

# **Goodstart Early Learning: 2025 Pre-Budget Submission to the Australian Treasury**

**January 2025**

## PRE-BUDGET SUBMISSION TO THE AUSTRALIAN TREASURY – BUDGET 2025

### About Goodstart

#### ***We are for children, not profit***

Goodstart Early Learning (Goodstart) is Australia's largest not-for-profit social enterprise and Australia's largest provider of early childhood education and care, with 653 centres located across every state and territory, supporting more than 61,000 children from 51,000 families. Our organisation also includes 36 Big Fat Smile services across NSW and ACT supporting over 3,000 families, including the operation of the *Include Me* Inclusion Agency.

As a not-for-profit social enterprise, our purpose is to ensure all Australia's children have the learning, development and wellbeing outcomes they need for school and life. It is our view that 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. We believe the best way to do this is to ensure all children have access to high quality, inclusive early learning and care, no matter their location or life circumstances.

### Summary

Investing in high quality early childhood education and care (ECEC) is always a good idea – for children, families and the economy.

Goodstart welcomes the initiative of the Government in establishing the Productivity Commission review into early learning and provided detailed submissions to the Commission. We broadly support the recommendations of the Commission, which provide a credible pathway to establishing a universal ECEC system based on the pillars of quality, inclusion, accessibility and affordability.

We have excitedly welcomed the first four major announcements by the Government on its pathway to a universal ECEC system:

- A government-funded wage subsidy for early childhood workers;
- Replacing the failed and unduly restrictive activity test with a 3 Day Guarantee of access for all children from January 2026;
- Establishing a \$1 billion Building Early Education Fund to address supply and access in underserved markets;
- Setting up an Early Education Service Delivery Cost Project to collect data on the cost of delivering quality ECEC that improves children's outcomes to inform future reforms.

This is a sizeable downpayment on the first step of reform, and Goodstart encourages the Government to continue to work with the sector to deliver these initiatives in a timely fashion. In particular, we encourage the Government to legislate for the 3 Day Guarantee as soon as possible to ensure as many families as possible can benefit from this change next year by giving providers and government agencies the longest possible lead time to implement the reforms successfully next year.

Goodstart congratulates the Government on the success of significant reforms to date, and values the willingness of Government to consult with the sector on its ambitious reform agenda. We are happy to provide additional information on the matters contained in this submission if requested. There are further important reforms identified by the PC that Goodstart believes should be prioritised, particularly to address inclusion and affordability.

This submission encourages the Government to commit to these priority measures in the 2025 Budget, including:

- Implementing the PC recommendations to reform the CCS rates to make ECEC free for low income earners and more affordable for other families;
- Implementing other PC recommendations to improve affordability by improving CCS system arrangements, which should include increasing the hourly rate cap, applying a new indexation methodology, and abolishing the 5% withholding rates;
- An additional \$1.1B per annum inclusion investment for implementation from 2026 that would:
  - o Increase the additional educator subsidy rate to cover wage costs, removing weekly caps on hours for additional educators, and allowing claims to be backdated; and
  - o introduce a service level, needs-based funding program to deliver on inclusion objectives including addressing non-cost barriers, particularly in communities experiencing vulnerability and disadvantage, and for at risk cohorts of children and families.

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#### ACRONYMS & ABBREVIATIONS

ACCC	Australian Competition and Consumer Commission
CCS	Child Care Subsidy
ECEC	Early childhood education and care
ECT	Early childhood teacher
IA	Inclusion Agency
ISP	Inclusion Support Program
PC	Productivity Commission

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## RECOMMENDATIONS IN DETAIL

### Supporting access for all children

**Recommendation 1:** Legislate as soon as possible to put in place the Three Day Guarantee for all children to access early learning.

#### *There is a wealth of evidence to move quickly on introducing the Three Day Guarantee in legislation*

Like many others across the nation, Goodstart celebrated the Government's announcement last December that it will implement a Three Day Guarantee to replace the current activity test from January 2026 with guaranteed eligibility for 3 days of subsidised early education for all of Australia's children, and five days for all First Nations children. This is historic reform that will lay the foundation of a universal early education system on a scale similar to Medicare and superannuation.

This announcement recognises the strong evidence presented by the PC and the ACCC, which found the activity test is a barrier to more vulnerable children accessing care and creating a barrier to workforce entry or return for some groups. Both of these eminent public policy institutions recommended it be removed, relaxed or substantially reconfigured.<sup>1</sup> They also found that low-income families are paying the highest out of pocket ECEC expenses, as a share of disposable income,<sup>2</sup> to which the activity test is a likely contributor due to the high incidence of unsubsidised hours. The PC further recommended all children should have an ECEC entitlement of at least 3 days (30 hours) a week of quality ECEC to deliver universal access to high quality ECEC (p.2). Combined with a 100% CCS rate for low income families, the PC estimated that 45,100 additional children would be able to access early learning, a 10% increase overall, but a 28% increase for children from the lowest income quintile.<sup>3</sup>

The ACCC and Productivity Commission join over 10 government and independent bodies who have called for the activity test to be removed, relaxed or substantially reconfigured, specifically:

- AIFS Child Care Subsidy Evaluation Report (2021)
- SNAICC A Voice for our Children
- Women's Economic Equality Taskforce (twice!)
- Economic Inclusion Advisory Committee 2023 Pre-Budget Report
- Impact Economics
- South Australian Royal Commission into Early Childhood Education and Care
- NSW IPART Review
- Professor Sharon Goldfeld in partnership with Early Childhood Australia (ECA)
- Submissions to the 2023-24 PC Inquiry into ECEC from NSW, Vic and Qld State Governments.

Particular groups of families are less likely to attend early education with a combination of the activity test, limited supply in some areas and cost barriers playing a part. Fixing the activity test and supply in underserved regions are essential first steps in addressing this. The PC found that children less likely to access early learning include:

- Aboriginal and Torres Strait Islander Children;
- Children from a Non-English speaking background;
- Children from regional and remote areas;
- Children from low income families.<sup>4</sup>

<sup>1</sup> ACCC Childcare Inquiry, September interim report, pg 30., PC Final Report Recommendation 2

<sup>2</sup> ACCC Childcare Inquiry, June interim report, pg 15.

<sup>3</sup> PC 2024 Final Report p. 28 & 45

<sup>4</sup> PC Inquiry into ECEC final report p. 22

### ***There is room to welcome additional children or for additional days***

In most communities, there is adequate supply to meet increased demand from new families, and from families seeking additional days. In September, 2024, there were 845,980 children accessing CBDC and 71,340 children accessing ECEC<sup>5</sup>, around half of all children aged 0-5 years. The ACECQA database shows there were 684,658 places in long day care centres available<sup>6</sup>. An average of 3.3 days attendance<sup>7</sup> suggests an average occupancy rate of around 81.6%, suggesting around 20% more children could be accommodated across the sector with its current footprint – when considering centre based day care alone. Alongside the Government’s \$1B investment in the Building Early Education Funding and, thanks to a reduction in workforce shortages as a result of the wage subsidy, we anticipate that the overwhelming majority of families will be able to access the early learning they want from 2026.

On this basis, we strongly support the January 2026 implementation date and note that the earlier all stakeholders can commence preparing for implementation, the better. Many of the families that are set to benefit will have experienced vulnerability and will need additional support to navigate the process of enrolling children in ECEC. Early passage of legislative changes will allow key preparatory work to commence, including for providers to develop service offerings, IT system changes and family support services, which will allow the sector and families to plan with confidence.

Goodstart is thrilled at the prospect of finally being able to welcome the children and families for whom the activity test was a barrier, particularly as these are the children who stand to benefit the most from early learning. We also look forward to working with Government on the proposed legislation and ministerial rules to implement the Three Day Guarantee.

### **Supporting inclusion for all children**

#### **Recommendation 2:**

**Invest an additional \$1.1B per annum inclusion investment for implementation from 2026 to:**

- **Increase the additional educator subsidy rate to cover wage costs, removing weekly caps on hours for additional educators, and allowing claims to be backdated; and**
- **introduce a service level, needs-based funding program to deliver on inclusion objectives including addressing non-cost barriers, particularly in communities experiencing vulnerability and disadvantage, and for at risk cohorts of children and families.**

#### ***To build a truly universal early learning system, it must be inclusive for all children***

In order for all children to benefit from the changes to the activity test to introduce a universal entitlement to early learning, urgent investment is needed to ensure barriers to access and participation addressed, including for children with additional support needs. In its final report, the PC recognised the cost disincentives to enrolling children with additional support needs and recommended ‘the Australian Government should immediately improve access to the Inclusion Support Program by increasing funding and streamlining administrative requirements’ (PC Final Report, pg 3).

A critical part of the CCS Safety Net is the Inclusion Support Program (ISP), which provides funding to meet the needs of children with additional support needs. Within the ISP, funding is provided to cover the wages cost for an additional (above ratio) educator in an early learning room, so that children with a disability, developmental delay, trauma-related behaviours or other inclusion support need are able to participate in early learning. This is intended to address the financial disincentives for enrolling children with higher support needs and supports both the child’s early learning needs and parental workforce participation. However, immediate action is required to address the loss in the value of the ISP educator wage subsidy over time, as

<sup>5</sup> Department of Education, Childcare in Australia Quarterly Statistics Sep 2024

<sup>6</sup> ACECQA NQS Snapshot Sep 2024

<sup>7</sup> 34.1 hours average weekly hours divided by 10.5 as average session length.

the funded hourly rate has not been indexed since 2016 and the ISP-funded hours are insufficient to support early learning for a child whose parent works three or more days a week.

***The additional educator subsidy has been losing value over time***

Since 2016, no indexation has been applied to the hourly rate for the wages subsidy, even though award wages for early childhood educators have increased 3.5% per annum (on average) during the same period (see Table 3). This means the subsidy continues to lose value as wages increase and no longer covers even the lowest possible qualification level (Cert III, Pay Point 1) creating a financial disincentive to enrol children with inclusion support needs, as they won't be able to adequately support them. As we pay above-Award rates at Goodstart, the difference in the subsidy rate and our educator's rate is significant (at least \$15/hour cost to Goodstart not covered by current ISP funding – see Graph 1).

**Table 3: Modern award increases – early childhood educators**

Date	Modern award increases	Superannuation Guarantee	CPI Indexation (to Dec qtr.)
July 2017	3.3%	9.5%	1.7%
July 2018	3.5%	9.5%	1.9%
July 2019	3.0%	9.5%	1.8%
July 2020	1.75%	9.5%	1.85%
July 2021	2.5%	10.0%	0.9%
July 2022	4.6%	10.5%	3.5%
July 2023	5.75%	11.0%	7.8%
July 2024	3.75%	11.5%	4.1%
July 2025	n.a.	12.0%	n.a.
<b>Total</b>	<b>31.8%</b>		<b>25.9%</b>

The PC's final report recommended the hourly subsidy rate be increased to at least a Certificate III ECEC educator rate (recommendation 2.2). However, this would mean children requiring the most highly skilled educators (i.e. at least Diploma qualified) could only be supported, at best, by those who have the lowest level qualifications. When employing an additional educator to support a child's inclusion needs, experience is paramount and other skills and capabilities are often necessary based on a child's individual needs (such as medical management or peg feeding, for example). Like many not-for-profit providers, we direct social purpose investment to meet these gaps and ensure children have access to the skilled professionals they need. However, this is not the experience for all children and families.

Instead, we recommend the hourly subsidy rate is increased from its current level (\$23.00/hour) to at least \$39.90/hour,<sup>8</sup> which represents a Diploma-qualified educator with two years' experience including oncosts (i.e. superannuation, leave, worker's compensation, etc). If a lower hourly subsidy rate is implemented, there will continue to be cost barriers to including all children or funding will not be adequate to provide children with experienced inclusion support they need to fully participate in early learning.

Consistent with the Productivity Commission recommendations, we recommend the hourly subsidy rate be indexed annually in line with increases in the award rate. Since 2016, the Superannuation Guarantee rate has increased from 9.5% to 11.5% with a further increase to 12.0% in July 2025. These increases have had to be absorbed by providers for inclusion staff. Providers receive no additional fee revenue for children with additional needs, which is why the additional educator hourly rate must be reset and include on-costs, going forward.

<sup>8</sup> Diploma qualified ECEC educator with two years' experience \$32.97/hour + 21% on-costs as at 25 January 2024 plus the 0.5% SG change from July 2025. Actual rate should reflect award wages plus on-costs at time of implementation. This calculation assumes the government-funded wage subsidy will fund the additional 10% above-award supplement.

The implementation of the ECEC Worker Retention Payment and its associated fee cap will make it harder for providers to continue to cross-subsidise inclusion support workers. In 2023-24, Goodstart spent \$6.7 million to cross-subsidise inclusion support workers, or around 0.5% of our revenue from fees. This cost has doubled in the last two years. We are aware of other inclusive providers also cross-subsidising from fee revenue to a similar extent. However, with fee growth capped at 4.4% in 2025 and 4.2% in 2026, many providers may find it difficult to continue to cross subsidise supporting children with additional needs. This may result in families finding it even harder to find a provider willing to take a child that requires ever increasing levels of provider subsidy to support.

### ***Children needing inclusion support are not always funded for all their hours of attendance***

The ISP weekly cap on funded hours (25 hours per week for an individual child) does not align with CCS eligibility of up to 50 hours per week. The Productivity Commission report found this cap to be unduly restrictive (finding 2.8), noting it is inconsistent with Department of Education data, which shows children were enrolled – on average – for 34.1 hours per week in the September 2024 quarter. Even in a shared care arrangement (supporting two or more children) – which is not available for all children – funding is only provided for up to 40 hours per week. This limits the workforce participation of parents of children with a disability or other inclusion support need, who we know have lower workforce participation than other parents<sup>9</sup>.

To ensure the ISP continues to achieve its policy objective of supporting children with inclusion support needs to participate in early learning, we recommend the caps on funded hours of support be removed (i.e. 25 and 40 hours per week limits). These immediate urgent measures will ensure that the current program better meets its objectives while the longer term reform agenda for inclusion support and Foundational Support is developed.

### ***Delays in processing applications add to provider costs***

Services often bear the full cost of employing an additional educator to support a child while the application for funding is being processed. Currently, there is no back pay of applications. While Government data suggests that around 20% of applications take longer than two weeks, the high workload faced by inclusion agencies can result in significant delays stretching into many weeks in some cases.<sup>10</sup> The PC noted that: “The disincentives to services to enrol some children is clear.” Onerous requirements for reapprovals also add to costs and delays, such as when a child moves rooms within a service, when service ownership changes, etc. Goodstart proposes that funding should be backdated to the date of application to remove a further impediment to support for children with additional needs.

### ***There is more to do to support inclusion for all children.***

There is more to do to adopt a broader approach to inclusion than proposed in the PC final report and the Department’s review of the program, as well as the broader issue of how best the Inclusion Support program can operate to support children in ECEC settings alongside other investments, like NDIS Foundational Support programs and NDIS services. Goodstart broadly supports the recommendations that the PC has made for reform of the Inclusion Support Program, and would encourage Government to continue to consult with the sector on implementation of its reform agenda. Inclusion is a crucial element of building a universal ECEC system that meets the needs of all children, and getting the policy and program settings right is crucial.

For example, the PC inquiry acknowledged that the administrative processes required for a family to access ECEC can act as a significant barrier to navigate for families experiencing disadvantage. It recommended that a system navigator role should be trialled alongside the immediate changes to ISP funding discussed above (recommendation 7.2). The PC Final Report positively referenced existing programs, such as the Increasing Access and Participation Program delivered by Goodstart in partnership with State Governments in Victoria, South Australia and Queensland to support children known to child protection to access early learning, and

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<sup>9</sup> Spencer, N (2014), ‘[Family Matters: Impacts of caring for a child with chronic health problems on parental work status and security](#)’.

<sup>10</sup> PC Final Report p. 86-7

Uniting NSW/ACT's Links to Early Learning program (pp. 427-429). Goodstart encourages the Federal Government to use the learnings from these programs to fund more system navigator programs across Australia as part of its service- and community-level inclusion investments.

While consultation on future reform occurs, increasing and improving the ISP funding to fix already identified problems should be an immediate priority for the next Federal Budget.



### Supporting affordability of universal access to ECEC

**Recommendation 3: Implement the recommendations of the Productivity Commission to make access to early learning more affordable by increasing the Child Care Subsidy (CCS) to 100% for low income families and by increasing the CCS rate for all other families from 2026.**

Improving affordability of ECEC has been identified by the PC as a key reform priority of building a universal ECEC system. It identified cost as a particular barrier to access for low income families:

“Notwithstanding higher CCS rates, families on the lowest incomes spend more on ECEC than middle income families as a share of their income (figure 7). While out-of-pocket expenses as a share of income are reasonably similar for many cohorts, that does not mean that they affect families equally. Financial resources are more constrained for lower-income families which makes them more sensitive to price. This is likely contributing to lower participation rates in ECEC, particularly for children and families experiencing disadvantage.” (p. 28)

The PC also found that a universal ECEC system would have substantial benefits for Australia:

“The implementation of these reforms will have a measurable effect on children’s outcomes, as reflected in the Australian Early Development Census, and more children will start school developmentally on track. Outcomes for families are also likely to improve, including through their ability to work hours that suit them. Better inclusion policies and greater availability of services will give more families the ability to make choices about how much time they spend working, training, volunteering or studying.” (p. 7).

Goodstart’s analysis of the PC’s recommendations around affordability demonstrates all families will benefit from these changes and, consistent with the PC’s statement, half of Goodstart families would be eligible for CCS rates of 90% or more and nearly 80% would be eligible for CCS rates of over 75%. Further,

implementing these affordability measures would result in over 40% of Goodstart children having out-of-pocket costs of less than \$20/day.<sup>11</sup>

Goodstart supports the recommendations to the PC report to reform the CCS rates, specifically to establish a 100% CCS for low income earners, increase the CCS rates for other families by around 10% and align HCCS rates to the CCS taper (recommendation 6.1). However, we strongly encourage Government to lift the low income threshold to at least \$100,000 per annum from 1 July 2026 for simplicity and to more closely align it with the Family Tax Benefit Part B threshold, noting current CPI projections indicate the CCS low income threshold will reach \$88,520 in 2026-27.

**Table: CCS low income thresholds across out-years**

Financial Year	Lower income threshold	CPI
2023-24	\$80,000	n.a.
2024-25	\$83,280	4.1%
2025-26	\$85,362	2.5%(*)
2026-27	\$88,520	3.7%(*)

(\* RBA Nov 2024 CPI Dec Qtr forecasts)

It is worth noting that the reforms to the CCS taper made in 2022 and 2023 have supported a significant increase in children accessing ECEC and in women's workforce participation. This is despite a significant squeeze on family incomes due to higher costs of living and workforce shortages impacting availability of ECEC. As these pressures ease, improving affordability is likely to have a significant impact on child participation in ECEC and workforce participation. For example, since Victoria introduced free kindy for 3 year olds, participation by 3 year olds in ECEC has risen from 50% to 80%.

Year	% of children aged 1-5 in CCS services (Sep QTR)	% maternal workforce participation, youngest child aged 0-5 (June QTR)	% Reduction in net child care costs since Sep 2021
2021	56.0%	67.2%	0
2022	57.1%	67.7%	-5.4%
2023	57.8%	69.7%	-15.3%
2024	58.3%	70.6%	-6.2%

(Source: Childcare in Australia Quarterly Statistics, ABS 3101.0 Population by Age, ABS 6224.0 Labour Force Status of Families; ABS Consumer Price Index)

## Supporting affordability and sustainability

### **Recommendation 4: Implement other changes to simplify the CCS regime and improve affordability by:**

- i. Increasing the hourly rate cap for centre based day care and indexing it to align with the allowed increase in fees under the wages subsidy program.**
- ii. Setting the default withholding rate for CCS at 0% and allowing families to increase it if they choose.**
- iii. Implementing the Three Day Guarantee to reduce the incidence of families paying for unsubsidised hours.**
- iv. Establishing an effective fee monitoring regime to identify excessive fees and profits with a credible threat of regulation to address these.**
- v. Ensuring the Service Delivery Cost project is implemented in close consultation with the sector to provide practical advice to Government on future reform options to improve affordability.**

<sup>11</sup> This considers CCS contributions only. More children are likely to have out-of-pocket costs of less than \$20/day as a result of state preschool subsidies, third party contributions or programs, etc.

### **Increasing the hourly rate cap and indexing the cap to align with caps on fee increases**

While fixing the CCS taper will make a significant difference to affordability, other minor but necessary changes to certain design elements of the CCS system could also help improve affordability. Many of these issues were recognised by the PC in its recommendations for reform.

Keeping out-of-pocket costs low for families is achieved both through generous subsidies that closely reflect the costs of delivering high quality early learning and minimising fee increases. Implementing the PC's recommended increases to the CCS rates and taper will improve affordability for all families, but especially low income families, so they can realise the benefits of the Three Day Guarantee. The Government's wage subsidy has been – and will continue to be – successful in capping fee increases, with increases effectively fixed at a maximum of 4.4% for 2025 and 4.2% for 2026.

To ensure the subsidy more closely reflects increases in costs of delivery since the CCS was introduced, the hourly rate cap also needs to be reset. This is because indexation of the cap has failed to keep up with the increases in fees, noting these are a direct reflection of increases in costs of delivering centre-based daycare, which the ACCC found have been growing faster than inflation<sup>12</sup>. When it was set in 2018, the hourly rate cap was set at 17.5% above the projected mean price for CBDC, which placed it at the 87<sup>th</sup> percentile of the fee distribution.<sup>13</sup> At that time, just 11% of CBDC services had an average fee above the hourly rate cap.

Indexation of cap (and family income thresholds) should be aligned to match the fee caps in the wage subsidy (i.e. 4.4% in 2025 and 4.2% in 2026), which would hold out of pocket costs steady for families. The fee constraints implemented as part of the government-funded wage subsidy remove the risk that providers will increase fees beyond the reset hourly rate cap.

**Table: CCS Hourly Rate Cap in comparison to average hourly fees**

Year (Sep)	CBDC Hourly Rate Cap	CBDC Average Hourly Fee	% Cap above the fee	% CBDC service with average fee above the cap	Hourly rate cap CBDC fee percentile
2018	\$11.77	\$9.80	20.1%	13%	87%
2023	\$13.73	\$12.80	7.3%	22.9%	72%
2024	\$14.29	\$13.70	4.3%	29.7%	n.a.
2025	\$14.63	\$14.31 (2)	2.2%	n.a.	n.a.
2026	\$15.03(1)	\$14.91 (2)	0.8%	n.a.	n.a.

(1) 2.75% CPI as per MYFEO; (2) 4.4% and 4.2% as per wages grants fee cap.

By 2024, the hourly rate cap had dropped from being 20% above the hourly fee to just 4.3% above the hourly fee. Based on projections (applying the RBA's Dec QTR CPI forecasts and the fee caps for the wage subsidy), by June 2026, the hourly rate cap will be just 2.2% above the average fee, and could be lower than the average in the subsequent two years. A one off 10% increase in the hourly rate cap would restore the cap to around 15% above the average fee, where it was in 2019.

Restoring the hourly rate cap alongside the is long overdue – the Government ordered review of the CCS reforms headed by AIFS in 2019 identified this as a problem and recommended that the cap be reviewed. This was supposed to happen in 2020 but COVID intervened and the work was sidelined. It is now urgent.

Goodstart recommends the restored hourly rate cap (10% increase) then be indexed in line with the fee cap under the ECEC Worker Retention Grant Scheme (4.4% in 2025, 4.2% in 2026). This would ensure affordability of care is not eroded over the next two years.

<sup>12</sup> ACCC Childcare Inquiry, Interim Report September 2023, p. 10.

<sup>13</sup> PC Final Report p. 349

### ***Set the CCS withholding rate at 0%***

The PC recommended that the family withholding rate be set at 0%, with families given the option of updating the rate whenever they update their details (recommendation 6.4). Goodstart strongly supports this recommendation as a key systemic change to improve affordability. The PC analysis found that the policy rationale for the withholding rate is weak as few families generate debt, and that these tend to be middle and upper income families. Whereas, 80% of families with reconciled incomes did not incur a debt and, of those that did, just 11% had incomes below \$100,000 (PC p. 376-377). The current 5% withholding rate particularly penalises low income families who receive higher CCS rates by reducing their weekly subsidy amount and therefore increasing their out-of-pocket costs (PC p. 361). A key reason why debts are incurred is because families have not 'reported' their taxable income, which might be better addressed by more effectively encouraging families to do so.

Setting the withholding rate at 0% is particularly important if the CCS rate is to be set at 100% as recommended by the PC, otherwise ECEC will not be 'free'. Low income families are less likely to generate debts because their CCS rates are less likely to change (particularly if they are under the low income threshold).

### ***Fixing the activity test will improve affordability***

The ACCC and PC reports provided detailed information on how the activity test impedes the affordability of care for low income families. Low income families are more likely to exceed their CCS hours entitlements (particularly if they are on the lowest two tiers of the activity test) and incur unsubsidised hours. Fixing the activity test will result in many fewer unsubsidised hours as the bottom two tiers of the activity test will effectively be eliminated with the 3 Day Guarantee.

### ***Establishing an effective fee monitoring and regulatory system***

The ACCC and the PC both noted any increase in public investment in the sector should be implemented alongside effective fee constraint and monitoring measures to ensure excessive profits are not made at public expense. Goodstart supports this approach and made recommendations to both inquiry processes recommending a more effective fee monitoring, transparency and compliance approach. Goodstart recognises that Government would be concerned to ensure that the benefit of increased investment goes to families as intended rather than increased fees (and profits) for providers.

The ACCC report found no evidence that fees on average across the sector were excessive, and that over the past five years, fees increased slower than increases in underlying costs. But averages can hide instances of excessive fees and profits being made.

In developing a fee constraint mechanism, Goodstart would encourage the Government to focus on the outliers in local markets and assess whether their fees (and underlying profits) are excessive. This would act as a credible threat of regulation that would encourage appropriate business behaviour across the sector. Three year reviews of costs and fees (as recommended by the PC) would support Government to assess progress at a more systemic level.

In our submissions to the ACCC and PC inquiries, Goodstart supported a stronger role for Government in fees and outcomes monitoring as part of its holistic market stewardship role. We suggested that any consideration of fee regulation should be directed at 'excessive fees' and should:

- Focus on 'outliers' charging high fees or increases in fees inconsistent with local market conditions and significant cost drivers
- Have regard to the considerable variability in cost of service between child ages, needs, locations and service types
- Allow for exceptions based on the needs of children (i.e. quality, inclusion, access, thin markets)
- Allow fees to move in line with the main cost drivers of labour, property and consumables

- Be flexible enough to take account of circumstances outside of providers control (e.g. regulatory changes, economic shocks, emergencies and natural disasters).
- Improve fee transparency, so families and providers can more easily compare fees – this should involve more direct communication with families
- Be backed up by a credible threat of intervention by Government, which could include direct communication with families in cases of excessive fee increases.

Government needs to ensure that allowable fee increases are sufficient to cover increases in costs. This is a complex question that will have different answers for many providers. While blunt instruments like fee caps may be manageable in the very short term (e.g. as a condition for the ECEC Worker Retention Payment Grant Scheme), they are likely to fail in the longer term unless they are part of a comprehensive, open and transparent pricing review process (like aged care). The risk is, if fees are capped at a rate lower than increases in costs, providers will be forced to cut costs, which would inevitably see quality and inclusion practice suffer.

### ***Service Delivery Cost project can inform future reforms***

Goodstart welcomes the commissioning of the Service Delivery Cost project as a sensible first step to informing future ECEC funding reforms. Our strong message is that this project needs to be developed and implemented in close partnership with the ECEC sector, if it is to be successful. In aged care, there was a five year, highly consultative research effort, which ultimately resulted in a new funding determination in 2023. Whatever direction future funding might take will require a far better understanding of cost drivers and variability across the sector.

Funding reform needs to be driven by the Government’s broader objectives for the ECEC system. A universal ECEC system should be built to improve outcomes for children and to support parents workforce participation, built on the pillars of quality, inclusion, accessibility and affordability for all. The Service Delivery Cost project needs to reflect the system Government wants and collect data not just on ‘average costs’ but on the variability of costs, and on the costs of delivering quality and inclusion as well as ensuring access reaches ‘underserved’ areas, including regional and rural areas.

The project could also learn from the strengths and limitations of the ACCC cost data collection process – on the importance of considering variability and not just averages, and the vital importance of careful consideration of data definitions and collection across the sector. It is worth noting that, in aged care, two pilot projects were run on data collection to determine with the sector what was the best data to collect prior to requiring it of providers.

Goodstart looks forward to engaging with Government on the design and implementation of this important reform initiative.

## **Supporting the early childhood education and care workforce**

**Recommendation 5: Continue to support a wage subsidy for the early childhood workforce and build a permanent funding stream to support the outcome of the gender valuation wage case.**

Goodstart has enthusiastically welcomed the Government’s \$3.6 billion initiative to fund a 15% wage increase for ECEC workers and was proud to be the first employer in the sector to finalise an Employment Agreement allowing this funding to flow through to our workforce. The effect has been almost immediate – vacancies across Goodstart in December 2024 were down 28% compared to the previous year, while applications for new roles were up 25%. Workforce engagement is up and attrition rates are down. Our workforce finally feels their work is valued.

The current process is, of course, an interim process for two years, and Goodstart would urge the Government to do early preparatory work to be ready for the next phase, once the Fair Work Commission

hands down its decision on the recently concluded gender valuation award review. We hope the review findings will result in wage rates that better reflect the value of the work undertaken by educators.

What will then be needed is a more permanent funding mechanism based on actual payroll costs. Funding was provisioned in the 2024 Budget to build the IT system for this to occur. This project needs to be started sooner rather than later, with detailed engagement with the sector, if the system is to be up and ready at the end of the current two year grants process.

## Supporting the expansion of access to early learning in underserved markets

### **Recommendation 7: Establish the Building Early Education Fund in close consultation with the sector.**

Goodstart has welcomed the establishment of the \$1 billion Building Early Education Fund to support the rollout of services in underservices areas. Goodstart has opened over 50 new services across Australia over the last decade and has extensive expertise and insights that we are happy to share with Government. Engagement with high quality providers, like Goodstart, is necessary in the planning and commissioning process of new services to avoid negative unintended impacts on local markets and to ensure efficient use of Government investment.

The PC identified that around 9% of children lived in markets that may be underserved, a number based on more robust analysis than the higher number reported by the Mitchell Institute. Even still, the PC's calculations are likely to be an overstatement, as its analysis undercounted preschool places, assumed that all babies wanted a place when only around 10% of children birth to 12 months are enrolled in care, and failed to factor in that 'underserved' communities may be adjacent to 'overserved' communities to which they travel. It also did not factor in that demand for ECEC varies widely dependent on parental preferences. The PC correctly identified that underserved communities are far more likely to be smaller centres in outer regional and remote areas. Smaller centres in rural communities are likely to face ongoing viability issues.

Goodstart looks forward to working with Government on rolling out this important initiative.