IPART

Early childhood education and care affordability, accessibility and consumer choice.

Goodstart Submission

May 2023

We're for children, not profit.

Contents

ABOUT GOODSTART

Goodstart is a not-for-profit social enterprise and is the largest provider of early childhood education and care in the nation with more than 660 centres located across every state and territory.

We have a strong presence in NSW with 134 centres supporting over 12,400 children from nearly 10,400 families. Nationally our centres support more than 63,600 children from 53,700 families.

Our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. All children should be supported to participate in quality early learning and care, regardless of where they live in Australia, their family circumstances, their inclusion support needs, or their early learning setting. Our unique purpose means we work in partnership with the sector, Governments and the community to improve outcomes for all children – not just the children who attend a Goodstart service.

We employ more than 2,800 people in NSW and we are also a highly feminised workforce. Our workforce includes qualified educators (Certificate III and Diploma), Bachelor qualified teachers and inclusion professionals, including speech pathologists, occupational therapists and child and family practitioners.

Last year, our targeted social purpose investments of $47 million delivered a "social dividend" valued at $336 million. Our social dividend is calculated using a social return on investment methodology and represents the unique social and economic value delivered for children, families, Government and the broader community. In a typical commercial operation, the $47 million would likely have been paid as profits to shareholders or business owners but we invest in activities like funding inclusion for children with additional needs, investing in Reconciliation and evidence-based professional development that help ensure all children, and especially those in low-SEIFA and rural and regional areas have the learning, development and well-being outcomes they need for school and life.

SUMMARY

Goodstart welcomes the Independent Pricing and Regulatory Tribunal review of early childhood education and care, to understand affordability, accessibility, and consumer choice, and make recommendations where necessary to improve experiences for children and families in NSW.

As a national provider of ECEC, we note that this review is occurring alongside major inquiries commissioned by the Australian Government including the Productivity Commission Inquiry, and the Australian Consumer and Competition Commission.

In terms of early childhood education and care policy, NSW has a strong legacy of leadership and acting in the best interests of children and families. It funded the initial development of a vibrant, low-cost community preschool sector and in 2006, it was the first state to put qualified teachers into long day care centres. These investments have helped to secure the committed workforce and strong sense of professional identity that is the cornerstone of the ECEC sector in NSW.

More recently the NSW Government made a $10 billion investment to ensure the children and families of NSW have access to affordable, accessible early learning, including for families who attend Long Day Care. This has been a crucial move to support working families in NSW who need access to longer hours and the flexibility provided by centre based long day care services.

IPART has been given four tasks by the Government:

1. To review the market for ECEC in NSW
2. To collect current fee, household out of pocket costs and provider revenue and cost information in various circumstances

3. To estimate benchmark prices that can be used as a standard to measure and compare ECEC fees
4. To recommend ways for the NSW Government to improve ECEC affordability, accessibility, and consumer choice

This inquiry is happening at the same time as national inquiries by the ACCC and the PC with potentially far-reaching impacts on the matters that IPART has been asked to review. We also note that this review will report by the end of the year and that the IPART report is likely to feed into the PC inquiry in particular. Goodstart's submission seeks to focus on the matters where we think IPART could make a unique and significant contribution to this broader policy debate and also make recommendations to benefit families in NSW. We encourage IPART to utilise the data sources and tools already available to progress its tasks. Goodstart's submission to the Productivity Commission is included as an attachment to this submission to assist IPART in considering its inquiry in the context of the broader policy reform agenda.

Some of the tasks that IPART has been asked to do are extremely challenging to do effectively in the timeline and with the resources it has available. Developing benchmark fees that 'reflect' costs is extremely challenging and complex to do accurately at scale given the wide variability of cost drivers and the significant impact variations in occupancy (or variations in attendance patterns by children) has on cost structures in ECEC. We suggest ways that IPART could develop meaningful, but not perfect, benchmark fees while also providing important insights into costs and excessive fees. We note the former Productivity Commission Inquiry found this was a reasonable approach given the low-margin nature of ECEC.

Goodstart as a not-for-profit social enterprise notes the role that NFP providers play in addressing affordability, accessibility, quality, inclusion and consumer choice, and make recommendations on how the role of the NFP sector could be enhanced to further these objectives.

RECOMMENDATIONS

The operation of the ECEC market, including access and choice of services

Recommendation 1:

That IPART investigate the competitiveness of local markets for ECEC and the responsiveness of providers to fees set in local markets, having regard to any ACCC work in this regard.

Recommendation 2:

That the New South Wales Government work with ACECQA and the Federal Government to strengthen local markets and transparency by ensuring real time reporting of fees through the Starting Blocks website which can then be shared with other consumer websites, and to deliver longer term more systemic improvements in local market competition following the ACCC and PC inquiry processes currently underway.

Recommendation 3:

Goodstart recommends the NSW Government improve the A&R process to provide more consistent, timely and communicated quality Q&R results:

a. The frequency of A&R assessments to meet the original three-year review cycle envisaged under the National Quality Framework (12 months for Working Towards services)
b. That ACECQA play a stronger moderating role in ensuring national consistency in quality A&R processes
c. That parents be advised when an A&R result is made for their centre
d. That there are consequences for services that repeatedly fail to meet the NQS.

Recommendation 4:

Goodstart recommends the NSW Government implement service level inclusion funding to assist in meeting the needs of children with identified vulnerabilities attending a specific (high-quality) service and assume a more proactive stewardship role in raising and enforcing its expectations that all ECEC services will be inclusive.

Affordability of services

Recommendation 5:

Goodstart recommends that the design of ECEC subsidies, at both State and National levels, should continue to be focused on reducing out-of-pocket costs and minimising barriers to access for all families and particularly for low-income families and other groups likely to be experiencing vulnerability or disadvantage. Goodstart strongly supports the current approach which efficiently leverages Australian Government Child Care Subsidy and NSW Start Strong subsidies to reduce out of pocket costs for families; deliver child development outcomes; address vulnerability and disadvantage; and support workforce participation by parents.

Recommendation 6:

That the NSW Government pursue a policy of trying to improve the affordability and accessibility of ECEC by improving the transparency of fee and the effectiveness of local markets, expanding the ECEC workforce to support more places, better managing growth in the market of ECEC services, expanding the number of low-cost high quality NFP and public services, and investigating the role of schools in increasing OSHC costs.

Setting benchmark prices

Recommendation 7:

That IPART, in proposing benchmark fees, use the SA3 and SA4 statistical division reporting from the quarterly fee data released by the Federal Education Department, and that the Department be encouraged to publish both average hourly fees and average daily fees based on comparable session lengths.

Recommendation 8:

That the development of 'benchmark fees' based on efficient cost is not proceeded with as IPART has insufficient time and data available for this complex task to be undertaken effectively, and because it is extremely difficult to identify an accurate single price for a single service in ECEC given the variability of cost drivers.

Recommendation 9:

That IPART provide advice to the New South Wales Government on the variability of cost drivers that underpin reported fees, and the factors and circumstances that influence cost structures in ECEC.

Recommendation 10:

That IPART should consider the findings and recommendations from the ACCC Inquiry on what additional options may be desirable, practical and effective to identify and address outlier excessive fees.

Supply of services

Recommendation 11:

Implementation of stronger governance, funding programs and changes to State Planning Policy to ensure investment in network growth is directed to high quality provision and where it is needed:

a. Implement a market planning approach where new service approvals must demonstrate a need for the service and/or that it meets nationally set priorities for quality, inclusion and access
b. Providers cannot add a new service approval to their network until at least 90% of their existing service meet the National Quality Standard, and that new approved providers can demonstrate ECEC expertise and experience in delivering quality ECEC services by persons with Management and Control and early monitoring to ensure new providers become high quality.

Recommendation 12:

That the Child Care Economic Opportunity Fund should directly invest in new quality not for profit and public services in accordance with a statement of national priorities to ensure more families have the option to choose higher quality and inclusive provision. Priorities should include:

a. New services in communities that currently have little or no access to high quality NFP or publicly owned centres
b. Innovative centres in thin markets that meet the broader needs of the community
c. Supporting and expanding the network of community controlled First Nations ECEC services
d. Place-based services that are responsive to local community needs, particularly in communities of deep disadvantage
e. New integrated services on all new school sites.
f. Services well equipped for learning support for children with additional needs.

Workforce

Recommendation 13:

That the State Government and the Child Care Economic Opportunity Fund should direct more investment into supporting and growing the ECEC workforce including:

a. Continuing free TAFE courses for Cert III and Diploma qualifications
b. Financial incentives for services taking on a new trainee to support mentoring and additional funding for traineeships for educators
c. Expanding the pool of early childhood teachers by:
    i. Expanding places in ECT ITE courses at universities supported by scholarships
    ii. Developing more tailored intensive courses for experienced Diploma qualified educators to progress to ECT qualifications within 12 months, supported by funding arrangements and mentoring to cover up to 80 days of practicum teaching placements
d. Including early childhood teachers and educators in priority migration programs, with a medium-term goal of developing and Industry Migration Plan
e. Expand access to quality professional development including funding time off the floor for educators
f. Tailored support packages to attract and retain educators and teachers in regional and rural areas including incentives and ensuring access to training and professional opportunities
g. Longer term, enhance the professional recognition and support for early childhood teachers and educators with more emphasis on the importance of pedagogy and learning, building on the actions in the 2021 National ECEC Workforce Strategy.

Recommendation 14:

That the National Quality Standards, including additional requirements for extra teachers in NSW, be reaffirmed as the crucial underpinning of structural and process quality needed to positively impact on child outcomes.

Goodstart recommends that Government policy on service delivery should not compromise quality to enhance affordability, as only quality ECE makes a substantial difference to child development outcomes in the short and long term.

Provider costs and revenues in delivering services

Recommendation 15:

Government should play a stronger role in placing conditions on the supply of services to ensure quality, inclusion and access objectives are met. Specifically, this should include consideration of and minimum benchmarks for:

a) Quality including A&R but also other compliance measures
b) Inclusive practice and investments in inclusion
c) Existing local supply and quality of existing supply
d) A desirable service configuration including a mix of places for infants, toddlers and preschool aged children.

Abbreviations dictionary

ACCS	Additional Child Care Subsidy
ACECQA	Australian Children's Education and Care Authority
CBDC	Centre-based day care
CCS	Child Care Subsidy
ECEC	Early childhood education and care
ECT	Early Childhood Teacher
OSHC	Outside school hours care
ISP	Inclusion Support Program
NFP	Not-for-profit

IF YOU WOULD LIKE TO DISCUSS ANY PART OF THIS SUBMISSION PLEASE CONTACT:

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[redacted]

RESPONSES TO THE ISSUES PAPER

Operation of the ECEC market including access, choice and affordability of services

The following responds to Issues Paper questions: 1,2,3,4 &5

The ECEC market is highly localised and very competitive

The Tribunal has been asked to review the operation of the ECEC market in NSW. In our submissions to the ACCC and the Productivity Commission, Goodstart has argued that in our commercial experience local markets are quite competitive, and that this could be strengthened by improving real time transparency of fees for both families and providers. Across Goodstart's network of 660 centres, our experience is that:

- centres priced above the local average often see occupancy decline
- centres in markets where a new entrant opens often see occupancy decline, although many families subsequently return
- in the rare years when Goodstart's fee increases were above the sector average, our occupancy overall tended to fall while in years our fee increases were below the sector average, our occupancy tended to rise.

In short, families are price sensitive, and the market works to constrain fees.

The 2014 Productivity Commission analysis found that markets in ECEC were very localised, that is most families place their child within 2-5km of their home. Within local markets, fees were generally competitive with roughly half of long care are providers setting fees for a three-year-old within 5% of the average fee within the local area.[1] Goodstart has encouraged the ACCC to undertake a similar analysis. The South Australian Royal Commission also found that 38% of families accessed an LDC service within their suburb (SA2) and 63% of Adelaide families (82% of non-metro families) accessed an LDC suburb within their broader local area (SA3).[2] Our experience is that this is still the case – roughly 80% of our families choose a service with 12 minutes drive of their home.

This pattern of intensive localised competition is crucial to understanding how fees are set in the ECEC market. If anything, it has intensified since 2014 as the growth in centres have outstripped the growth in children enrolled. Competition is amplified by popular commercial consumer websites like Kindicare and Care for Kids which provide an average fee for the suburb being searched.

Goodstart would encourage IPART to investigate the competitiveness of local markets for ECEC and the responsiveness of providers to fees set in local markets as a key input into its deliberations. The ACCC will also be undertaking similar work and we would encourage IPART to collaborate with the ACCC.

Recommendation 1:

That IPART investigate the competitiveness of local markets for ECEC and the responsiveness of providers to fees set in local markets, having regard to any ACCC work in this regard.

[1] Productivity Commission (2014) pp. 368-374

[2] Deloitte (2023) Mapping long day care and non-government preschool in South Australia, Royal Commission into ECEC, p 15

Against this backdrop, it is hard for families to compare services and make informed decisions because transparent comparable information is not easily available.

There are several things that Governments could do to strengthen markets, starting with strengthening Starting Blocks – the government approved website for information about ECEC services.

ACECQA maintains the Starting Blocks website, and is accountable to Federal, State and Territory Governments through its board and to Education Ministers. StartingBlocks is the source for information for parents about children's education and care but it does not have accurate information on fees and makes it hard for families to compare like-for-like services or accurately compare and calculate out of pocket costs. From a family perspective, Starting Blocks is not helpful in understanding and comparing price, quality or out-of-pocket costs of the choices available to them because:

- Fees are not current, with examples of some reported fees being up to four years old, and the 'date of last fee update' is not published.
- Published fees are 'typical daily fees' that are not standardised, so families are not able to compare like-for-like, for example:
    - A daily fee may be for a 7.5-hour session and another for a 12-hour session.
    - Fees may not be consistent across all rooms (e.g., nurseries compared with toddler rooms).
    - No information is available regarding discounts offered, e.g., multi-day enrolments, multiple children from one family, etc, or other offers by providers, such as not charging on public holidays.
- Session lengths are not reported alongside daily fees, so families can't calculate their hourly fee or if a fee is above the Hourly Fee Cap (the linked Child Care Subsidy calculator requires hourly fees to be entered to estimate out of pocket costs).
- There is no information about whether a service is CCS-eligible, so families cannot determine their out-of-pocket costs and no information is available about NSW Start Strong Free Preschool funding.
- Quality ratings (NQS) may be as much as six-10 years old, depending on the frequency of assessment and ratings conducted by state regulatory authorities. In NSW long day care, 47% (or 1,635 services) have an Assessment and Rating that is more than 3 years old and 7% (249 services) are more than 5 years old.[3]

From a provider perspective, starting blocks should contain up to date, accurate and comparable information that is regularly updated and maintained. The data should be accessible for other aggregators (e.g., Care for Kids, Kindicare) or State Governments to access and promote. State Governments could work to strengthen Starting Blocks by requiring that community preschools report their fees on the site for a wholistic view of options for families. The governance of the site could become a true collaborative project between both levels of Government to create a single source of truth, a single reporting obligation for providers and a more transparent and valuable resource for families, providers and policy makers to use to strengthen the operation of local markets and maximise downward pressure on fees.

The data from Starting Blocks is also used by consumer websites such as Kindicare, Toddle and Care for Kids which carry much higher parent traffic than Starting Blocks. Providing up to date data from Starting Blocks to these sites popular with families is crucial to improving fee transparency and ensuring markets operate more effectively.

Goodstart would encourage the New South Wales Government to pro-actively advocate for the most robust, transparent, timely and consumer-friendly website possible. The New South Wales Government

[3] ACECQA National Register May 2023

could also strengthen Starting Blocks by requiring all services receiving preschool funding from the New South Wales Government to ensure that their fee data on Starting Blocks is up to date.

Recommendation 2:

That the New South Wales Government work with ACECQA and the Federal Government to strengthen local markets and transparency by ensuring real time reporting of fees through the Starting Blocks website which can then be shared with other consumer websites, and to deliver longer term more systemic improvements in local market competition following the ACCC and PC inquiry processes currently underway.

Families are looking for Quality when making choices about ECEC

Families are looking for both affordability and quality in their local services. How families perceive quality may vary from how regulators perceive quality, but 'child centred' factors are generally more important than affordability in choosing a service.[4] The most important quality element for families is the relationship between the child and their educators.[5] ACECQA research shows location, the skills of the education and the quality of the early learning program rank slightly higher than cost/affordability in the most important factors for families when choosing a service. Quality ratings rank much lower, although the awareness of quality rating by parents has risen noticeably over previous surveys.[6] We also note that there is good correlation between how parents describe quality and elements of the National Quality Standard.

Goodstart's brand survey work shows similar findings on factors influencing families choice of service: safety and hygiene; overall 'quality' and 'feel' of the service experienced by families and their interactions with staff; the price differential of a centre relative to local market prices; location of the centre in terms of drive time from home; the NQS Quality Ratings; specific service inclusions and the availability of the desired days.[7] Families care about the educators' skills and qualifications, their relationship with their child, and the quality of the learning program, but they use different language to people in the sector when talking about quality. This is a positive finding for Governments because it shows families are positively influenced by the characteristics that determine if a service is 'high quality,' which is a necessary pre-condition for ECEC to improve children's learning and development outcomes.

Key features identified by families as 'must-haves' by both Goodstart parents, and non-Goodstart parents include trained and qualified educators, strong relationships between children and educators, excellence in programming all of which are underpinned by a skilled and stable workforce.[8] These findings confirm Goodstart's approach to prioritising investments in our workforce.

At Goodstart, over 98 per cent of our services are Meeting or Exceeding the National Quality Standard, and three of our services have Excellent ratings. Together with our Excellent-rated Big Fat Smile service, we boast 11 per cent of Excellent-rated services in the country, which is more than our market share.

[4] Degotardi S., Sweller N., Fenech M., Beath A., (2018) Influences on Parents' Child Care Choices: A Comparative Analysis of Preschool and Long Day Care Users, Child & Youth Care Forum, v. 47 p 683-700 DOI:10.1007/s10566-018-9452-3

[5] NSW Education Department (2022) Early Childhood Education Families Research https://education.nsw.gov.au/early-childhood-education/leadership/resource-library/early-childhood-education-families-research0

[6] ACECQA (2021) NQF Annual Performance Report p. 46-48

[7] Goodstart internal statistical analysis and research, 2022.

[8] Goodstart Brand Research, 2020.

Infrequent and inconsistent NQS service ratings are undermining the integrity of the quality system and not holding low quality services accountable for improvement.

The New South Wales Government has invested heavily in the assessment and rating system under the NQS. Goodstart supports the A&R system which we believe provides a powerful tool for parents, policy makers and providers on assessing quality. To be valuable, ratings need to be timely and consistent. NSW has done better than the other states in providing timely quality assessments but could do better. Just 0.9% of CBDC centres in NSW have an assessment > 5 years old, 43% have an assessment > 3 years old. The average for the rest of the country is 24% and 62%. But, even in NSW, half of centres assessed as Working Towards have not been reassessed within 12 months.[9] In our view, assessments of all centres should occur every three years and assessments of services assessed as Working Towards should occur every twelve months.

There should be consequences for services not meeting the NQS. A decade after the NQS commenced, it should no longer be acceptable that 10% of CBDC services and 35% of FDC services still do not meet the NQS. Where a service is assessed as Working Towards, the Department should proactively work with the service to update and implement its Quality Improvement Plan. If it is assessed twice as working towards (and there are 173 CBDC in NSW in that category) then they should then come under the direct supervision of the Department which can then direct the provider on improvements that are required. If a provider fails to improve the quality of the service, then the Department should consider serious steps such as cancelling the service approval. In most markets the Department could work with high quality providers to ensure continuity of service for children and families.

While parental awareness of NQS ratings has improved, it could be enhanced further. A simple reform could come in the form of a requirement that all parents in a centre be informed of a rating when it is made.

Finally, regulators need to ensure that A&R ratings are nationally consistent. We think ACECQA should play a stronger 'moderator' role and receive investment to ensure consistent A&R standards and results across Australia.

Recommendation 3:

Goodstart recommends the NSW Government improve the A&R process to provide more consistent, timely and communicated quality Q&R results:

a. **The frequency of A&R assessments to meet the original 3-year review cycle envisaged under the National Quality Framework (12 months for Working Towards services)**
b. **That ACECQA play a stronger moderating role in ensuring national consistency in quality A&R processes**
c. **That parents be advised when an A&R result is made for their centre**
d. **That there are consequences for services that repeatedly fail to meet the NQS.**

Goodstart has a strong commitment to inclusion and has made significant investments to ensure all children and families can access and participate in early learning.

We agree with the Tribunal's finding that unfortunately, not all early childhood services are inclusive for all children. In many communities we have received feedback from families who have come to Goodstart because they have been turned away from other services. This includes those from a First Nations background, from culturally and linguistically diverse backgrounds, children who have a disability and/ or complex needs and other children who have experienced vulnerability or disadvantage and who require additional support to enrol in and attend ECEC. 10% of children enrolled in our NSW services in 2022

[9] ACECQA National Register 10/4/2023

Identify as First Nations, 7% had a diagnosed disability or condition, 4% were identified as children at risk and 26% of children were from Low SES families.

Children living with disability, developmental delay and other inclusion support needs often face exclusion from mainstream ECEC services because the service cannot meet their needs.

Too often, this is because these children incur higher costs in ensuring their successful inclusion and participation (through higher labour and equipment costs) and the current inclusion support funding creates significant financial disincentives for all providers to enrol children with inclusion support needs. For many of these children, it may not be safe or worthwhile to participate in early learning without additional inclusion support.

As a result, these children forego the benefits of high-quality early learning and their families may be making difficult trade-offs about their workforce participation, such as working part-time or turning down promotions because their child would not be adequately supported. The evidence tells us that parents – particularly mothers – caring for children with a disability or other health conditions, including autism and ADHD, have lower workforce participation than other parents.[10] Further, governments face higher long-term costs as a result of late intervention.[11]

At Goodstart we have made significant investments in addressing cost and non-cost barriers to ensure vulnerable children attend enough to make a difference.

We know that the more days a child attends, the less likely the child (and the family) are to drop out of early learning. Vulnerable children that have an entitlement of at least three days of early learning tend to participate and stay in early learning at a rate comparable to their more advantaged peers, whereas children with an entitlement of less than three days are around 29% more likely to drop out of early learning.[12]

Goodstart has a strong track record in providing quality ECEC for all children, particularly children experiencing vulnerability or disadvantage. We make investments at the child level, the service level and the enterprise level to deliver on this strategic priority in line with our purpose and informed by evidence. We actively support all children to participate in our services, irrespective of their abilities, developmental capabilities or life circumstances.

Our annual child census shows that every Goodstart centre has children enrolled who are experiencing vulnerability, although some services have higher proportions than others. We are often told by families that their children have been declined enrolment at multiple other services before being welcomed at ours.

We have undertaken statistical analysis based on the attendance patterns of over 175,000 children nationally to better understand what factors might help keep children in early learning and what factors contribute to children leaving ECEC for a reason other than starting school. We found that children with a disability or diagnosed condition in our centres have the lowest exit rates of all children at Goodstart. This suggests the investments we make in supporting those children and their families have been effective in ensuring these children can access and participate in ECEC.

Despite targeted Government programs, such as the Inclusion Support Program, many costs are not covered by Government and Goodstart funds the gap.

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[10] AIFS, Family Matters (2014), Impacts of caring for a child with chronic health problems on parental work status and security: A longitudinal cohort study.

[11] The Front Project (2019), How Australia can invest in children and return more – A new look at the $15bn cost of late action.

[12] Internal evidence – we would be pleased to share this on request.

Under the current Child Care Subsidy Safety Net, the Inclusion Support Program (ISP) is the only government funding mechanism for additional, above-ratio educators to support inclusion of children with additional needs. However, ISP funding does not cover the full cost of inclusion.

At Goodstart, we provide a national support structure that assists with enrolling children needing additional support, accessing funding, providing additional staffing and delivering professional development to upskill teams in their work with children with disability or developmental delays. We also endeavour to maximise all available funding and support, so a child can fully participate in early learning however sometimes administrative delays risk the child not receiving the support they require. We fund additional educators (outside ratio) to support children with additional needs, we work hard to ensure our early learning environments are suitable for children of all abilities and we continuously develop and invest in our educators to enable them to offer the best possible care and education for all children.

A service level funding model would assist with the additional costs of inclusion, delivering local inclusion capability uplift, outreach and other service level solutions. It would recognise that some providers are more inclusive than others, and some children particularly those with multiple vulnerability risk factors need additional funding to be supported. The Victorian Government School Readiness funding model, allocates funding based on the level of need of the children enrolled in the service. The funding ranges from $1000 for services with lower levels of children with need to more than $200 000 for those with higher levels of need and high enrolment numbers. Goodstart would support a NSW service level funding model similar to this to support the inclusion of more children in ECEC.

The funding reforms, which we have recommended in our submission to the PC, would be underpinned by a stronger commitment expected at the service level to inclusion. As outlined in Quality Area 6 and Quality Area 5 of the NQS, each centre is expected to reflect on how it connects with its community and on its inclusion practice. The impact of these practices can make a radical difference to children and families in communities facing disadvantage. This should include providing investment to support centres in these communities expand their Quality Improvement Plans to include a strengthened focus on inclusion and community connection activities, which could become one of the activities on which a centre is held accountable. This would be part of a stronger stewardship approach where Government, in exchange for higher levels of public funding, raises its expectations on the extent to which services are expected to contribute to Government policy objectives of quality, inclusion, access and affordability.

Recommendation 4:

Goodstart recommends the NSW Government implement service level inclusion funding to assist in meeting the needs of children with identified vulnerabilities attending a specific service and assume a more proactive stewardship role in raising and enforcing its expectations that all ECEC services will be inclusive.

Affordability of services

The following responds to Issues Paper questions: 6,7,8 & 9

As discussed above, fees for an individual service broadly reflect local market conditions, but also local cost drivers. Local cost drivers can include local conditions, such as demand, competition, socio-economic conditions of the community and other tangible factors, such as occupancy, the age of the facility and age of the playground, and the quality of the program. Local cost drivers that contribute to differences in fees charged across services include property costs and, to a lesser extent, staffing costs. Local competition keeps downward pressure on fees as services (including Goodstart) need to be competitive, with services in higher cost markets more likely to be above the Hourly Rate Cap.

For Goodstart, fees are set at a service level with a view to maximising affordability for families, local market competition and service viability, noting around 22 per cent of services in the Goodstart network had a negative contribution margin in 2022 (i.e., their centre revenue did not cover centre costs – before any overhead or centre support office costs were allocated). If these services had their fees increased to achieve cost-recovery, experience shows that families would change or cease their enrolment and occupancy would drop as parents sought other providers within the local market. The alternative would be to try and reduce centre costs, which is challenging, and in some cases not possible, given the high proportion of fixed costs.

Fees charged for younger children are higher than older children in most Goodstart services reflecting the higher costs of delivery, however, these higher fees are designed as a price signal for families and they do not fully recover the higher costs. Lower fees charged for preschool aged children in NSW also reflect investments made by the State Government in supporting the costs for preschool.

We offer nine, 10-hour and full-day (12-hour) sessions with different fees, which maximises flexibility and affordability outcomes for families.

One of the stated policy objectives of the CCS reforms was to encourage services to offer shorter session lengths for families. However, while shorter session lengths have a lower daily fee, they have a higher hourly rate than longer sessions, which reflects the fact that costs must be recouped over fewer hours.

The design of the CCS means affordability for families is maximised when their booked session lengths are multiples of their CCS activity test result. For example, a family with 36 hours of CCS per fortnight that needed two days of ECEC would have lower out of pocket costs if they accessed two-by-nine-hour sessions (total 36 hours per fortnight) than if they accessed 2x11 hour sessions (total 44 hours per fortnight). This is because 2x11-hour sessions would incur full fees for the remaining 8 hours of unsubsidised ECEC each fortnight.

We also have multi-day fee offers and casual daily fees.

Our fee schedule also offers different fees depending on how many daily sessions a family requires. This includes a small price signal to encourage multi-day bookings: the daily fee is lower if a family books multiple days (i.e., a five-day booking attracts a lower daily fee than a four-day booking, and a four-day booking has a lower daily fee than a three-day booking and so on). We also have a daily casual fee for families who want to book a 'one-off' extra day. In 2022, our average one-day fee was $133.50 (10-hour session) and our average five-day fee was $120.60 (10-hour session). On average, there is an 11 per cent difference between our average one-day fee and average five-day fee.

'Safety net offers' – two 6-hour sessions for CCS24 families and two nine-hour sessions offer for preschool exemption families

Our social purpose funded 'Safety-net' offers were priced to ensure low-income, low work families who had only 24 or 36 hours of subsidy per fortnight weren't worse off when the CCS was introduced in mid-2018, and to provide an affordable preschool offer for families with at least one-parent not in work. The CCS24 'two 6-hour' session offer was priced at around 70 per cent of the three-day/10-hour fee which is significantly below the cost of delivery. The CCS36 preschool exemption for families with at least one-parent not in work has a $3 discount on the usual 'two nine-9 hour' session fee.

A child's entitlement to subsidised hours of ECEC is based primarily on what their parents are doing, including:

- Whether one or both their parents are working, studying, or training
- How many hours of approved activity each parent is doing, with subsidised hours based on the least 'active' parent
- How many minutes their parents spend travelling to and from their workplace to ECEC
- If one parent is looking for work - hours are capped
- If one parent is volunteering - hours are capped
- If income goes over the safety net income threshold in single income households - subsidised hours cease
- Whether their parent or carer has a disability or their status as a carer (i.e., Carer Allowance);
- Whether parents acknowledge their children are identified as being at risk of abuse or neglect – or have been for an extended period.

When their family's circumstances change, so does the child's entitlement to early learning. The highly stepped model of the activity test means reduced hours of work can result in reduced access to subsidised hours, which impacts affordability and often results in children having their days reduced or even being withdrawn from early learning. This can be quite disruptive for a child, noting the importance of strong, secure, reciprocal, and communicative relationships between children, their peer group and their educator, especially in the first five years.

Working families in NSW are likely to be disproportionately impacted by higher out-of-pocket costs compared to families in other parts of the country due to higher costs of delivery in NSW.

The Hourly Rate Cap of the Child Care Subsidy is a key feature in delivering affordable, accessible ECEC for families in a way that was sustainable for Government. When the Hourly Rate Cap was introduced, the original rate was set at the 85th percentile of fees. However, it has declined over time, as the CPI indexation methodology (based on the previous December quarter CPI) is below increases in costs incurred in delivering ECEC. As costs of delivery increased faster than inflation, more fees have met or exceeded the Hourly Fee Cap each year, with the full cost of any further fee increases being born by families.

Goodstart fees show that the average percent of fees above the hourly rate cap are higher in NSW compared to the percentage nationally. This is largely driven by higher costs of delivery in NSW, particularly in relation to labour costs and rent. Out of all sessions offered (All day, 10hr and 9hr sessions) 69% of fees in NSW are above the hourly cap compared to the national percentage of 52%. Out-of-pocket costs as a % of disposable income for families in NSW should be commensurate with families living in other parts of the nation.

NFP services are on average are more affordable than private services.

In the September quarter 2021 nationally, the average hourly fee charged by not-for-profit Centre Based Day Care services was $10.80, while for for-profit services it was $11.05 per hour.[13] Taking into account the average session lengths offered in both sectors, this works out to an average daily fee of around $118.60

[13] Senate Education & Employment Committee Budget Estimates 2022-23 Department of Education response to question on notice SQ22-000397

for a typical NFP service in 2021, and $125.20 for a typical private service, a difference of 5.3% per day.[14] The Independent Evaluation of the Child Care Package found that fees as a proportion of family income were much lower for families using NFP services than in private services, with out of pocket costs making up 4.0% of gross family income for families using private services, but 3.6% of family income for families using NFP services.[15]

Families with young children in NSW are seeking greater flexibility and affordability to support their busy lives

Many families continue to choose sessional preschools for their children, which traditionally operate as two 7.5-hour days for 40 weeks per year and have a strong history of providing high quality preschool to thousands of children. However, as the workforce participation rate of women has increased over time, enrolments have shifted away from community preschools to long day care centres which many working families find more convenient with their more flexible sessions, longer opening hours and 52 week-per-year operating model. Both sessional preschools and preschools in LDC settings are delivered by fully qualified teachers in line with the Early Years Learning Framework.

At present, 66% of children enrolled in a preschool program are enrolled in a long day care centre compared to only 34% that attend community preschools.[16] The NSW Start Strong fee relief has assisted in reducing the out-of-pocket cost for parents with children attending preschool in NSW, meaning that preschool, including in Long Day Care is more affordable for more NSW families. In Goodstart centres 10% of families out of pocket costs were between zero and $5 per day after the fee relief, 4% of families reduced their out of pockets costs to between $5 and $10 per day, with the remaining 85% still paying more than $10 per day out of pocket.

Affordability impacts parents workforce participation but also impact children's participation in early learning and care

Although a range of economic, social and cultural factors drive decisions about work, many women with children report that they want more paid employment. For these mums, the cost of ECEC is the most frequent reason put forward for not joining or increasing their workforce participation. ECEC costs for families are more in Australia than most OECD countries, absorbing 19 per cent of household income for the average couple, compared to the OECD average of 10 per cent.[17] The design of our tax and transfer system also means there is a high 'workforce disincentive rate' for women either returning to work or taking on additional work.[18]

Due to the introduction of CCS in 2018, more families added an extra day of ECEC. Anecdotally, the second child discount and discounts for ECEC workers were effective at attracting (mostly) mothers who previously had very high effective marginal tax rates to move back into the workforce when they had multiple children under five.

Unfortunately, women and particularly mothers of young children in NSW experience vastly differing barriers to economic and social participation depending on a range of circumstances including where they live, how many days they work and how much they earn.

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[14] Analysis of the ACECQA national register (June 2022) showed the average session length for private providers was 11:20 hours and for all other providers (NFP, Govt & Indep. Schools) was 10:59 hours).

[15] AIFS Child Care Package Evaluation Aug 2021 p.122

[16] ABS "Preschool Education Australia 2020" 4240.0 table 20. Of those that attend a preschool, 19% also attend a long day care centre for part of their preschool.

[17] OECD (2022), Net childcare costs (indicator). doi: 10.1787/e328a9ee-en (Accessed on 01 March 2022)

[18] KPMG (2018) The cost of coming back: Achieving a better deal for working mothers, accessed at https://assets.kpmg/content/dam/kpmg/au/pdf/2018/achieving-better-deal-working-mothers.pdf

What can the Commonwealth Government do to address affordability?

The Commonwealth, as the primary funder of ECEC, is the primary driver of affordability through the CCS. The significant changes to the CCS in July 2023 will reduce out of pocket cost for most families by 30-40%. The Productivity Commission has been tasked with developing the next stage of the reform process. Our attached submission to the Productivity Commission outlines our recommendations on what the next steps should look like.

What can the NSW Government do to address affordability?

The NSW Government's options to address affordability are more limited but still significant:

1. State preschool subsidies directly impact on affordability.

Goodstart strongly supports the current approach which efficiently leverages Australian Government Child Care Subsidy and NSW Start Strong subsidies to:

- reduce out of pocket costs for families
- deliver child development outcomes
- address vulnerability and disadvantage
- support workforce participation by parents.

As of this year, theState Government has been providing fee subsidies to LDC and community preschool providers to reduce out of pocket costs. These are substantial – worth over $40 a week for a full year – and important to our families. The State will want to ensure that this payment goes to families and not into providers' pockets. The State could require all recipients of this funding to advise the Department of fees for preschool programs and any changes in preschool program fees. Where the Department believes that fee increases are 'excessive,' they should ask providers to justify them. The provider could be denied all or part of its preschool funding if fees are found to be excessive. What is an 'excessive' fee should be worked out in consultation with the sector, having regard to the final landing of the ACCC report. Communication with Parents would be an important part of new transparency measures. This is further discussed in the section on benchmark fees.

2. Strengthen competition in local markets with improved transparency

As discussed earlier, local markets are generally competitive and act to constrain fees. This can be enhanced through greater transparency of fees and providing parents with up-to-date and comparable information. The NSW Government, as a key stakeholder in ACECQA, should play a proactive role in improving fee transparency through the flagship Starting Blocks website, and ensuring fee data is shared with the other consumer websites. This could be strengthened by making the lodging of up-to-date fees with Starting Blocks a condition of receipt of preschool funding.

3. Expand the ECEC workforce

As discussed in the next section, the shortage of ECEC workers adds to costs in several ways. First, it directly increases provider costs in needing to rely more on expensive agency and casual staff. Secondly, it reduces the number of places available because services are forced to cap or limit places because they can't find staff, which, in turn, reduces competition. Thirdly, it has negative impacts on quality which in turn impacts on families' confidence in the system and their willingness to place their children in early learning and care. As discussed above, establishing a strong relationship between educator and child is seen by families as the single most important indicator of quality. Investment to expand the ECEC workforce will in turn improve affordability and availability of ECEC in the medium to longer term.

4. More intentionally shape the growth of the market

Basic economics suggest that, as supply grows in a market, then the price will fall. This, however, relies on the extent to which price (and costs) are variable. When a large part of a price reflects fixed costs, the average cost of provision actually rises when occupancy rates fall. This is the case in ECEC, where a large part of the cost base is fixed (as discussed in a later section) Fixed costs include: Property costs, much of labour costs; overheads (e.g., Information technology, marketing, finance and regulation) and compliance and administration all have a fixed element and with average costs falling as occupancy rises.

Oversupply of centres is also an inefficient use of labour, which is a finite resource. The growth in the workforce has not kept pace with the growth in new centres. More centres chasing a smaller number of educators inevitably leads to inefficiency of labour use and higher costs.

In its latest industry analysis report, IBIS Consulting notes that relatively low occupancy rates are working against childcare services, due to surplus capacity, opening of new centres, the COVID effect and the impact of new private equity investors. IBIS observed, *"Low occupancy rates in key geographic markets are also contributing to declining profit margins. In response, childcare providers have sought to raise fees."*[19]

In a later section, we recommend a more planned approach to new centre approvals which would reduce average costs and support higher quality supply for families.

5. Expand the role of the NFP sector:

NFP providers have lower fees on average than private providers. In Q3 2021, the average hourly fee charged by NFP CBDC services was $10.80, while for-profit services was $11.05 per hour.[20] Taking into account the average session lengths offered in both sectors, this works out to an average daily fee of around $118.60 for a typical NFP service in 2021, and $125.20 for a typical private service, a difference of 5.3% per day.[21] The CCS Evaluation found that fees as a proportion of family income were lower for families using NFP services (3.6%) than in private services (4.0%).[22]

NFP and public services can provide a substantial break on fee growth by providing more competition in the market. Yet virtually all of the growth in CBDC services in the last decade has been in private provision. The Childcare Economic Opportunity Fund should invest only in services that will be low fee and high quality, but should keep a balance between the two..

6. Address the role of schools in pushing up OSHC fees:

Schools play a significant role in pushing up the cost of OSHC services by using OSHC as a revenue raiser, for example, by insisting on high 'occupancy fees' that are then passed on to parents. The Education Department should do a comprehensive review of the relationship between access fees imposed by schools and OSHC fees, and consider whether the competitive tendering process is emphasising the 'fee' to the school over the quality and affordability of the service for families.

Recommendation 5:

Goodstart recommends that the design of ECEC subsidies, at both State and National levels, should continue to be focused on reducing out-of-pocket costs and minimising barriers to access for all families and particularly for low-income families and other groups likely to be vulnerable. Goodstart strongly supports the current approach which efficiently leverages Australian Government Child Care Subsidy and NSW Start Strong subsidies to:

[19] IBIS Consulting (2023) ibid p. 11-12

[20] Senate Education & Employment Committee Budget Estimates 2022-23 Department of Education response to question on notice SQ22-000397

[21] Analysis of the ACECQA national register (June 2022) showed the average session length for private providers was 11:20 hours and for all other providers (NFP, Govt & Indep. Schools) was 10:59 hours).

[22]AIFS Child Care Package Evaluation Aug 2021 p.122

- **reduce out of pocket costs for families**
- **deliver child development outcomes**
- **address vulnerability and disadvantage**
- **support workforce participation by parents.**

Recommendation 6:

That the NSW Government pursues a policy of trying to improve the affordability and accessibility of ECEC by:

- **increasing the transparency of fees and improving the effectiveness of local markets**
- **expanding the ECEC workforce to support more places**
- **better managing growth in the network of ECEC services**
- **expanding the number of low-cost high quality NFP and public services**
- **addressing the role of schools in pushing up OSHC costs.**

Benchmark Pricing

The following responds to Issues Paper question: 20

IPART has been set an extremely challenging task of estimating benchmark prices 'that can be used as a standard to measure and compare ECEC fees' but that 'should reflect the costs of providing quality services for different children and family groups, geographies, service types and provider types.' These, in our view, are two very different tasks – both important – but not a single exercise.

The **cost** of providing a quality ECEC service varies dramatically, depending on multiple factors discussed earlier including the age of the child, the location, size and age of the centre, staff wages and ratios, and the occupancy of the centre. Occupancy itself varies dependent on both market conditions, the time of the year and even the day of the week.

The price of an ECEC service is what parents are willing to pay. That is a function of both cost and market conditions. Obviously over time the price needs to cover cost, but that can happen in many different combinations, and across the Goodstart network of services we cross subsidise loss making services to ensure high quality options are provided – especially in communities experiencing disadvantage.

To use an example found in every CBDC service is the 'cost' of running birth-3 and 3-5 age rooms. The cost of running a birth to three room is around twice that of a 3-5 room because of higher staff ratios. But no centre in the state sets prices for birth-3 rooms at twice the cost of 3-5 rooms. The market would not sustain it as parents and carers of very young babies and toddlers would have extremely high ECEC costs upon returning to work. In response, many centres have a common fee for all rooms. Many centres (including Goodstart centres) have a slightly higher fee for birth to three rooms, but there is always a degree of cross subsidy between rooms.

This is re-enforced by the Childcare Subsidy which imposes the same hourly fee cap on all sessions regardless of the cost of provision or the fee paid. This means the current subsidy design encourages cross subsidisation within a service and a flat fee structure across all rooms.

Thus a 'benchmark price' built on costs either 'top down' or 'bottom up' would be of little utility to families or policy makers because the market imposes a very different price outcome.

IPART could then decide to use an 'average fee' for the centre. But that also has limitations. A typical Goodstart centre has around 30 different fees reflecting the age of the child, the length of the session and the number of days the child attends. There are also then discounts for holidays and for staff. Goodstart is unusual in that it does not charge for public holidays, which reduces the number of billable days in a year from 260 to 251 but requires a higher daily fee to meet wage and centre costs on public holidays.

An 'average' fee is further impacted by the mix of birth-3 and 3-5 children in a centre and by how long the service is open, and what session lengths are offered. Comparability on costs based on different cost structures and service mix between centres is likely to be fraught.

Finally, the 'cost' of the service is heavily impacted by and highly sensitive to the occupancy rate of the centre as many costs faced by a centre are 'fixed' and the average cost rises sharply as occupancy falls.

The impossibility of developing meaningful 'benchmark prices' using cost information becomes quickly apparent.

The issues paper cites healthcare and infrastructure as sectors where 'benchmark fees' are calculated based on 'efficient costs but ECEC are not like either of these sectors. Compared with hospitals for example, property costs are highly variable in ECEC but generally not factored into hospital funding. Occupancy costs are much more variable in ECEC than in the hospital system, which also consists of significantly fewer large hospitals than the 10,000+ ECEC providers.

The 'activity based' funding method used in health care and aged care is based on the assumption that hospitals should "be paid the same price for providing the same service." 'Efficient prices' have been built over many years of detailed analysis and negotiation over cost inputs for each funded activity in a very technical, complex methodology undertaken with sector input by an Independent Pricing Authority funded by Government. The process, rules, input and consultation required to build such a price methodology is extensive.[23] The Productivity Commission considered whether this can be done in a meaningful and equitable way in a sector where costs are as variable as ECEC and determined the potential risks and costs outweighed the benefits.[24]

Establishing benchmark prices based on fees charged is feasible and desirable

That is not to say that 'benchmark prices' can't be identified. They should be, but they should be based on observed prices and fees charged to families. Similarly, that is not to say that there should not be a deep dive into the cost structure of the ECEC sector. They should be – Goodstart believes policy makers would benefit from a better understanding of the drivers of cost and the variability of cost. Funders and families would also benefit from a better understanding of where their fees are going, how much goes back into the service to support children or how much goes out of the sector as private profit.

The New South Wales Government does not have access to ECEC fees, and fees charged for sessions used by families but the Australian Government does. The Australian Government publishes this data in two ways:

- The Starting Blocks website where every provider is required to publish its current 'typical' fee for each age group[25]; and
- The quarterly childcare statistics published by the Department of Education which provides the average hourly fee for each of the 89 SA4 statistical areas in New South Wales, typically with a 6–9-month lag;[26]

[23] See for example: Independent Hospital & Aged Care Pricing Authority (2012) :Towards a Pricing Framework: Summary Report p. 6 https://www.ihacpa.gov.au/resources/towards-pricing-framework-summary-report; (2022) Towards an Aged Care Pricing Framework Consultation Paper p. 32-37 https://www.ihacpa.gov.au/resources/towards-aged-care-pricing-framework-consultation-paper

[24][24] Productivity Commission, 2015, p566-567

[25] https://www.startingblocks.gov.au/

[26] https://www.education.gov.au/child-care-package/early-childhood-data-and-reports/quarterly-reports-usage-services-fees-and-subsidies

Both sets of data have great potential for informing both parents and the New South Wales Government on what is happening with prices. But both have their limitations which need to be addressed:

- **Starting Blocks,** as discussed earlier, needs to be upgraded to ensure fees are current and are comparing 'like with like'
- **The quarterly childcare statistical reports** could be improved by publishing both an hourly and a daily fee average with average session length for each SLA4. This would then give both providers and policy makers real data on what is happening in their area.

The quarterly data in our view largely could successfully deliver on the IPART Review's objectives. It provides an average hourly fee for 89 SA4 zones across NSW. Average hourly fees range from less than $9.70 an hour in Bourke-Cobar, Moree-Narrabri, Wollondilly and Kempsey-Nambucca to over $15.50 an hour in North Sydney-Mosman and Eastern Suburbs-North. The data also provides information on range by revealing the proportion of centres above the hourly fee cap.

A representative daily fee could be calculated for the purposes of this report by multiplying the hourly fee by 10 hours, being the most common session length in ECEC, or by 11 as a reasonable approximation of the median.[27] Longer term, the Australian Department should be encouraged to publish average daily fees with session lengths to improve transparency.

Investigating cost structures in the ECEC sector

A separate question then, in our view, from establishing market-based benchmark prices is understanding the costs of delivery in the sector. This, in our view, has two objectives. One is informing the Government of the different costs of delivery in different circumstances to inform public policy objectives such as the design of grants programs. The other is to understand the circumstances where fee income exceeds costs generating excessive profits. As the state moves towards universal preschool, there is a strong public interest in ensuring that any state subsidies go to benefit parents and children and not the profits of private providers.

In our view, these overriding policy objectives require gathering of two different sets of data, starting with cost data. Some considerations in reflecting on variability include:

- **Australia has significantly more variability in attendance patterns than other OECD counties, both in terms of days attended and hours attended[28], with much higher high proportion of parents who work part time**.[29] Unlike other repeat-use human services systems like schools or aged care, where each student or client fully uses a place, variation in numbers of days attended makes it challenging to efficiently utilize all places and establish meaningful, efficient benchmarks.
- **Occupancy is seasonal**. With the departure of preschool children to school in January, occupancy drops to the lowest point for the year before gradually increasing, typically by 11-15% to peak in November before starting to drop again. This means that average costs for providers are higher in the first half of the year than the second.
- **Many costs within a service are fixed, including labour and rent – with limited capacity to achieve efficiencies – which is amplified by variable occupancy.** A centre must have a centre director, an early childhood teacher and a cohort of permanent staff based on minimum standards, regardless of variations in occupancy. Most overheads and regulatory costs are also obligatory, such as costs of

[27] AIFS (2021) Child Care Package Evaluation Final Report p. 164

[28] See Attachment 2

[29] OECD Family database LMF 1.2 Maternal Employment. Only the Netherlands and Switzerland have a lower proportion of part time working mothers than Australia, although both have a much higher maternal participation rate.

compliance, information technology, financial oversight and some marketing and administrative costs. As a result, average costs vary significantly and rise and consistent with occupancy levels (see section on costs).

- **Property costs are highly variable between regions:** Property costs across the sector can vary from the 'peppercorn rents' enjoyed by some NFP and public services, while some developers of new centres are asking for as much as $10,000 a place (see costs section). As discussed earlier, average hourly fees in NSW vary from less than $9.70 an hour to over $15.00 an hour.[30]
- **The ECEC sector is highly fragmented**. In 2022, there were 3,944 discrete providers of CBDC, of which 3,514 operated just one or two services, comprising 46.3% of all services. [31] Just 21 providers operated 26% of services with business models that generally delivered higher levels of quality than smaller providers.[32] 31.3% of services were run by NFP or public providers with a much higher proportion of costs allocated to wages and smaller proportions allocated to property and finance costs and profit than private providers .[33]
- **Staffing ratios vary between ages:** Within a centre, staffing ratio vary from 1:4 for 0-2, 1:5 for 2-3 and 1:10 for 3+ age groups. The mix of ages in a centre vary as well, with some evidence that NFP providers are more likely to provide more expensive 0-2 places than private providers.[34] Goodstart strongly supports current regulated ratio requirements as effective to ensure safety and developmentally appropriate quality.
- **Type of provider**: NFP providers have lower fees on average than private providers. As noted above, in Q3 2021, the average hourly fee charged by NFP CBDC services was $10.80, while for-profit services was $11.05 per hour.[35] Taking into account the average session lengths offered in both sectors, this works out to an average daily fee of around $118.60 for a typical NFP service in 2021, and $125.20 for a typical private service, a difference of 5.3% per day.[36] The CCS Evaluation found that fees as a proportion of family income were lower for families using NFP services (3.6%) than in private services (4.0%).[37] This reflects that NFP providers have different cost structures, including lower cost allocations to property, finance costs and profit, but higher allocations to wages costs. For example, Goodstart allocates 26% of its total costs to non-wage items[38], the other largest Not for Profit KU allocates 18.5% reflecting lower property costs for its community preschools.[39] By contrast, the average for the childcare sector as a whole (which is overwhelmingly private) for non-wage costs is 41%, reflecting the additional spending of private providers on property and finance costs and profits.[40]

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[30] Dept of Education - child care statistics June 2022: Compared 'average fee of the SLA3s with highest average fees containing 10% of centres' with 'average fee of the SLA3s lowest average fee containing the bottom 10% of centres'.
[31] Analysis based on ACECQA NQS National Register Q4 2022.
[32] Harrison L et al (2023) Structures and systems influencing quality improvement in Australian early childhood education and care centres, The Australian Educational Researcher https://doi.org/10.1007/s13384-022-00602-8
[33] Based on analysis of publicly released annual financial statements of larger providers.
[34] Productivity Commission Childcare Report 2014 p.957-8
[35] Senate Education & Employment Committee Budget Estimates 2022-23 Department of Education response to question on notice SQ22-000397
[36] Analysis of the ACECQA national register (June 2022) showed the average session length for private providers was 11:20 hours and for all other providers (NFP, Govt & Indep. Schools) was 10:59 hours).
[37]AIFS Child Care Package Evaluation Aug 2021 p.122
[38] Goodstart Annual Report 2022
[39] KU Childrens Services Annual Report 2021
[40] IBISworld (2023) Child Care Services in Australia: Industry Report Q8710, April 2023

- **Wage rates vary significantly**: Part of the variance between provider costs is wage rates. While most employees in the sector (particularly educators) are paid award rates, rates can vary widely, changing cost structures. It should be noted that the labour costs of some private providers are also impacted by payroll tax. The current payroll threshold in NSW is $1.2 million, which would typically exclude all but the largest standalone private providers. As NFP and public providers are exempt from payroll tax, which is a vital concession to ensure NFP providers are financially viable, this leaves around 44% of all CBDC in NSW (and 58% of private services) liable for payroll tax.[41]

Given this high level of variability, the underlying assumption of an 'efficient cost' approach that the same service can be provided for the same cost simply does not hold for ECEC. It would however assist policy makers, the sector and the public for IPART to tease out the different cost structures across the sector and the variables within those. While we would argue it is not possible to produce meaningful 'benchmark fees' based on cost data, we would encourage IPART to review the cost structures at the SA3 or SA4 level to compare with the average fees to determine how closely related average costs are to average fees at a macro level. This could, for example, help to inform the higher cost of provision in rural and remote services (typically driven by low enrolments and occupancy) versus the higher cost of provision in inner city areas (driven by higher property prices and rents).

Recommendation 7:

That IPART, in proposing benchmark fees, use the SA3 and SA4 statistical division reporting from the quarterly fee data released by the Federal Education department, and that the Department be encouraged to publish both average hourly fees and average daily fees.

Recommendation 8:

That the development of 'benchmark fees' based on efficient cost is not proceeded with as IPART has insufficient time and data available for this complex task to be undertaken effectively, and because it is extremely difficult to identify a single price for a single service in ECEC given the variability of cost drivers.

Recommendation 9:

That IPART provide advice to the New South Wales Government on the variability of cost drivers that underpin reported fees, and the factors and circumstances that influence cost structures in ECEC.

Recommendation 10:

That IPART should consider the findings and recommendations from the ACCC Inquiry on what additional options may be desirable, practical and effective to identify and address outlier excessive fees.

[41] Analysis of ACECQA NQS Snapshot Dec Qtr 2022, excluding NFP, public and standalone private providers

Supply of services

The following responds to Issues Paper questions: 10,11,12,13,14 &15

The supply of CBDC centres in NSW has out-paced numbers of children over the past decade. Between June 2014 and June 2022, the number of centres rose by 27.3% while the number of children rose by 17.9%. As a result, the number of children in long day care per centre fell from 82.1 to 76.0. In 2014, 31.4% of services were NFP or public. By 2023, this had fallen to 24.5%.

TABLE 1: Growth in CBDC centres and children 2014-2023

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
NFP	603	*575*	578	580	574	576	589	587	580	585
N/Govt schools	33	*30*	38	38	45	46	51	54	55	58
GOVT	195	197	198	199	198	190	192	190	191	191
PRIVATE	1818	*1970*	2017	2119	2212	2318	2402	2489	2547	2596
TOTAL	**2649**	**2777**	**2837**	**2936**	**3029**	**3130**	**3234**	**3320**	**3373**	**3430**
% NFP/Govt	31.4%	28.9%	28.7%	27.8%	27.0%	25.9%	25.7%	25.0%	24.5%	24.3%
No children per centre	82.1	80.3	80.6	79.4	77.8	77.9	77.2	77.3	76.0	na

Source: NQF Snapshot June QTR, Mar QTR for 2023, children from Dept Education quarterly stats

Despite this rapid growth, one in three children in NSW live in an area described as a 'childcare desert,' while many others are in areas that are oversupplied. Analysis by the Mitchell Institute shows that where you live makes a difference to the number of places available to you in early learning services.[42] There is particular supply deficit in regional areas and areas classified as disadvantaged. The report suggests that children and families who would benefit the most from access to early learning in fact have the least access to services.

A lack of service location planning means supply and demand are not matched on a catchment-by-catchment basis. While NSW has a State Planning Policy covering childcare centres, the policy expressly precludes consideration of the 'need or demand for childcare services'[43]. The result is both oases and deserts of ECEC access, neither of which ensure high quality or inclusive provision. Building large, average quality centres in catchments that already have adequate supply of high-quality centres brings down the quality average, increases inefficiency and, in some cases, will see older (but often higher quality) centres close. Nationally, of the 464 services opened in the two years to June 30, 2022:[44]

- 37.5% were by operators with >90% of their existing services meeting the NQS
- 30.6% were by operators with <90% of their existing services meeting the NQS
- 31.9% were by new operators.

A more robust stewardship approach would seek to ensure that EEC market expansion is more planned, that new centres open where they are needed and offer high quality, inclusive services.

The New Zealand Government, concerned about the expansion of low quality services, has developed Network Management rules for new and existing operators in New Zealand which require that applicants meet seven criteria before being granted 'network approval' to open a new service.[45] This approach follows a National Statement of priorities aiming to *'help ensure that all children have access to quality learning and*

[42] Childcare Deserts and oases: how accessible is childcare in Australia? Mitchell Institute

[43] State Environmental Planning Policy (Educational Establishments and Child Care Facilities) 2017 clause 26

[44] Goodstart analysis based on ACECQA NQS Snapshots

[45] https://www.education.govt.nz/early-childhood/running-a-service/starting-a-service/network-management/

prevent the unintended consequences of over supply'.[46] The assessment includes whether there is a need in the community for the new services, whether it complies with national priorities for ECEC (e.g. quality and inclusion) and whether the applicant has the demonstrated capability to run a quality ECEC service. After a 'network approval' is granted, the operator then requires a licence for the new service, which demonstrates that it complies with the physical requirements for a centre[47].

In our Productivity Commission submission, we have advocated a similar approach be adopted in Australia to ensure that future growth of the Centre Based Day Care market is geared towards low fee, high quality providers. The New Zealand approach could also inform the priority investment approach for the new Child Care and Economic Opportunity Fund.

Recommendation 11:

Implementation of stronger governance, funding programs and changes to State Planning Policy to ensure investment in network growth is directed to high quality provision and where it is needed:

a. **Implement a network planning approach where new service approvals must demonstrate a need for the service and/or that it meets nationally set priorities for quality, inclusion and access**
b. **Providers cannot add a new service approval to their network until at least 90% of their existing service meet the National Quality Standard, or that new providers cannot be approved unless their centre leadership team has a proven record of delivering quality ECEC services.**

Encouraging not for profit provision

The decline of the NFP and public components of the ECEC sector should be of concern to the Government. Between June 2014 and March 2023, just 3 of the 781 net new services in NSW were NFP/Private (and most on non-government school sites). The NFP sector plays a significant role in the ECEC sector:

- **NFP services are higher quality:** In March 2023, 11.9% of NSW ECEC services did not meet the NQS compared to just 4.9% of NFP/Public services;[48]
- **NFP services are more likely to serve disadvantaged areas:** ACECQA data shows that nationally the majority of services in the two bottom quintiles of communities by disadvantage were NFP or Government run, while the majority of services in the most advantaged quintiles were privately operated.[49] In NSW, NFP/public services in disadvantaged areas are significantly less likely to be low quality:

TABLE 2: Quality ratings by provider type – SEIFA 1 & 2 CBDC NSW

	SEIFA 1	SEIFA 2	All NSW
% Services NFP/Public	30.4%	26.0%	24.3%
% Services Private	69.6%	74.0%	75.8
% NFP/Public rated WT	5.1%	4.0%	4.9%
% Private rates WT	20.1%	16.5%	11.9%

[46] https://assets.education.govt.nz/public/Documents/Early-Childhood/network-management/National-Statement-24-Nov-2022.pdf
[47] https://www.education.govt.nz/early-childhood/running-a-service/starting-a-service/starting-a-centre-based-ece-service/applying-for-a-licence/
[48] ACECQA NQS Snapshot March Qtr 2023
[49] ACECQA Occasional Paper no 7 Quality ratings by SEIFA 2020 p. 14

- **NFP services are – on average – more affordable than private services.** The CCS Evaluation found that fees as a proportion of family income were lower for families using NFP services (3.6%) than in private services (4.0%).[50]
- **NFP providers are able to redirect surplus back into supporting children.** In 2022-23, around 5.5% of ECEC revenue was profit, or around $800 million.[51] NFP services are able to invest surplus back into supporting children, while privately owned services use surplus to pay a return to owners, or service debt to deliver a future return.
- **NFP providers tend to pay their staff more and have better staff retention.** As discussed in the section on workforce, 99% of Enterprise Agreements in Children's Services are in NFP services, with analysis of the National Workforce Census showing that NFP staff are more likely to be paid above award rates and to stay with their employer longer[52]. While average tenure for paid contact staff in ECEC services is 3.6 years[53], the average tenure of Goodstart paid contact staff is 5.6 years.
- **NFP providers are more likely to provide high-cost places for birth to two-year-old children, i.e., nurseries.** The PC Inquiry in 2014 found that 20% of private providers did not provide places for birth to two-year-olds, compared with just 10% of NFP providers, noting these places are higher cost. [54]
- **NFP providers invest heavily to support children who are vulnerable**. Goodstart allocated $16.9 million in 2022 to support social inclusion activities. KU Children's Services, the second largest NFP provider, allocated $2.3 million to support social inclusion activities in 2021.[55]
- **NFP providers are more likely to accept children with additional needs.** As discussed earlier, the cost of supporting children with additional needs is not fully met by the Inclusion Support Program, and providers often face significant costs supporting these children. At Goodstart 8% of children enrolled have additional needs, twice the sector average of 4%. Many parents have told us that their child was turned away from other centres before they came to us.

Despite the strong quality, inclusion, and affordability record of the NFP sector, fewer and fewer families have the choice of sending their children to a NFP service because of the declining share of services that are NFP. This reflects the difficulties that the NFP sector face in raising funds for capital growth, particularly community centres which rely very heavily on government funding for capital. For-profit providers are generally able to achieve larger operating surpluses and often substantial capital gains on the value of buying and selling centres.[56] Debt financing and private equity provide expansion funding for private operators, which is not available to not-for-profit operators. Smaller property developers are also creating small portfolios of centres to then sell. The incentive is to build, sign contracts for high rents and then sell based on profit margin forecasts and confidence in a sector underpinned by substantial government

[50]AIFS Child Care Package Evaluation Aug 2021 p.122
[51] IBIS Consulting (2023) Childcare Services in Australia, IBIS Industry Report Q710
[52] NFP services are not liable to pay payroll tax, but nor are standalone private providers which typically fall under the payroll tax payment threshold in most jurisdictions.
[53] National ECEC workforce census 2021 p.23
[54] Productivity Commission Childcare Report 2014 p.957-8
[55] KU Children's Services Annual Report 2021
[56] The two largest owners of long day care centres, Charter Hall Social Infrastructure REIT and ARENA REIT recorded combined statutory profits of $693m in FY22, $516m of that coming from the increase in value of their property portfolio.

investment and increasing demand.[57] The increased rental and finance costs can be at the expense of educational resources, quality, inclusion, educator wages and affordability.

Not-for-profit providers are constrained in raising capital investment (e.g., no equity source and limited borrowing leverage) and therefore find it difficult to increase the number of centres they operate, especially in higher priced metropolitan markets, even though high levels of vulnerability exist in many of these catchments. Current policies are not creating conditions for not-for-profit providers to grow.[58]

The Canadian Government has decided that the expansion of its $30 billion national childcare plan should also expand access to high quality ECEC places in the NFP and public sector.[59] NSW has a unique opportunity to change the trajectory of ECEC provision by leveraging the investments through the Child Care Economic Opportunity Fund to rapidly expand the NFP/public sector. Combined with new network expansion and approval rules discussed above, this could give thousands more NSW families the opportunity to choose low cost, high quality ECEC in a NFP/public setting

Recommendation 12:

That the Child Care Economic Opportunity Fund should directly invest in new quality not for profit and public services in accordance with a statement of national priorities to ensure more families have the option to choose higher quality and inclusive provision. Priorities should include:

a. **new services in communities that currently have little or no access to high quality NFP or publicly owned centres**
b. **innovative centres in thin markets that meet the broader needs of the community**
c. **supporting and expanding the network of community controlled First Nations ECEC services**
d. **place-based services that are responsive to local community needs, particularly in communities of deep disadvantage**
e. **new integrated services on all new school sites**
f. **services well equipped for learning support for children with additional needs.**

The NSW Education Department should also continue to directly fund major repairs and upgrades for not-for-profit services and high-quality private providers based on national priorities.

[57] "Childcare centre market poised for growth in 2023" "The Property Tribune: 16/2/2023 https://thepropertytribune.com.au/industry/commercial/childcare-centre-market-poised-for-growth-in-2023/

[58] Similar issues have arisen in England, see https://www.theguardian.com/commentisfree/2022/jul/28/the-guardian-view-on-nurseries-put-toddlers-before-profit

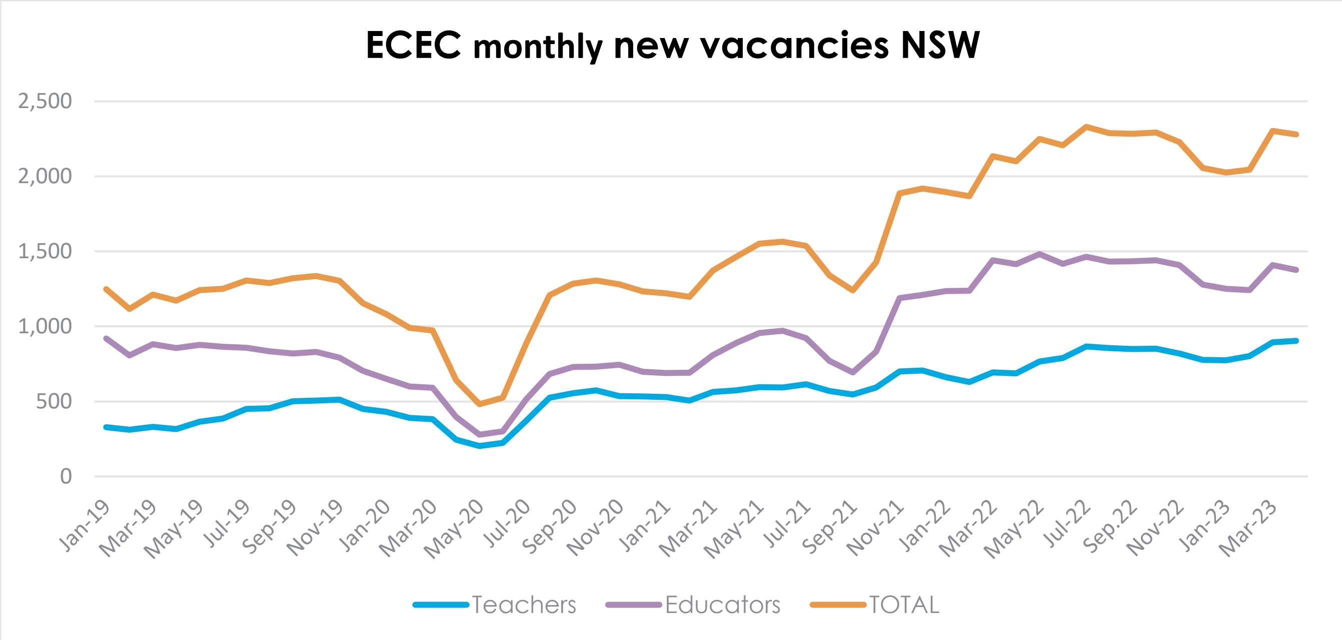
[59] Canadian Budget 2021 Chapter 3 https://www.budget.canada.ca/2021/report-rapport/p2-en.html#chap3

ECEC Workforce Issues

The following responds to Issues Paper question: 15

The delivery of quality ECEC requires a capable and valued professional workforce.[60] Yet the ECEC workforce in Australia is in crisis, with attrition and vacancy rates much higher than they were pre-pandemic. New monthly vacancies for early childhood teachers and educators have risen from around 1,200 in April 2019 to 2,300 in April 2023. Educator turnover rates have risen sharply and are expected to continue as centres with workforce shortages place more pressure on existing staff, who then become likely to burn out and leave.

GRAPH 1: ECEC monthly new vacancies for NSW



The ECEC workforce is an overwhelmingly female workforce in a growing essential services sector. Early learning educators deserve professional recognition for the vital role they play in educating and caring for our children and supporting families and communities. Many centres across New South Wales are unable to take additional children because they cannot find staff.[61] Many Goodstart centres have had to cap enrolments while they attempt to find staff.

Every unfilled educator place means up to 15 families are unable to access ECEC, with knock on effects across the economy.

Exit surveys of Goodstart employee show two consistent trends:

- Wages, burnout, and lack of professional respect are the main reasons for leaving
- Only one in three state that they are moving to another job in the ECEC sector.

The issues of wages, burnout and professional respect need to be addressed. Employers have a role to play in this, but so do Governments as the primary funders and regulators of the ECEC system.

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[60] OECD 2018 "TALIS: Building a High Quality Early Childhood Education and Care Workforce" Paris

[61] https://www.theguardian.com/australia-news/2023/may/11/the-labour-shortage-in-regional-towns-forced-our-daughter-out-of-childcare

The Federal Government has stated it will be part of supported bargaining arrangements due to begin shortly for the long day care sector.[62] We understand that talks are underway regarding bargaining for the Federally funded OSHC sector as well. The NSW Government should actively encourage the Commonwealth to be part of that process. However, it will be up to the State Government as the primary funder to underwrite supported bargaining for the community preschool sector as the Victorian Government has long done.[63]

Wages vary widely across the sector. A higher proportion of ECEC workers are reliant on award rates than other workers – 62.9% in CBDC rising to 78.6% in the Outside School Hours Care sector, although teachers and directors are less award reliant than lower paid educators.[64] By contrast, just 23% of the Australia workforce as a whole is paid award rates, with 35% paid under an enterprise agreement and 38% on individual arrangements.[65] Of the 209 enterprise agreements lodged with the Fair Work Commission in the five years to May 1 2023 in the Children's Services industry, all but two were for NFP services.[66] A 2019 survey of NFP community services found that 41% of services operated at above NQS staffing ratios.[67]

TABLE 3: CBDC Wages of paid contact staff compared to the award 2021

Wage compared to award rate	Director	Teacher	Group Leader	Educators
Award rate	40.4%	49.2%	58.4%	69.0%
0-10% above	29.1%	33.6%	32.4%	25.6%
10-25% above	19.4%	11.0%	6.7%	4.5%
>25% above	11.0	6.2%	2.5%	0.9%
Don't know	*11.3%*	*11.0%*	*8.0%*	*9.0%*

Source: Dept of Education National Workforce Census 2021 in response to Senate Estimates Question on Notice SQ23-000197

Analysis for the South Australian Royal Commission, drawn from the National ECEC Workforce Census in 2021, found that 76% of educators at NFP services were paid above award, compared to 26% at private providers, and that educators were likely to stay longer in NFP services.[68] Goodstart would encourage IPART to interrogate the census database to gain insights into varying wage costs across the sector.

Burnout reflects ongoing workforce shortages and the stress shortages place on staff. State Governments play a key role in generating the pipeline of new teachers and educators. NSW needs more teachers, particularly more early childhood teachers. It also needs more educators. The most recent data shows that student commencements in early childhood courses in NSW jumped from 1,411 in 2020 to 1,872 in 2021, which is positive news.[69] That should mean around 1,200 total new graduates in 2025, against the 1,300 new vacancies for early childhood teachers generated in April 2023 alone. More, many more, will be needed. And completion rates need to be improved.

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[62] https://www.theguardian.com/australia-news/2023/may/21/childcare-workers-union-to-seek-25-pay-rise-after-labor-budget-snub
[63] https://www.premier.vic.gov.au/principle-agreement-early-childhood-agreements
[64] National ECEC Workforce Census 2021 p. 13, with 'don't know' responses excluded.
[65] Australian Government submission to the Fair Work Commission Annual Wage Review 2022-23 p. 25
[66] Analysis of enterprise agreements on the Fair Work Commission website
[67] ACCS Trends in Community Children's Services Report 2019 p. 20
[68] Deloitte 2023 "Mapping long day care and nongovernment preschool provision in South Australia" for the Royal Commission into Early Learning p 22
[69] Higher education statistics reported in Senate Education Estimates Committee question on notice SQ23-000196

Supporting Diploma qualified educators to become teachers is one route, and the new intensive course at the University of Wollongong, backed by $25,000 State scholarships is a great example of what needs to be done. A particular feature of the Wollongong course is that educators can perform part of their practicum requirements in their own centre (with suitable supervision), which means they can be in ratio and paid for it. Taking unpaid leave for practicum is a huge impediment to course completion.

Another important feature of the Wollongong course, and the very successful intensive course developed by the Australian Catholic University, is intensive support and mentoring for students. This is crucial as it is a big step up from a Diploma to an intensive degree while working.

Up to half of teaching graduates leave their role in their first year. To address this, the Victorian Government also funds mentoring and networking for early career teachers[70]. This sort of investment may be the most cost-effective investment that the State could make to support teacher retention.

The State should also work on the sector in both increasing enrolments in VET courses in ECEC and also supporting the sector to improve traineeship completion rates. Additional support and mentoring for trainees is a very positive means of improving completion rates in traineeships.[71] VET courses should continue to be free as priority courses. Educators wanting to upgrade from a Certificate III to a Diploma should also receive scholarships to cover study leave.

Many educators complain of there being too much paperwork in their jobs. Our experience is that proper application of the National Quality Framework should not result in an excessive paperwork burden, but that educators need confidence, experience and training to find the right balance between programming, assessment and reporting. This comes down to better training, professional development and realistic expectations from providers, families and educators themselves. The Department could lead sector wide conversations to address this without compromising quality standards.

The expansion of the migration program is also an opportunity to address workforce shortages. State and Federal Governments need to work with the sector to best position the sector to welcome qualified migrant workers. This would best be done by development of an Industry Migration Plan as has been done in the aged care sector. New South Wales could take the lead in such an initiative.

Around 70% of Goodstart services are outside the metropolitan area. Regional and rural services can face particular challenges attracting and training staff. Salary incentives, additional resources to support trainees and students and particular attention to ensuring regional staff can access professional development all need to be pursued.

Finally, the State Government could fund the expansion of access to professional development. This needs to have two funding streams. First, high quality courses need to be created that can shift child outcomes. Second, educators need to be funded to come off the floor to participate in professional development.

The Victorian Government has taken steps towards addressing the workforce issues through multiple training and support initiatives for early childhood professionals.[72] These initiatives include scholarships, employment incentives, financial and career supports, education pathways and mentoring which we feel are beneficial in supporting and growing the workforce in ECEC.

[70] https://www.vic.gov.au/funding-support-provisionally-registered-early-childhood-teachers
[71] https://gowrievictoria.org.au/traineeships/
[72] https://www.vic.gov.au/training-and-support-early-childhood-professionals

Recommendation 13:

That the State Government and the Child Care Economic Opportunity Fund should direct more investment into supporting and growing the ECEC workforce including:

- **a. Continuing free TAFE courses for Cert III and Diploma qualifications**
- **b. Financial incentives for services taking on a new trainee to support mentoring and additional funding for traineeships for educators**
- **c. Expanding the pool of early childhood teachers by:**
  - **I. Expanding places in ECT ITE courses at universities supported by scholarships**
  - **II. Developing more tailored intensive courses for experienced Diploma qualified educators to progress to ECT qualifications within 12 months, supported by funding arrangements and mentoring to cover up to 80 days of practicum teaching placements**
- **d. Including early childhood teachers and educators in priority migration programs, with a medium-term goal of developing and Industry Migration Plan**
- **e. Expand access to quality professional development including funding time off the floor for educators**
- **f. Tailored support packages to attract and retain educators and teachers in regional and rural areas including incentives and ensuring access to training and professional opportunities**
- **g. Longer term, enhance the professional recognition and support for early childhood teachers and educators with more emphasis on the importance of pedagogy and learning, building on the actions in the 2021 National ECEC Workforce Strategy.**

NQF and teacher qualifications requirements

Goodstart strongly supports the National Quality Framework and commends successive NSW Governments since 2006 for their determination to go beyond the NQF with a higher ratio requirement for qualified teachers. NSW's regulation of a higher qualification for teacher predates the NQF by several years, and means that NSW has a much higher proportion of teachers in long day care centres than other States. While this adds to the cost of running a service, it also adds significantly to quality.

Our observation across the eight States and Territories, which have slight variations on NQF rules, is that the higher ratios of teachers in ECEC services in NSW makes a significant positive difference to the quality of pedagogy offered and the professional identity of the workforce as a whole. We specifically note a difference in the quality of pedagogy in a service when a Centre Director is a qualified teacher. This shows up in NQF ratings – 24% of NSW long day care services Exceed Quality Area 1, compared to 20% in Victoria and Queensland.[73]

The NSW Productivity Commission in a recent report on Early Childhood Regulation criticised the teachers ratios in New South Wales and recommended that they be reduced.[74] We, and most others in the sector, reject this report and note that it rests on inadequate sector consultation (Goodstart, although one of the State's largest ECEC providers, was not consulted on this review) and a superficial and selective review of the evidence in the field.[75]

At the heart of the report's proposals is a flawed and simplistic analysis that because the Australian Early Childhood Development Index shows that Victoria has slightly lower rates of overall developmental vulnerability than New South Wales (19.9% vs 21.2%) but fewer teachers, the teacher requirement makes

[73] ACECQA National Register analysis accessed 12/4/2023

[74] https://www.productivity.nsw.gov.au/evaluation-of-NSW-specific-early-childcare-regulations

[75] The Productivity Commission relied on a consultation process run by the Small Business Commissioner which was an online survey filled out by 240 respondents (5.8% of the 4117 ECEC providers in NSW) 69% of whom were private sector owner operators of childcare services.

little difference. However, the New South Wales and Victorian ECEC systems are very different – more Victorian children attend higher quality NFP services (kindergarten or LDC) than in NSW in the year before school. A much higher proportion of vulnerable children in NSW are not attending preschool than in VIC.[76]

The Victorian Government provides a much higher level of funding to support teachers and kindergartens than the NSW Government historically. As a result, Victorian long day care centres are attracting and retaining their early childhood teachers, with just 2.6% requiring staffing waivers due to inability to find teachers compared to 18.3% in NSW.[77] As recently as mid-2018, the staffing waiver rate for NSW long day care centres was below 8% and is currently lower than Queensland or Western Australia.

A better comparison would be with Queensland, which has a similar mix of long day care and preschool/kindergarten provision to NSW in the year before school (65% long day care 35% community preschool), and a similarly poor record of vulnerable children attending preschool. On the AEDC, NSW significantly outperforms Queensland (21.2% of children developmentally vulnerable compared to 24.7% in Queensland).

Research shows that while qualifications are an important structural quality input, it is the process quality impacts and the quality of the educational program and relationships with children that make the real difference.[78] We also defer to Australian and NSW ECEC experts and academics who have shared their concerns with the flawed findings with the Commission and NSW Government.

Recommendation 14:

That the National Quality Standards including additional requirements for additional teachers in NSW be reaffirmed as the crucial underpinning of structural and process quality needed to impact on child outcomes.

Goodstart recommends that Government policy on service delivery should not compromise quality to enhance affordability, as only quality ECE makes a substantial difference to child development outcomes.

[76] Senate Education Estimates Committee response to questions on notice SQ20-001746 and SQ22-000067

[77] https://snapshots.acecqa.gov.au/Snapshot/waivers.html

[78] Manning, M., Wong, G. T. W., Fleming, C. M., & Garvis, S. (2019). Is teacher qualification associated wit the quality of the early childhood education and care environment? A meta-analytic review. *Review of Educational Research*, *89*(3), 370-415. https://doi.org/10.3102/0034654319837540

Provider costs and revenue in delivering services

The following responds to Issues Paper questions: 16,17,19

Goodstart is a not-for-profit social enterprise, our costs of delivery and investment decisions reflect our commitment to provide services to all children, including children likely to incur higher costs in ensuring their successful inclusion and participation. This includes those from a First Nations background, from culturally and linguistically diverse backgrounds, children who have a disability and/ or complex needs and other children who have experienced vulnerability or disadvantage and who require additional support to enrol in and attend ECEC.

A significant proportion of our costs are fixed, including staffing and land and building related costs (the highest costs incurred in providing a service). Achieving financial viability is reliant upon achieving service level occupancy and attendances to cover these costs. While other costs, such as finance and administration costs, regulatory compliance costs and the costs of consumables have been increasing year on year, they are less significant.

Fixed costs in providing a service include ethe following:

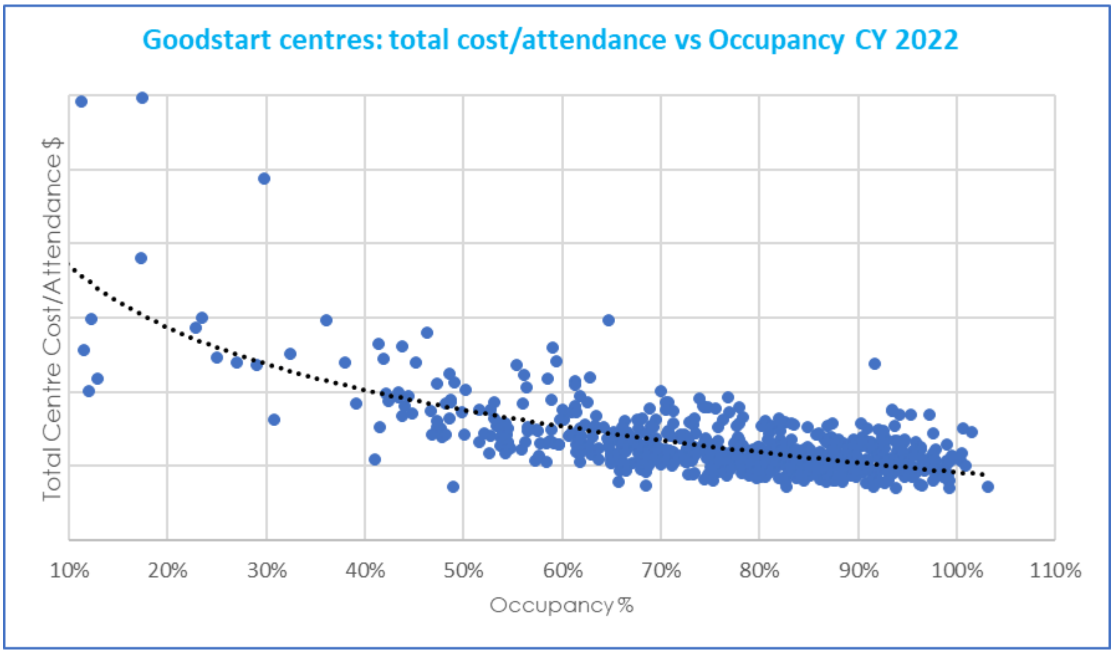
- Staffing costs: staffing costs are fixed by NQS ratios. Low occupancy centres have much higher average labour costs than high occupancy centres. Fixed labour costs include the wage costs of a centre director, early childhood teacher, educational leader and the first educator in each room.
- Property costs: Rental costs per place are fixed regardless of occupancy
- Property related costs: including fixtures, utilities, insurance, rates, repairs and maintenance
- Overheads: Information technology, marketing, regulation and compliance and administration all have a fixed element and limited scaling at higher occupancy.

With fixed staffing and property related costs there is limited capacity to implement cost savings without negatively impacting on our ability to deliver high quality early learning and care, raise revenue through attendances and deliver on our purpose.

Fixed costs – with limited capacity to achieve efficiencies – are amplified by variable occupancy. A centre must have a centre director, an early childhood teacher and a cohort of permanent staff based on minimum standards, regardless of variations in occupancy. Most overheads and regulatory costs are also obligatory, such as costs of compliance, information technology, financial oversight, and some marketing and administrative costs. As a result, average costs vary significantly and rise and consistent with occupancy levels. For example, a centre that is 95% full has an average cost per utilized place one-third lower than a centre that is 45% full.[79]

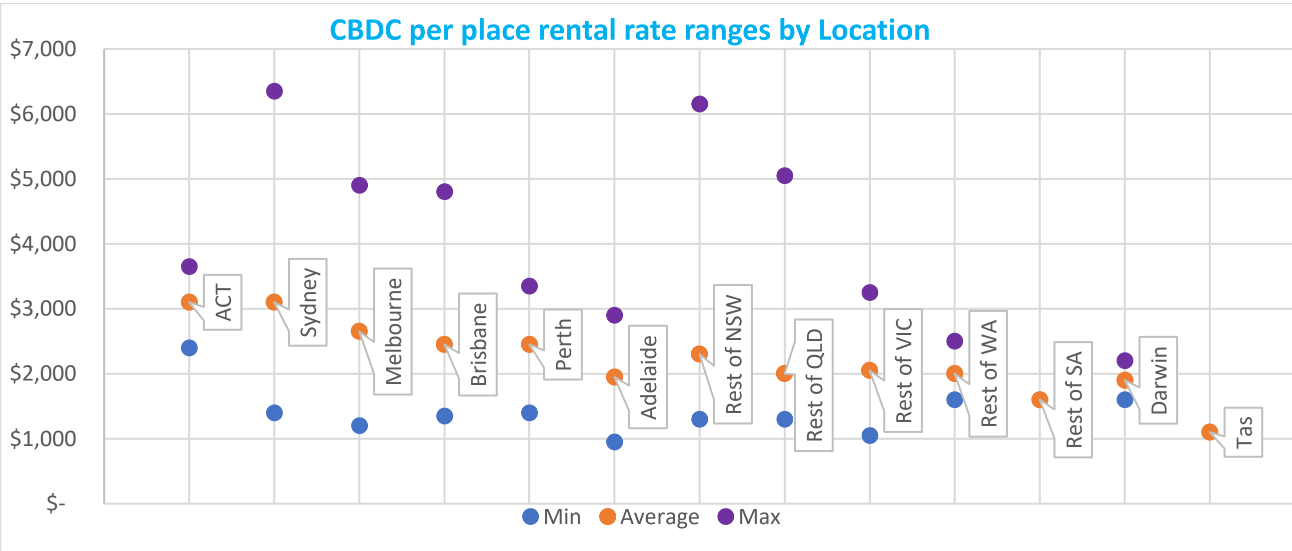
[79] Centre based costs only – excludes overheads.

GRAPH 2: Goodstart centre: Total cost/attendance vs occupancy CY 2022



Property costs are highly variable between regions: Analysis by childcare property specialists, Cushman and Wakefield, shows that rents for childcare centres have risen strongly in recent years. Recent childcare sales indicate rents per place varied from $1,550 to $6,950 per place.[80] Goodstart's centres show a similar variety, with the average rent per place for centres in the most expensive quintile around 2.5 times higher than the average rent for place for centres in the bottom quintile. The broader sector shows even wider variety, with some NFP and public services enjoying 'peppercorn' rents, while some developers of new centres asking for as much as $10,000 a place.

GRAPH 3: Centre based day care per place rental rate by location



Source: Cushman & Wakefield 2022

[80] Cushman & Wakefield (2022) "Australia Property Insights: An Overview of the Australian Child Care Real Estate Investment Market" p. 20.

Between 2018 and 2022, rent per licensed place in NSW increased 18%, with the largest increase in 2021. Services in the quintile of the lowest rents saw the largest increase (24%). Greater Sydney has the highest rental costs per licensed place of our entire network and are 34% higher than our national average.

Staffing ratios vary between ages: Within a centre, staffing ratio vary from 1:4 for 0-2, 1:5 for 2-3 and 1:10 for 3+ age groups. The mix of ages in a centre vary as well, with some evidence that NFP providers are more likely to provide more expensive 0-2 places than private providers.[81]

Occupancy alongside staffing and property costs are the key drivers of financial viability in providing a service. Occupancy and in turn centre performance and operating margins are variable and subject to seasonal fluctuations. As a general rule of thumb, the breakeven occupancy rate for a service is around 70-80% - before overheads, although this can be much higher in major cities where property costs are higher. As occupancy falls, quality suffers, as services struggle to find the resources to invest in programming and professional development needed to maintain quality.

There is a high causation between occupancy and contribution margin but there are exceptions. It is possible for a high occupancy centre to have a negative contribution margin.

The inter-relationship between staffing costs, property costs, occupancy and local market price means it is possible to have a full centre, with high staffing and property costs, operating in a market where the fees charged to families are not sufficient to cover costs.

Ensuring Quality in ECEC

The following responds to Issues Paper question: 18

High quality is fundamental to ECEC achieving desired outcomes for children. As a human services organisation, our ability to attract, recruit and retain our workforce is the single biggest factor that impacts quality.

We believe regulatory costs are appropriate and do not significantly impact the costs of supplying services. Cost impacts associated with regulatory and policy settings are acceptable for provision of safe high-quality early learning and commensurate with the high levels of Government investment in the CCS. We consider costs associated with minimum qualifications and ratio requirements outlined in the NQF are appropriate minimum standards to deliver safe ECEC.

Goodstart supports and is deeply committed to the National Quality Framework (NQF) as a mechanism that sets consistent national standards for ECEC services in Australia – as well as the commitment to continuous improvement. The NQF upholds children's best interests through the implementation of a world-class quality system comprising the National Quality Standard (NQS), the Early Years Learning Framework, the Assessment and Ratings process underpinned by the National Law and the independent national authority, ACECQA. Children and families benefit from a national approach to regulation and quality assessment of ECEC services.

Important structural components of quality, such as staff qualifications, child-to-educator ratios and built environments should not be downgraded in efforts to reduce the cost of early learning. Doing so would have long term ramifications for children's safety, learning and wellbeing and late action could end up costing governments more.[82]

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[81] Productivity Commission Childcare Report 2014 p.957-8

[82] The Front Project (2019), How Australia can invest in children and return more – A new look at the $15bn cost of late action.

The evidence is clear that ECE needs to be high quality to make a difference to child outcomes.[83] The National Quality Standards sets a reasonable national level of quality that over time has set a benchmark for structural quality, and, to a degree, process quality. It should not be acceptable that a decade into the NQS that 10% of services still do not meet the NQS. Of the 825 LDC services in NSW assessed as Working Towards (or SIR) in April 2023, 173 services (21%) were previously assessed as WT or SIR.[84] This should have consequences, for example, services assessed twice as WT could be given a period under close Department supervision to improve quality or face losing a service approval.

Provision of quality services requires investment:

We make substantial investments in the workforce as a critical enabler of quality and to ensure the unique needs of all children are met, particularly children experiencing vulnerability or disadvantage.

- We spend around $29 million per annum in quality improvement activities. This covers a team of professional practice coaches, teacher program managers, professional development, and research.
- In addition, we fund around $20 million of programming time over and above the two hour per week minimum provided in the Award. This is crucial to ensuring educators provide quality learning programs but adds to costs. Goodstart group leaders and teachers typically receive 2-3 times the Award minimum for non-contact time (based on the number of children in their group).
- We invest in above award wages and conditions, e.g., non-contact programming time. Our higher wages cost demonstrate investment in quality (i.e., above award wages and conditions) and are not an indicator of inefficiency. Our Enterprise Agreement (2021-23) expressly increasing above award margins to five per cent for educators and to over 12 per cent for early childhood teachers and centre directors.
- Our head office is efficient in delivering on government objectives – quality uplift and inclusion for target cohorts – around centre support (network costs) are a centre-level investment in quality.

Since our inception as a not-for-profit social enterprise, it has been a strategic priority to support the inclusion of all children, particularly children experiencing vulnerability or disadvantage. We make investments at the child level, the service level and the enterprise level to deliver on this strategic priority in line with our purpose and informed by evidence. These investments include professional development to build the capability of our team members, so they can effectively include children and families likely to be vulnerable, developing, and implementing programs that facilitate enrolment, access and participation by these children and families and investing to meet funding 'gaps' where government programs do not fully meet the costs of inclusion[85]

We also make specific investments in supporting Reconciliation to improve cultural safety and responsiveness, which have been the foundation for our above-average participation by First Nations children and families.

These targeted investments are underpinned by our commitment to providing quality early learning for all children. This ambition is realised through our educators, teachers and centre directors, and includes above award pay and conditions and investment in evidence-based professional development.

[83] ACECQA NQS Snapshot Dec 2022 https://snapshots.acecqa.gov.au/Snapshot/overallratings.html

[84] ACECQA National Register analysis accessed 12/4/2023

[85] The Australian Government's Inclusion Support Program (ISP) provides funding for children with additional inclusion support needs, primarily by funding an additional, above-ratio educator. However, there is often a gap between when a child commences ECEC and when ISP is approved and the hourly rate is not indexed, so does not cover actual costs. Goodstart funds: the gap between the ISP hourly rate ($23/hour) and actual costs (avg $35/hour in 2022); full cost of educator until ISP funding is approved; and full cost of educator for children with additional support needs who are not eligible for ISP, including refugee children.

As a large national provider, Goodstart has some flexibility to ensure our financial sustainability as a whole enterprise and we are able to effectively cross subsidise centres that have a negative contribution margin (centres where revenue does not meet costs) from those with a positive contribution margin (centres where revenue does meet costs and a surplus generated).

Not-for-profit providers in general tend to reinvest their operating surpluses in quality, inclusion and valuing their workforce, at the expense of growth, and are constrained in accessing capital to fund growth. There can be significant variability in individual centre performance, in our organisation surpluses generated from centres with a positive margin allow us to remain committed to services that have a negative margin – particularly when there are limited alternative high quality inclusive substitutes available for families in certain communities.

Recommendation 15:

Government should play stronger role in putting conditions on the supply of services to ensure quality, inclusion and access objectives for Government are met. Specifically, this should include consideration of and minimum benchmarks for:

- Quality including A and R but also other compliance measures
- Inclusive practice and investments in inclusion
- Existing local supply and quality of existing supply
- A desirable service configuration including a mix of places for infants, toddlers and preschool aged children.