

Submission to the Productivity Commission Inquiry into the early childhood education and care sector 2023/2024

Draft Report

G8 Education Ltd

28 February 2024





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Ms Deborah Brennan, Ms Lisa Gropp, Mr Martin Stokie
Commissioners
Productivity Commission
4 National Circuit
Barton ACT 2600

Dear Commissioners

I am writing on behalf of G8 Education Ltd, Australia's largest for-profit provider of quality early education and care. We have a strong commitment to corporate responsibility and public engagement and welcome the opportunity to provide further input into this Inquiry.

Our organisation believes that our sector expertise and insights can be a valuable resource for this Inquiry.

As an organisation deeply invested in providing accessible and affordable early education, we are committed to contributing constructively to the discussion.

Enclosed with this letter, you will find our formal submission, which offers a detailed analysis of the issues we wish to address, along with recommendations and data supporting our perspective. We hope that this submission will be a valuable resource.

We appreciated the opportunity to meet with you recently at the Brisbane public hearing to discuss important aspects of the Inquiry.

If you have any questions, require further information, or would like to discuss our submission in more detail, please do not hesitate to contact me.

Sincerely

CEO & Managing Director
G8 Education

Executive Summary

G8 Education Ltd (**G8**) welcomes the opportunity to contribute to the Productivity Commission's (the Commission's) inquiry into the early childhood education and care (**ECEC**) sector (the Inquiry) to consider cost and availability barriers that affect access to ECEC services, and ways to support better outcomes for children and families. Our team are committed to providing the best possible outcomes for children and families. We have invested significant time and resources to be able to provide the best possible support to the Commission in this Inquiry.

We are a leading provider, supporting 45,000 children each week through early childhood education and inclusion services. This context gives us a unique perspective to provide relevant feedback on the Commission's draft report.

As an organisation we are guided by a set of values and a united purpose. G8 has a sustainable business model that ensures we will be a long-term, leading participant in the sector, delivering an essential service for families across Australia. We are thought leaders in the sector, driving policy change and proactively working towards finding long-term solutions to sector challenges. Further, transparency is a core value, and we consistently seek to go above and beyond to ensure openness in our operations. Our response has been developed with these guiding principles in mind.

G8 welcomes and supports many of the draft recommendations made and particularly those surrounding:

- Provision of universal access to ECEC for all young children and supported by the relaxation of the activity test and the Government providing funding for persistent thin markets
- Promoting greater affordability among lower income families
- Prioritising the need to solve workforce challenges as a critical enabler to delivering universal ECEC access
- Seeking greater inclusion, through funding and improving access, for children with disabilities and those from diverse backgrounds.

It is vital that the Government ensures any changes to regulations assist in reducing complexity from the sector for stakeholders, resolve workforce shortages, improve access for vulnerable children and those in very remote areas, as well as address overall affordability for families. It is also important that any changes do not have an adverse effect on quality standards, and consider all costs associated with delivering high quality education and care for all providers.

Our response to the Commission's draft report has been divided into two sections, with the first providing some general observations on selected draft recommendations which we either do not support or are seeking change. The second part of our response provides some of the information that the Commission is seeking to finalise its Inquiry, where G8 can provide a valuable perspective.

The key matters highlighted in our response are summarised in the following tables. The reference number for the Commission's recommendation or information request corresponds to the same reference number adopted in the draft report.

OBSERVATIONS ON SELECTED DRAFT RECOMMENDATIONS

Recommendation	G8 position
6.2 - modify aspects of the Child Care Subsidy to improve accessibility	<p>Conditional Support</p> <p>G8 strongly supports changing the Child Care Subsidy (CCS) to make ECEC more accessible and affordable for lower income families.</p> <p>G8 supports the need to rebase the Hourly Rate Cap to re-establish its value and to appropriately index the cap to sustain its value. The rebasing of the cap cannot be on an “average efficient costs” basis, however, because of the severe risks created for supply, quality and affordability.</p>
7.6 - support out of hours preschool	<p>Do not support</p> <p>G8 has fundamental concerns centred on creating an unfair competitive setting for Long Day Care (LDC) providers that would be materially impact upon their viability.</p>
9.2 - establish an ECEC Commission	<p>Do not support at this time</p> <p>There are greater current priorities to be addressed to resolve the workforce shortage through higher wages, improving accessibility for lower income families and funding greater inclusion.</p>

RESPONSE TO SELECTED INFORMATION REQUESTS

Information request	G8 response
6.2 Broader funding reform	<p>G8 supports the Commission’s position that the central element of ECEC funding should continue to be the current Child Care Subsidy/Hour rate cap demand-side mechanism for the supply of services in most areas. G8 recognises the need for supply side funding to provide services in remote or disadvantaged areas. G8 also acknowledges the case for supply-side funding to offset the cost of the imperative to pay higher wages for teachers and educators to support their attraction and retention as a critical initiative to resolve the workforce shortage, while not impacting on family affordability. G8 continues to strongly oppose any form of direct price control, including the prevalent Canadian \$10 per day model. This is on the basis that such models promote severe risks focussed on complexity of design and implementation, inequities between family income tiers, high cost, lowering quality and providers exiting the sector. We note that these views align with those expressed in the Commission’s draft report and the ACCC final report.</p>
9.2 – ECEC Commission	<p>G8 has previously highlighted the need for a “champion” to harmonise policies, regulations, systems and processes across governments and regulators etc. This would take out significant complexity and cost and make it easier for families to access high quality services and for all providers to operate. G8’s preference is for an existing body to assume this role to allow this to be set-up in manner that imposes limited additional cost for the sector. Further, for this body to be given the required authority and resources to succeed.</p>

Observations on selected draft recommendations

G8 welcomes and supports many of the draft recommendations contained in the Commission's draft report and is strongly supportive of the overall objective to create universal ECEC access for all Australian children. G8 specifically supports the following draft recommendations:

Ref #	Draft recommendation
Availability gaps will have to be tackled to achieve universal access	
5.1	Support universal access in persistently thin markets via supply-side funding
Availability can only improve if workforce challenges are resolved	
3.1	Reduce barriers to educator upskilling
3.2	Support innovative delivery of teaching qualifications
3.3	Improve registration arrangements for early childhood teachers
3.4	Lift support and mentoring for new early childhood teachers
3.5	Improve pathways and support for Aboriginal and Torres Strait Islander people to obtain ECEC qualifications
3.6	Contribute to professional development for the ECEC workforce
3.7	Improve the ECEC Workforce Strategy
Affordability and complexity should not be barriers to ECEC access	
6.2	Make information about CCS eligibility easy to find and understand
6.4	Improve the CCS calculator on the Starting Blocks website
6.5	Prompt families to update their details with Services Australia
6.6	Provide better information to families about CCS withholding rates
A universal ECEC system has to be inclusive of all children	
2.2	Amend the Disability Standards for Education
2.5	Reduce administrative burden of Inclusion Support Program applications
2.6	Improve coordination of inclusion funding between governments
Quality is paramount to achieving the benefits of ECEC	
8.1	State and territory regulatory authorities should improve their performance reporting
8.3	Ensure regulatory authorities are adequately resourced
8.4	Incentivise quality provision in new ECEC services
8.2	A new review of the National Quality Framework
2.1	Ensure appropriate quality regulation for services outside the scope of the National Quality Framework
New coordination mechanisms will support universal access	
9.1	Improve policy coordination and implementation

The following commentary provides some observations on selected draft recommendations, where G8 believes it can make a valuable contribution to support the Commission to finalise them. We either provide a view that we conditionally support the draft recommendation or that we do not support, and the reasons for this position.

G8 is a member of Early Learning and Care Council of Australia (**ELACCA**) and has been an active contributor to ELACCA's submission in response to the Commission's draft report. G8's view on draft recommendations not specifically discussed in this section, are represented in ELACCA's submission.

Draft recommendation 6.1: Monitor rises in fees and out-of-pocket expenses

G8 position – Conditional Support

- G8 is conditionally supportive of the recommendation for the Government to regularly monitor fees. However, there is a need for a clearer understanding of any potential regulatory response (and related powers) where provider fees are proven to be unreasonable. Further, G8 needs to understand in detail the criteria that will be used to assess 'reasonableness' of fee levels. The assessment should appropriately consider differences in provider types and cost bases and be assured that these important nuances are taken into account.
- The sector is a diverse mix of for-profit and not-for-profit providers of differing sizes (a mixed model). This mix is essential to the sustainability of the sector to meet the growing need for early education. Any fee monitoring regime needs to recognise the diversity of providers and that they each have corresponding profit level requirements to realise an appropriate (not excessive) margin above their cost of capital. This key factor will have an influence over required fee levels.
- Cost base differences will also influence required fee levels. These include location situational factors impacting wages levels and rents, the quality and breadth of the service offering and the degree of operational support provided to services.
- G8 agrees that the Government needs to maintain an informed view of revenues, costs and profits across the sector. This will both support its proposed fee monitoring role and provide an informed basis for reviewing the quantum of the hourly rate cap.
- We need to explore ways to reduce the burden on large providers to deliver information required for the review. G8's effort to provide information for the ACCC Inquiry involved significant resources, time and cost. This was considered disproportionate relative to information request of smaller providers. G8, and other large providers, already make considerable information publicly available which should be leveraged for future reviews to reduce the volume of specific and necessary information requests made of them.

Draft recommendation 6.2: Modify the Child Care Subsidy to improve affordability and access

G8 position – Conditional Support

- G8 strongly supports changing the Child Care Subsidy (**CCS**) to relax the activity test and provide all families with 30 hours of subsidised care per week. Further, it strongly supports the proposed changes to make ECEC more affordable for lower income families.
- G8 welcomes the recommendation to regularly review the hourly rate cap associated with the CCS to ensure the cap moves in line with (and not behind) the cost inflation being experienced by the sector. G8 strongly believes that there is an immediate need to rebase the hourly rate cap to re-establish its value. When the rate was originally set, it represented the 85th percentile of hourly fees. It has now fallen to around the 51st percentile in December 2022.
- G8 does not agree with the suggestion to set an hourly rate cap based on a formulated view on average costs. There are significant risks to this approach, including:
 - Inherent complexity in calculating the average given the variability of provider costs bases between geographies, operating models and situational settings. The ACCC report has explored areas of cost variability across the sector. The report noted that higher wages are paid in remote areas to attract staff and that for-profit providers pay higher property rents on average than not-for-profit providers; and
 - The dangers of incorrectly setting the cap, promoting disincentives to supply high costs areas, and compromising quality to contain costs.
 - Requiring fees above the cap and the resulting impact on family affordability.
- In G8's view the hourly rate cap must continue as a price/fee orientated mechanism. From an ideological point of view the optimal hourly cap is a level that nearly all providers can rationally price within, while efficiently delivering high quality education and care services.
- Further, G8 supports indexing the cap in between the reviews subject to the development of an appropriate formulation that accurately reflects changes in the cost base of all providers. We do not have a ready solution for an indexation model but would support a composite index comprising key cost buckets, led by labour costs.
- G8 believes that broad sector engagement and extensive modelling is needed to ensure accuracy and effectiveness before implementing this recommendation.

Draft recommendation 2.3: Amend eligibility requirements for inclusion funding

G8 position – Conditional Support

- G8 is supportive of the general premise of the recommendation - along with most other recommendations within the section striving for a universal ECEC system that is inclusive for all children.
- We do recommend, however, that block inclusion funding be provided to all services without the need for documentary evidence. The funding would provide a minimum contribution towards the inclusion activities of all services to ensure all eligible children meaningfully participate in kindergarten/preschool on the same basis as their peers. Funding requirements beyond the block contribution would be determined based on the Commission's recommended eligibility requirements for inclusion funding.

- As a working example of block inclusion funding being provided in practice, we highlight Queensland’s Inclusion Ready subsidy. The subsidy is provided to service providers to support inclusion of all eligible children in an approved kindergarten program irrespective of diversity of background or additional needs.

Draft recommendation 2.4: Review and amend additional educator subsidies

G8 position – Conditional Support

- G8 recommends the Inclusion Development Fund Subsidy for an Additional Educator be based on a Diploma qualified educator and not a Certificate III qualified educator. This is on the premise that educators require specialised skill to perform the Inclusion Support Program support role.

Draft recommendation 7.6: Support out of preschool hours ECEC

G8 position – Do not support

G8 has fundamental concerns and does not support this recommendation. These concerns centre on creating an unfair competitive setting for Long Day Care (LDC) providers that would be materially impact their viability, reflecting:

- Those dedicated preschools who make the change to offer outside school hour care would essentially be providing a LDC like offering, and therefore competing directly in the areas they operate. If a substantial number of preschool aged children (3 and 4 year olds) switched from LDC to preschool this could significantly impact upon the viability of the LDCs. As the Commission notes in its draft report, older children cross-subsidise younger children in circumstances where centres charge a fixed fee for all age groups. Conceivably, if a sufficient number of older children transferred to a preschool the impacted LDC could become loss-making and unviable. This would impact upon the supply of services for younger children.
- There would appear to be a real risk of preschools “double-dipping” government funding, if preschools were also to receive the CCS, in circumstances where:
 - Commonwealth or State Government is already funding a specified number of free preschool hours for attending children and this same funding is not available for LDCs; and
 - The preschool is a State Government asset and receives funding for capital costs and staff costs. As we understand the system, the CCS is designed to support meeting the costs of service providers who do not have access to State Government funding. If the families of these preschools became entitled to CCS this could fundamentally impact upon the competitive dynamics of service supply.
- The change to providing outside school hours care in a preschool would represent a fundamental change to the preschool operating model – the feasibility of which is unknown. There is a need to assess the interest of preschools to make this change when determining if to proceed.
- The current ecosystem of preschools and LDCs provides families with choice and flexibility. Some families will choose preschool only, others a mix of preschool and LDC during non-preschool days, while others will prefer the “all-in-one” convenience of the LDC offering. The potential diminishing of the choice and flexibility afforded to families if preschools become similar to LDCs needs to be explored.

Draft recommendation 9.2: Establish an ECEC Commission

G8 position – Do not support at this time

- At this time, G8 does not support the establishment of an independent ECEC Commission to better coordinate and deliver policies across all government levels. This would be a significant, time consuming and costly undertaking. Greater investment priorities presently exist across the ECEC sector including higher wages for the workforce, improving accessibility for lower income families and providing greater inclusion funding.

Provision of selected information

The Commission’s draft report has requested further information to support finalising the draft recommendations and producing the final report. This section of G8’s response seeks to provide some of the information sought, where G8 is able to provide a valuable perspective.

In respect of the information requests that G8 does not directly address, we refer the Commission to the information provided by ELACCA in their submission.

It is noted that G8’s observations on certain draft recommendations have also provided material to the following information requests:

Draft recommendation	Corresponding Information request
6.2: Modify the Child Care Subsidy to improve affordability and access	6.3: Level and indexation of the hourly rate cap
9.2: Establish an ECEC Commission	9.2: An ECEC Commission

Information request 2.2: Cultural safety in ECEC services

- ECEC have the highest proportion of Reconciliation Action Plans compared to schooling and great support is available through Narragunnawali: Reconciliation in Education.
- There is still a lot of support needed for the profession to build the cultural integrity and understanding needed to deliver culturally responsive programs. This needs to be embedded in all training at Registered Training Organisations (RTOs) and universities as a critical component of building this skillset in the ECEC workforce.
- The Inclusion Support Program review highlighted that there was more focus on disability than support in providing culturally responsive programs. There are gaps in the support provided by the Inclusion Support Program to provide culturally responsive program delivery.
- Careful consideration should be given to the use of terminology - ‘cultural integrity’ and ‘cultural responsiveness’ are more appropriate than a ‘cultural competency framework’. Learning and understanding is a lifelong journey and not a point of reaching competency.
- Hidden Histories training is needed as a foundation for all. There have been excellent programs implemented in Queensland including Embedding Aboriginal and Torres Strait Islander Perspectives in Early Childhood (EATSIPEC). As part of the program, the Department employed team members and supported the profession, however, this is no longer operating. The Victorian Government also have

a cultural liaison team that support some centres. Programs are not universal and seem to operate in only some areas.

Information request 2.4: Transition to school statements

- ECEC transition statements vary greatly from state to state and by schooling sectors across the nation. There is evidence they are well received and utilised to support planning and successful transitions in some areas within states and by some schools.
- The effectiveness and response rate of schools is very mixed. In some areas there are very strong relationships where ECEC and schools have ongoing relationships across the year of which Transition Statements are one part of this success and for other children may be accessing 10 plus different schools.
- To some degree state schooling may have more success, as many private schools seem to use a range of enrolment factors to influence transition.
- Funding and support in all states is needed to support teachers meeting with families and completing the Transition Statements. This support should also be provided to facilitate meetings with families and schools for children with more complex needs. Funding for Transition Statements specifically is only provided by Victoria at this time.

Information request 3.3: Falling completion rates for early childhood teaching qualifications

- There is a lot of diversity in the types of degrees being offered whether for birth-5, birth-8, birth-12 years and the content delivered. Whilst flexibility and accelerated degrees are also being offered, the quality and success of graduates is also very varied.
- At G8 we have selected quality universities and degrees to partner and offer Bachelor Scholarship programs for our team members who hold a Diploma qualification. The success we are experiencing relates to providing study time and mentor support as well as paid practicum and some financial support to complete their degree. There is a lot of complexity for team in working and studying and providing wrap around support is critical.
- A review of LANTITE and IELTS would also be beneficial in building workforce.
- G8 supports national recognition of teacher registration/accreditation as highlighted in the Commission's draft report, especially to support Early Childhood Teachers who relocate interstate.
- Continuing to build the professional identity of Early Childhood Teachers generally is a continuing area of focus to build and retain ECEC workforce.

Information request 9.1: Scope for broader funding reform

- We note that the PC are suggesting that the central element of ECEC funding should continue to be the current Child Care Subsidy/Hour rate cap demand-side mechanism. The draft report noted that families were spending less on ECEC in real terms in 2022 than they did four years earlier, and that government subsidies seem to have achieved their goal of reducing expenses. Some changes have been recommended to promote greater affordability. Broadly G8 is supportive of these

recommended changes, and in particular the proposal to abolish the activity test and increase subsidy rates for low income families.

Supply-side funding

- Correctly the PC have highlighted the need for an expanded funding approach to enable participation of children with higher needs and who reside in very remote areas, as part of an overall solution. G8 supports the recommendation for the Government to provide supply-side funding to deliver services in thin markets that cannot be directly supplied by existing providers (principally because it is financially unviable for them).
- Resolving the workforce shortage is a critical enabler to providing universal access to high quality education and care and needs to be addressed as a priority. As acknowledged in the draft report, a critical component of any solution to attract and retain workforce will be materially increasing the wage rate of educators and teachers. G8 is of the view that this situation represents another appropriate use case for Government supply-side funding to fund the required wage increase. In the absence of the subsidy, two unpalatable outcomes remain - to either have families fund the wage increase, materially impacting affordability, or to not proceed with the increase and jeopardize resolving the workforce challenge and compromise the provision of universal access.
- G8 is currently a party to a Multi-Employer Bargaining process, that has been recently enabled following changes to the Fair Work Act. The process is designed to uncover a way to materially increase the level of wages paid to educators and teachers to support attraction and retention. It is hoped that the Government will become a party to any negotiated agreement and will fund a contribution to the increase in wages through some form of direct supply-side subsidy.

Direct price controls and the Canadian \$10 per day model

- G8 has observed that attention and interest has been given to the Canadian ‘\$10 per day, per child, fixed fee’ model by some stakeholders and commentators. We note that the Commission have modelled the potential outcomes of this, along with other funding options. Further, the Commission concluded that the Canadian model was not being sufficiently targeted towards cohorts requiring assistance and its relatively high cost. Accordingly, it was not recommended as priority to pursue at this time.
- There are some real challenges evident with the Canadian model:
 - Expensive system not keeping pace with demand – in Quebec 2021 the waitlist for subsidized places exceeded 50,000; and
 - Risk of lower quality – across some territories only 50% of educators need to be qualified, low wages are paid and staffing ratios are much greater.
- G8 would also observe that the Canadian model would impose direct price controls on providers. G8 has a strong position against such controls, which largely aligns with the ACCC view covered in its final report, centred on:
 - No rationale for controls – providers are not earning excessive profits; and
 - The controls impose unnecessary risks centred on complexity, lower quality, reduction in growth in services and providers exiting the sector.
- G8 is also of the view that shifting to a direct price control model would be a highly complex, transformational reform to be undertaken over many years. The risks of getting it wrong are large and which would jeopardise the delivery of a universal ECEC system. We support the Commission’s

overall recommendation to continue with the CCS system, supported by more funding for workforce wages, inclusion and supply of services in 'thin markets'. In our view this pathway will deliver much greater, and less disruptive, progress towards universal ECEC.

Information request 7.3: Barriers and potential solutions to providing more flexible sessions of ECEC

- G8 has previously considered offering flexible and shorter sessions to families. For the following key reasons, it has not created this offering:
 - G8's cost daily cost base is largely fixed, led by team wage costs and rent. Accordingly, being able to sustainably offer shorter sessions is reliant on securing bookings for all periods during the day, and finding families to fill the "air pockets" created by those attending shorter hours. In G8's experience insufficient demand exists from families for the air pockets.
 - Children attending shorter hours creates disruption of the education program being delivered. This centres on children not being in attendance for all education hours. In the case of the "air pocket" children their attendance could be largely outside the educational hours reducing their experience to purely care. This is not particularly rewarding for the children (not receiving education) nor educators (whose role arguably reduces to "babysitting"). Clearly it is not feasible, from a cost perspective, to create and resource separate education program streams to deliver across different session periods.
 - The flexible operating model carries a material risk of a centre falling outside of required team to child ratios. This situation can be easily created in the scenario of a parent being late to collect their child from a session and another child attending the next session has already arrived.
- While children are always not present for the entire length of a full-day session, having a full-day available provides flexibility for the family over hours to be attended to suit their circumstances from a child, work and home perspective.
- Non-attended time is critically important for creating opportunities for centre team members to engage in programming and professional development activities. While families are essentially funding this out-of-classroom time, it represents an appropriate investment in their child's future education and care.
- Anecdotally we have been informed that other providers have previously trialled shorter sessions. These proved to be unsuccessful and were discontinued.

Information request 7.4: Availability of occasional care

- G8 would observe that the major barriers to providing occasional care are:
 - Limited visibility to families of casual spots available across Centre Based Day Care (CBDC) providers. There would seem to be an opportunity for an aggregator to provide a view of casual spots to families through an app. This would require providers to feed to aggregators, in close to real time, their casual availability; and
 - At present, taking up a casual spot requires an extensive enrolment process to be completed, including obtaining Centrelink Customer Reference Number, completing CCS registrations, and supplying immunisation records. Further, if a casual spot is sought in another centre, a fresh enrolment process needs to be completed. The process of securing casual spots across

different centres would be enormously simplified and made easier by creating an ability to port an already completed enrolment to other centres.

- G8 is also conscious that providing occasional care in an LDC setting requires mindful management for the child and family occasionally using the centre and minimising disruption for the children who regularly attend. For occasional care to succeed, educators need to be well trained to manage such situations, including creating the right induction experience for the children.

Information request 9.2: An ECEC Commission

- G8 highlighted in its original submission to this inquiry that there is a need for a ‘champion’ to harmonise policies, regulations, systems, and processes across governments and regulators. This would take out significant complexity and ultimately make it easier for all families to access high quality education and care and for providers to operate.
- G8 would support an appropriate existing organisation being extended a narrow focus on harmonisation and simplification for the sector to progress towards nationally consistent arrangements. Areas for simplification include:
 - Establishing the same teacher registration requirements across all States and Territories to improve teacher pipeline and transferability. We note that this is already an existing draft recommendation from the Commission.
 - Amalgamate all State child safety regulators into a national body applying one set of regulations – for consistency and efficiency.
 - Combine all State National Quality Standard assessors into a national body – for consistency of assessment and efficiency.
 - Standardise Working with Children checks across all States and Territories.
- G8’s strong preference is for an existing organisation to assume this role, to enable synergies of operations and to be set-up in a cost neutral manner. The chosen body needs to be set up to succeed, including possessing:
 - The requisite authorities and powers to perform the scope of its functions; and
 - Adequate resourcing spanning funding, team capability and systems.