (i.e. filled in at least one variable we requested) for the years 2021, 2022. Only 4 providers could give data going back to 2016, 2017.
- Only 2 providers filled in every variable requested, and only for the periods in 2022.
- No service provided every service-level data variable requested for every period – note that charts have been built with the providers / services that were able to submit data for that variable.

## Interim Report Findings

ELACCA noted the ACCC's Interim Report findings, released publicly in July 2023, and the considerable analysis has been undertaken by the ACCC to develop these findings.

ELACCA is keen to provide some analysis from our membership base of large providers, for the ACCC's consideration, particularly with regard to the following key findings:

- Large providers of centre-based day care charge higher average prices across all areas of Australia<sup>2</sup>.
- Areas with higher concentration of services charge more<sup>3</sup>.

These findings are not disputed, however, data from ELACCA members helps explain some dynamics that contribute to these findings. The following sections provide analysis and discussion regarding these dynamics, for the ACCC's further consideration.

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<sup>1</sup> Please note that dandolopartners has been engaged, under a non-disclosure agreement, to support the analysis of data. At all times, data security and strict SharePoint data protections have been implemented to ensure no member had access to another member's data.

<sup>2</sup> ACCC (2023) Childcare Inquiry: Interim Report, p.95-98

<sup>3</sup> ACCC (2023) Childcare Inquiry: Interim Report, pp90-92

## Large providers and price

Our early analysis has found that while large providers generally charge higher fees, they are also more likely to be higher quality.

Specifically, our data has found:

- **Higher quality of providers:** larger providers generally had higher National Quality Standard (NQS) ratings.
- **Higher quality and fees:** Among ELACCA members, providers with higher quality ratings charged higher fees.
- **Staff salaries and quality:** ELACCA member services with higher NQS ratings also tended to spend more on staff salaries and training.

## Large providers and quality

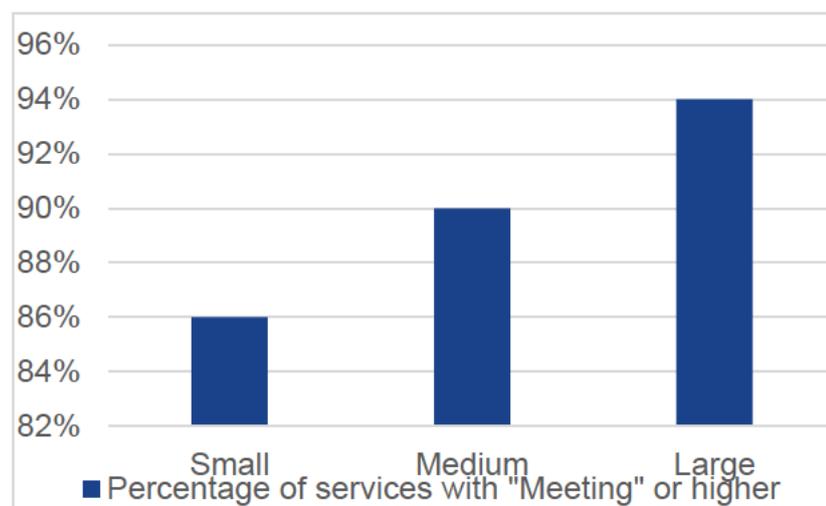
High quality early childhood programs for children experiencing disadvantage, and/or vulnerability, can yield returns of between \$4 and \$16 for every \$1 invested through better education, economic, health and social outcomes.<sup>4</sup> For all children in Australian, modelling conservatively demonstrates \$2 of benefits for every \$1 spent on early childhood education.<sup>5</sup>

Large providers play an important role in ensuring quality provision, financial viability of services and supply in unviable markets, through cross-subsidisation across services.

The ACCC Interim Report found that centre-based day care services with higher NQS ratings tend to charge a higher fee<sup>6</sup>. In analysing ACECQA data capturing quality ratings by service size (small, medium and large), we found that large providers generally had higher NQS ratings.

Our analysis of ACECQA data indicates that 94% of large providers have a NQS rating of Meeting or higher compared with 90% of medium providers and 86% of small providers. The higher quality of large providers may explain why large providers tend to charge higher fees. This relationship was present in each individual year we analysed going back to 2016 as well as for the overall range, reflected in this Figure 1.

**Figure 1. Percentage of services<sup>7</sup> 'Meeting NQS' or higher by provider size<sup>8</sup>**



<sup>4</sup> Heckman, J (accessed 2022) Invest in Early Childhood Development: Reduce Deficits, Strengthen the Economy, heckmanequation.org, Nd

<sup>5</sup> The Front Project (2019) A Smart Investment for a Smarter Australia: Economic analysis of universal early childhood education in the year before school in Australia, PwC Aust.

<sup>6</sup> ACCC (2023) Childcare Inquiry: Interim Report, p 98

<sup>7</sup> From a sample of 14,125 services.

<sup>8</sup> Provider size definitions are the same definitions used in the ACCC Childcare Inquiry interim report. Small provider: A provider operating 1 to 4 services; Medium provider: A provider operating 5 to 39 services; Large provider: A provider operating 40 services or more.

## Quality and fees

Fees at an individual service level vary to reflect local market conditions, and multiple cost drivers. Quick analysis on ELACCA data also shows that:

- On average ELACCA services change their fees 1.46 times per year.
- The most that any individual service changed their fees in 2022 was three times.

From the perspective of large providers, fees vary between individual services and broadly reflect local market conditions and cost drivers. This includes conditions, such as demand, competition, demographics of the community and other factors, such as occupancy, age and condition of infrastructure. Local cost drivers that contribute to differences in fees charged across services also include property and staffing costs.

Large providers generally set fees at a service level with a view to maximising affordability for families, and responding to local market competition and service viability.

Cross-subsidisation will often occur across a service, with the birth-under three age group often costing a service more to run than a preschool age group. Lower fees charged for preschool aged children reflect lower educator:child ratios and, in states like Victoria and NSW, lower out of pocket costs for families may reflect investments made by their state governments in supporting the costs of preschool.

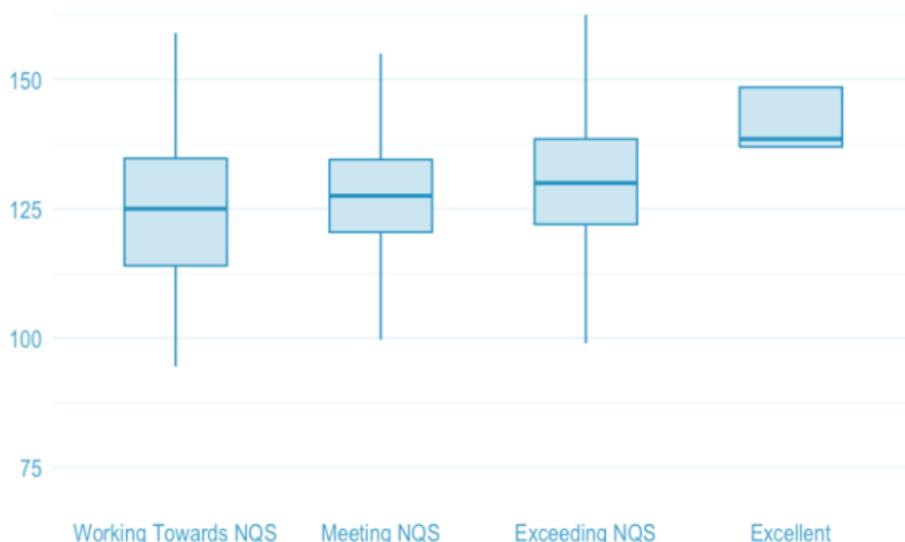
Among ELACCA members, most of which are large providers under the ACCC's definition<sup>9</sup> higher quality services generally charge higher fees.

As shown in Figure 2, for 10-hour sessions, the median daily fee for a 4-year-old across ELACCA members services is:

- **\$138** for **Excellent** services<sup>10</sup>
- **\$130** for services **Exceeding NQS**
- **\$128** for services **Meeting NQS**
- **\$125** for services **Working Towards NQS**

This pattern is also repeated for 9 hour and 12-hour sessions and for other age groups.

**Figure 2. Daily session fees for a 10-hour session for 4-year-olds by NQS rating<sup>11</sup>**



<sup>9</sup> 40 or more services

<sup>10</sup> Note however that the sample size of excellent services is very small.

<sup>11</sup> Chart depicts a sample of ELACCA members' session fees for ~2.6K different sessions from July 2022

## Staff salaries and quality

Salaries and training are two highly important inputs for quality. Across ELACCA services, those with higher NQS ratings also tended to spend more on staff salaries and training.

High quality staff are a key determinant of the quality of ECEC services. Educators who are effective teachers, who can combine explicit (intentional) teaching with sensitive and warm interactions, are key to quality early childhood education and care.<sup>12</sup>

Staffing in services can be dynamic and complex, which challenges efforts to maintain optimum efficiency.

Within a strict regulatory framework, providers are required to maintain age group specific adult:child ratios at all times. Due to these explicit and necessary ratios for quality and safety, the arrival of one additional child on a given day can require the attendance of an additional educator/teacher for the entire session.

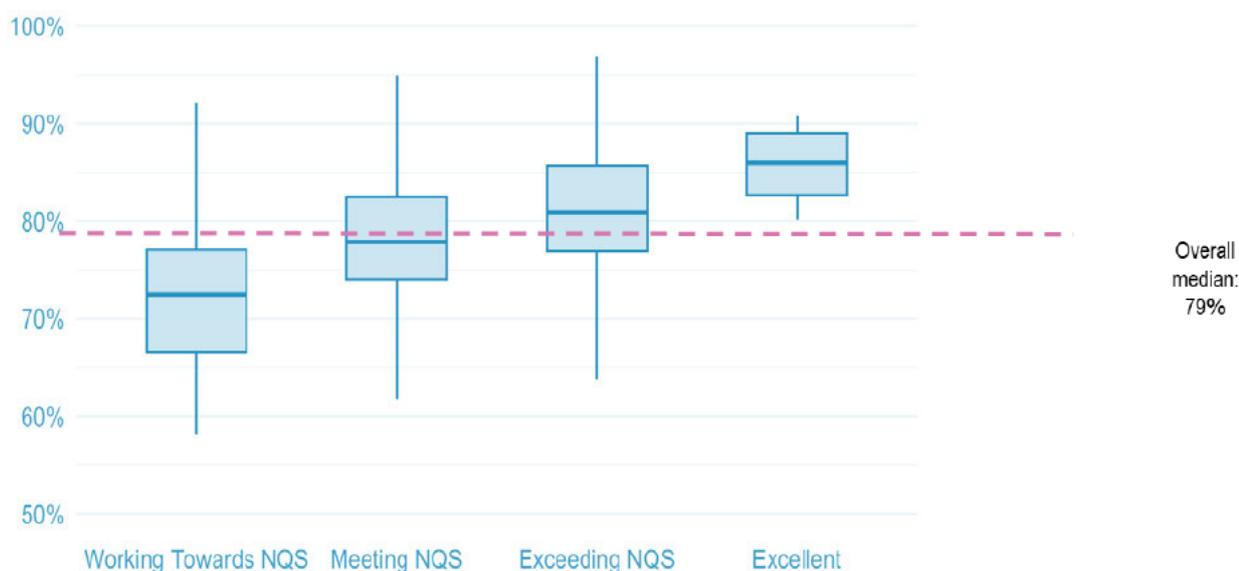
In particular, the increased use of casual staff (due to ongoing, sector-wide workforce shortages) to meet very necessary ratios for quality provision comes at a high cost, noting casual relief staff sourced through an agency are usually charged at a significantly higher cost than permanent employees.

As demonstrated in Figure 3 below, median ELACCA service spends 79% of their daily delivery costs on staff salaries and training. It is important to note that services with higher NQS ratings tend to spend more on their staff.

Further, as a proportion of daily delivery costs per licensed place, the median service rated:

- **Excellent** spent 86% on salaries and training
- **Exceeding NQS** spent 81% on salaries and training
- **Meeting NQS** spent 78% on salaries and training
- **Working towards NQS** spent 73% on salaries and training.

**Figure 3. Percentage of delivery costs spent on salaries and training by NQS rating<sup>13</sup>**



<sup>12</sup> See e.g. Torii, Fox & Cloney, *Quality is key in Early Childhood Education in Australia*, Mitchell Institute (2017)

<sup>13</sup> Delivery cost is measured as the daily delivery cost per licensed place for a service, and the proportion of that cost spent on staff salaries and training. The sample is taken from ~1.1K services using delivery costs data from July 2022.

## Concentration and price

Our analysis found that the concentration / fees dynamic apparent in the ACCC's findings, is not clearly visible among ELACCA members.

There are cost drivers that might influence higher fees, including:

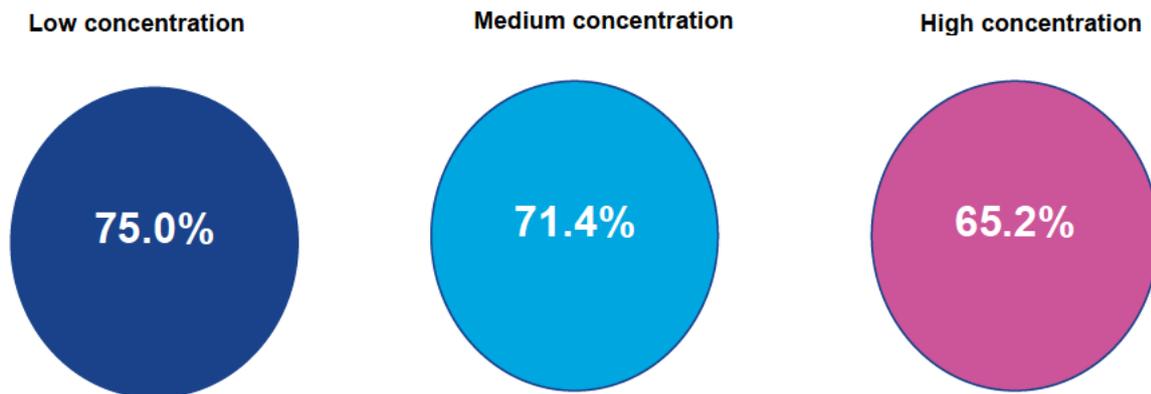
- **Typically lower occupancy in higher concentration areas** which requires fixed costs to be spread differently, and this can necessitate higher fees.
- **Higher rents in concentrated service areas:** Among ELACCA members, rents tended to be higher in areas with higher concentration.

If fees are higher in postcodes with more places per child, occupancy in these services is likely lower, and some costs (specifically rent) are higher.

## Occupancy in concentrated service areas

Data from ELACCA members show that areas with a higher concentration of services are also those where services are paying higher rents.

*Figure 4. Average occupancy rates for different concentrations*



ELACCA data confirms what makes intuitive sense: where more places are offered per child in a postcode, the occupancy of individual services is likely to be lower<sup>14</sup>. The difference in average occupancy between services in low and high concentration areas is nearly 10%. Services need to bare significant ongoing costs regardless of occupancy, especially:

- Staff costs which while not technically 'fixed', require ongoing investment to retain a reliable and quality workforce, and
- Property costs.

Having to share these ongoing costs across fewer numbers of children often necessitates services to charge higher fees than if they had higher occupancy.

<sup>14</sup> Note: Occupancy reflects the proportion of approved / licensed places that are filled. To estimate occupancy we:

- Divided revenue received by individual services from parent fees and CCS by the daily fee charged by those services, giving number of days of service paid for.
- Divided the number of days of service paid for by 238, which represents all weekdays, minus public holidays and a two-week shutdown period, giving an average number of daily fees paid per day.
- Compared the number of daily fees paid per day to the licensed / approved places for individual services.

In our sector, occupancy is somewhat counterintuitive, in that more providers does not equal lower costs – because unlike other commodities, our costs are not fixed. For example, staffing costs are not linear. Staffing ratios, of which ELACCA is very supportive under the National Quality Framework<sup>15</sup>, can have a significant impact on staffing costs, where one extra child in a service can equate to an additional staff member, depending on the ratio requirements and physical configuration of that room.

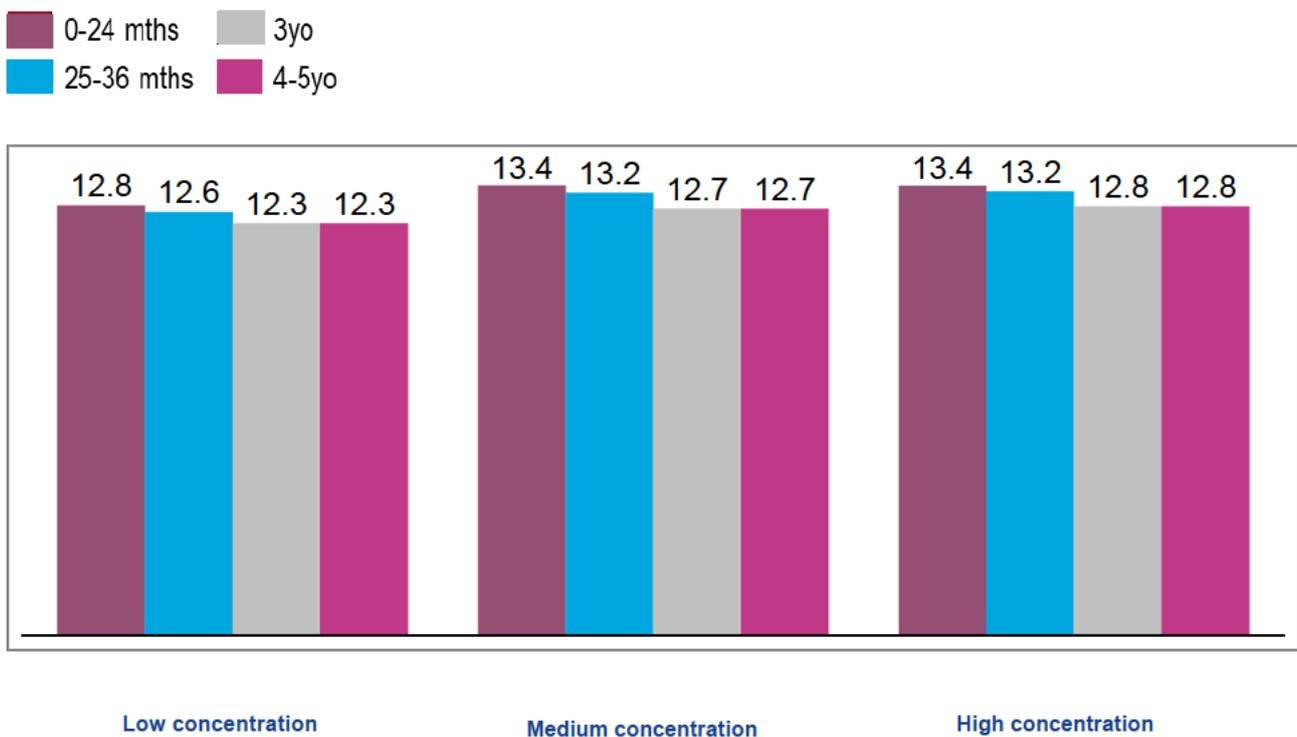
## Fee variation in concentrated areas

While noting the ACCC’s finding that services in higher concentration areas typically have higher fees, we did not find this to be significantly true in ELACCA data (see Figure 5 below).

We have defined concentration levels by using three even quantiles of services based on the number of licensed places in a postcode divided by the population of children aged 0-5 as provided by ABS data.

We identified only marginal variation between fees in medium and high concentration areas. We note that this difference may be more pronounced in ACCC data. One explanation for this may be deliberate choices by ELACCA members, as large providers, to cross-subsidise or smooth fees between their services.

**Figure 5. Average fees per hour, by age group, for different concentrations**



<sup>15</sup> <https://www.acecqa.gov.au/nqf/national-law-regulations>

## Rents in concentrated service areas

Rent costs remain a significant, often increasing cost that many ELACCA members, and other providers across the sector continue to contend with.

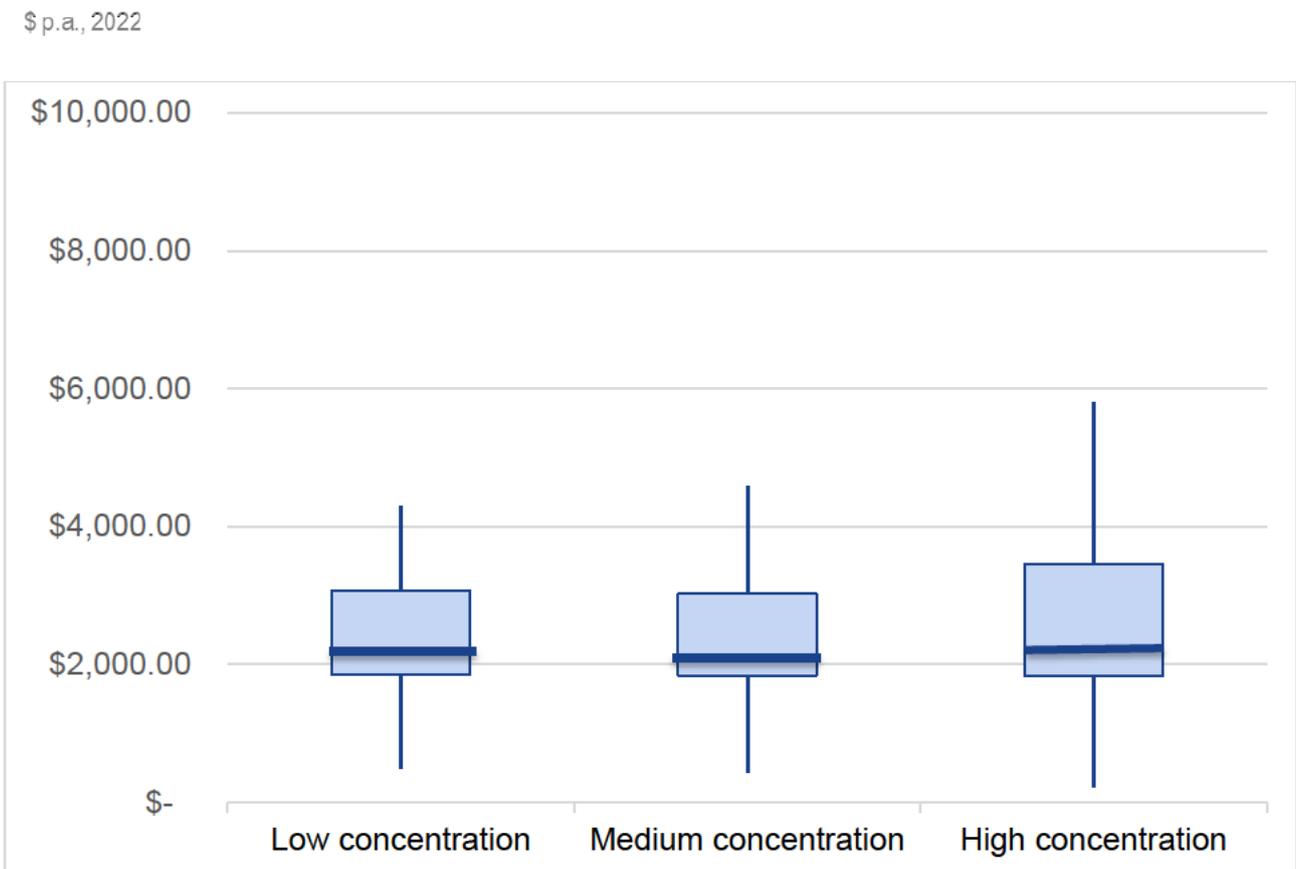
Commercial rent in concentrated metropolitan areas is a significant cost driver in the price of delivering early learning and care.

### Areas with a higher concentration of services tend to have higher rents

Data from ELACCA members show that areas with higher concentration<sup>16</sup> of services are also those where services are paying higher rents.

Services in high concentration areas tend to incur higher median rents and also tend to incur significantly higher upper bounds of rent which is why higher fees are needed to be charged.

**Figure 6. Distribution of Rents paid by services based on level of concentration**



Among ELACCA members, services in high concentration generally incur higher rents. The median rent per annum per concentration area in 2022 was:

- **\$2259.13** per licensed place for low concentration areas

<sup>16</sup> Note: We have defined high concentration postcodes as those with 0.54 or more licensed places per child in 2022, medium concentration postcodes have between 0.54 and 0.4 licensed place per child and postcodes with less than 0.4 licensed places per child are low concentration. This reflects three evenly distributed quantiles. Excludes preschools, kindergartens, and integrated preschool/kindergartens with an LDC.

The ends of the whiskers represent the 5th and 95th percentile of rent in each concentration category.

- \$2230.26 per licensed place for medium concentration areas
- \$2394.22 per licensed place for high concentration areas

Figure 6 below (above) shows the particularly extensive range of rent charged per place in the upper two quartiles of services in areas of high concentration. Across our membership, we identified that the maximum rent per annum for services in high concentration areas in 2022 was \$9847.22 per licensed place. In a recent ELACCA meeting, one member anecdotally noted that their rent charged per place ranges from \$4000 to \$8000 per licensed place.

Rent continues to be a major cost driver in the setting of fees, and largely, a cost that is beyond the control of large providers of early learning and care – and is fixed, unable to vary to accommodate the actual occupancy of the service.

### Next steps

ELACCA appreciates the opportunity to provide feedback to the ACCC's inquiry and providing a more substantive response to your upcoming consultation paper.

Further, we would also be happy to host a consultation session with our member CEOs to share their feedback with the ACCC directly.

For further information, or to arrange a consultation session, please contact:

Elizabeth Death, Chief Executive Officer – ELACCA

[REDACTED]

or

[REDACTED]

Thank you for considering our paper.



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& Care Council  
of Australia

[elacca.org.au](http://elacca.org.au)