Not for Profit Sector Development Blueprint Issues Paper

Goodstart Submission

December 2023

We're for children, not profit.

ABOUT GOODSTART

Goodstart is a not-for-profit social enterprise and Australia's largest provider of early childhood education and care (ECEC). We have 660 centres located across every state and territory, educating 63,600 children from 53,700 families, employ over 15,000 Australians and have a turnover of over $1.3 billion a year.

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 and structure as a social enterprise 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.

In FY2023, 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.

The last three years have been extremely challenging for Goodstart and indeed for the entire ECEC sector. In FY2022-23, Goodstart recorded a loss of $85.3 million on a revenue of $1.3 billion, following a $65.7 million loss in 2022.[1] By contrast, the largest privately owned ECEC provider G8 Education made a profit (CY23) of $36.8m on a $905 million revenue, and a profit of $45.7 million in CY22.[2]

[1] Goodstart 2023 Annual Report

[2] G8 Education 2022 Annual Report

SUMMARY OF SUBMISSION

This submission notes that the in the last decade the NFP component of the ECEC sector has stood still, with virtually all of the growth occurring in privately owned ECEC services. Private services are, on average, more expensive, lower quality, less inclusive and are less generous employers than NFP providers. Despite this, the NFP share of the ECEC sector has shrunk from 32% to 24% of centre based day care services.

As this Taskforce contemplates building a Blueprint for a vibrant NFP sector, for the ECEC sector, that should include stronger governance and funding programs to ensure investment is directed to high quality provision – particularly by NFP providers - and where it is needed. This should be part of a more robust stewardship model for Government where Governments utilise all available tools (funding, policy, regulation, planning, data and reporting) in support of nationally agreed objectives for a universal ECEC system. To progress that, we recommend that Governments:

a. Establish a capital and operational fund to 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:
   i. new services in communities that currently have little or no access to high quality NFP or publicly owned centres
   ii. innovative centres in thin markets that meet the broader needs of the community
   iii. supporting and expanding the network of community controlled First Nations ECEC services
   iv. place-based services that are responsive to local community needs, particularly in communities of deep disadvantage.
   v. new integrated services on all new school sites.
   vi. services well equipped for learning support for children with additional needs.
   vii. The fund should also directly fund major repairs and upgrades for not-for-profit services and high quality private providers based on national priorities.

b. Implement a strengthened regulatory approach to approvals and planning for new ECEC services to create stronger incentives for high quality provision which would include:
   a. where new service approvals must demonstrate a need for the service and/or that it meets nationally set priorities for quality, inclusion and access before even a development approval is sought
   b. Providers should not be able to add a new service approval to their network until at least 90% of their existing service meet the National Quality Standard, and that new providers cannot be approved unless their centre leadership team has a proven record of delivering quality ECEC services.
c. Consider specific taxation and regulatory approaches to improve financial incentives to support Not-for-Profit ECEC providers. For example, we recommend that tax concessions for gift deductibility and fringe benefits for charities be updated to reflect the modern challenges of the NFP ECEC sector so that the sector can better support children experiencing vulnerability and disadvantage. This could involve creating a new 'subtype' of charity specifically focused on ECEC.

Goodstart welcomed the report of the Social Impact Investment Taskforce and would encourage Government look to implement the other recommendations of the Social Impact Investment Taskforce to create to wholesale fund to drive and catalyse private capital. This could be supported by the creation of an Office of Social Impact Investing to ensure rigorous evaluation and bring new investment opportunities to market.

1. THE ROLE OF NOT-FOR-PROFIT PROVIDERS IN ECEC

NFP providers (including State and Local Government providers) have long played a crucial role in ECEC in Australia. Up until 1991, the vast bulk of Commonwealth funding for child care (ECEC) was directed to NFP providers as operating grants. From 1991 on, the Commonwealth directed ECEC funding as demand-based subsidies as a percentage of fees paid including to the private sector. The result was an explosion in private provision, led by the ABC Learning Group which expanded to over 1000 centres and was, for a time, the largest child care provider in the world. Laden with debt, ABC collapsed in 2008. A consortium of respected Australian charities (Social Ventures Australia, The Benevolent Society, the Brotherhood of St Laurence and Mission Australia) combined to make a successful bid in 2009 to buy ABC Learning – then in receivership – and Goodstart was born.

Since then, virtually all of the growth in ECEC provision has been in the private sector. The proportion of service operated by NFP providers has dropped from 32.2% to 24.5% in decade, with recent inquiries by the ACCC and Productivity Commission noting this concerning trend.

Growth in ECEC centre based services by management type

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NFP	2063	2078	2072	2072	2071	2077	2095	2111	2125	2131	2146
Private	3838	3904	4156	4337	4553	477	5108	5367	5637	5848	6035
Ind. schools	122	131	134	142	166	186	192	211	223	231	235
Government	375	360	360	383	376	376	349	346	345	346	345
TOTAL	**6398**	**6473**	**6734**	**6934**	**7166**	**7455**	**7744**	**8035**	**8332**	**8556**	**8761**
NFP	32.2%	32.1%	30.8%	29.9%	28.9%	27.8%	27.1%	26.3%	25.5%	24.9%	24.5%
Private	60.0%	60.3%	61.7%	62.5%	63.5%	64.6%	66.0%	66.8%	67.7%	68.3%	68.9%
Ind. schools	1.9%	2.0%	2.0%	2.0%	2.3%	2.5%	2.5%	2.6%	2.7%	2.7%	2.7%
Government	5.9%	5.6%	5.3%	5.5%	5.2%	5.0%	4.5%	4.3%	4.1%	4.0%	3.9%
Preschools*	4283	4280	4258	4243	4248	4235	4263	4263	4267	4232	na

Source: ACECQA NQS Snapshot, June Qtr, March for 2023, *Preschools are all either Govt or NFP from ABS 4240.0

The failure of the NFP ECEC sector growth – whether that be NFP long day care services or stand alone preschools – has meant that fewer and fewer families have the option to attend a NFP ECEC service. And this is of concern because on average, NFP services provide more affordable, higher quality and more inclusive service than privately provided services:

- **More affordable:** The ACCC found that NFP long day care providers are on average are 7% lower than those of private services. This gap is widest for outer regional and remote services;[3]
- **Higher quality:** NFP services are more likely to meet the National Quality Standard (93%) than privately provided services (88%) and to exceed it (31% vs 16%);[4]
- **More inclusive:** NFP are 1.33 times more likely to enrol children with additional needs.[5] Goodstart is twice as likely to enrol children with additional needs compared to the sector as a whole.
- **More likely to be in disadvantaged communities:** The ACCC found NFP providers made up a higher proportion of services in low SEIFA communities than high SEIFA communities as higher profits were possible in high SEIFA communities,[6] and more willing to sun such services at a loss;[7]
- **Operated on lower margins than privately provided services;[8]**

[3] ACCC ECEC Interim Report June 2023 pp. 18, 92-94
[4] ACECQA NQF Snapshot September Quarter 2023
[5] IPART Review of ECEC Interim Report 2023 p 52-3
[6] ACCC ECEC Interim Report Sep 2023 p 102-103
[7] Ibid p. 106, 140
[8] ibid p. 129-130

- **Pay their educators more and employ more on full time contracts than private providers.** As a result, NFP provider had much lower rates of staff turnover (27% vs 41%),[9] which is crucial to maintain the stability of educator child relationships at the heart of quality ECEC.

Given the NFP ECEC sector is more affordable, higher quality, more inclusive and provides a better employment environment than the private ECEC sector, the question needs to be asked why successive governments pursued a set of ECEC policies that have effectively stymied growth of the NFP sector, pushing growth into the higher cost, lower quality private sector. The current Productivity Commission inquiry into ECEC has asked this very question, and has formally asked for submissions *"… about possible reasons why not-for-profit providers have not expanded to meet the growing demand for ECEC. What, if any, barriers and limitations do they face?"*[10]

In responding to the Issues Paper, Goodstart will also seek to reflect on this question posed by the Productivity Commission. Goodstart considers that Governments should make specific changes to financing and regulatory settings to provide incentives for the growth and financial sustainability of not-for-profit sector generally, but also specifically in the ECEC.

Given the level of investment and long term productivity returns from high quality inclusive ECEC, there is a strong case for Australian Governments to follow the lead of the Canadian Government and direct future growth of the ECEC sector into the higher quality NFP sector.[11]

2. VISION for the NOT-FOR-PROFIT SECTOR IN AUSTRALIA

2.1.1. What is your vision or aspiration for the NFP sector over the next 10 years?

2.1.2. What core values and considerations should guide a 10-year vision for Australia's NFP sector?

2.1.3 What core themes for action should be prioritised in realising this vision? What will be the consequences of no action on these?

Goodstart would argue that the vision for the NFP sector over the next 10 years should be for sustainable growth in the provision of high quality , accessible, inclusive services that meet the needs of the Australian community, particularly those experiencing disadvantage or vulnerability.

1990s style policies of 'competitive neutrality' should be replaced with policies where Governments partner with proven delivery partners that can deliver high quality , accessible, inclusive services with a focus on long term investment to deliver better community outcomes.

Achieving this will require access to sustainable funding that allows the sector to grow and build capacity. The private sector has been able to grow faster than the NFP sector in ECEC because it has access to private finance. In the short term, the Government is saved this capital cost. But in the long term Government pays more as return on this capital becomes an ongoing cost met by Governments and the community in fees for the service set to deliver profits, and lower quality provision, or provision not necessarily aligned with Governments policy objectives. The NFP sector will need capital funding up front to grow – indeed this was how the network of community child care centres was established across Australia in the 1970s and 1980s. If that upfront investment delivers higher quality, lower cost, more inclusive services, then that would be a better policy outcome for Australia.[12]

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[9] Ibid 55-56

[10] Productivity Commission (Nov 2023) Draft Report on ECEC information request 5.1

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

[12] The Australia Institute 2022, The Economic Benefits of High Quality Universal Early Child Education

The NFP sector is a labour intensive service sector, and building a stable, capable and well rewarded workforce is crucial to achieving that vision. For too long, 'caring' and 'community' occupations have been undervalued and underpaid. As these sectors and roles are overwhelmingly female, that detracts from the equality of Australian society and denies too many women the opportunity to develop economic security. Supporting a sustainable, growing NFP sector will also support broader Government objectives of promoting equal pay for work of equal value.

The Federal Government has expressed a desire to increase investment in ECEC to deliver universal access to affordable quality childcare. The ACCC report has found market-based model has demonstrably failed to deliver access in many parts of Australia, even while services expand in already well served high income communities. Failure to deliver a vision for expanding the NFP sector in ECEC will exacerbate these trends, with higher levels of public funding supporting higher levels of profit rather than improving access to higher quality services right across Australia.

Goodstart, in its submission to the Productivity Commission ECEC Inquiry, outlined a reform agenda that would support the growth of the NFP ECEC sector and give more families the choice of attending either a NFP or a privately owned service. As this Taskforce contemplates building a Blueprint for a vibrant ECEC NFP sector, for the ECEC sector, that should include Stronger governance and funding programs to ensure investment in network growth is directed to high quality provision and where it is needed:

d. 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 before a development approval is sought
e. 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.
f. establish a fund to 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:
    viii. new services in communities that currently have little or no access to high quality NFP or publicly owned centres
    ix. innovative centres in thin markets that meet the broader needs of the community
    x. supporting and expanding the network of community controlled First Nations ECEC services
    xi. place-based services that are responsive to local community needs, particularly in communities of deep disadvantage.
    xii. new integrated services on all new school sites.
    xiii. services well equipped for learning support for children with additional needs.
g. Directly fund major repairs and upgrades for high quality not-for-profit services based on national priorities.

3. MEASUREMENT, OUTCOMES AND QUALITY OF SERVICES

3.1.1 What core principles of service design and delivery might a sector Blueprint commit to?

3.1.2. What good examples of codesign have you been involved in which could benefit sector practices? Why do you think they have worked?

3.1.3. What would an outcomes-focused approach look like in your area(s) of work? What would be needed to move towards this and what unanticipated consequences should government and the sector consider?

3.1.4. What role(s) should government play in helping NFPs become data capable and informed by evidence?

3.1.5 Could common resources or platforms support the technical aspects of outcomes measurement? What might these look like?

Goodstart is a strong supporter of Governments taking on a more pro-active stewardship role where policy outcomes are clearly articulated and funding and regulatory levers are actively employed to achieve those outcomes. In the ECEC sector, this should take the form of Government more clearly articulating its policy objectives for the sector in terms of quality, inclusivity, accessibility and affordability. That will then require the calibration of levers governing the 'mainstream funding' model to better reflect these objectives, while also developing bespoke funding programs where the mainstream funding model does not suit (e.g. increasing access to services in thin markets or providing support for children or centres with additional needs). In our submission to the Productivity Commission Inquiry, Goodstart recommended "that the financing approach and model moves away from attempting to meet all need with a single financing instrument and recognises the need for a multi-layered financing model to meet broader public policy objectives of supporting child development and workforce participation". The Commission's draft report recognises funding and policy coordination can be addressed in a stewardship model, and provides extensive discussion of how both levels of Government to co-operate to achieve that.[13]

Fundamentally, the job of collecting data, analysing and reporting should fall on Government rather than the NFP sector. The collection of data by NFP providers should be calibrated to support and enhance the delivery of their service rather than be an added compliance burden. This requires careful policy design developed in close consultation with the sector to use. An example is the Government's proposal for develop outcome measures for preschool programs, an initiative that Goodstart supports. The Government has agreed that the measure chosen should be designed so that teachers and educators will be able to use it to support their everyday practice.[14] At a later stage, the aggregated data may be able to assist Governments and services to benchmark performance although that is not in scope at this stage.

Data should only be collected once by Government to minimize compliance costs on providers. However, both levels of Government need to do better sharing data that is relevant for their regulatory and funding roles.

Better data matching on the needs of Australia's families and children could also assist and improve policy making. The Person Level Integrated Data Asset program offers opportunities for this capability to improve over time. However, this program does not yet involve the States who are also have key policy and funding responsibilities for health, education and social programs.

[13] Productivity Commission ECEC Draft Report Dec 2023 Chapter 9

[14] https://www.education.gov.au/early-childhood/preschool/preschool-outcomes-measure

4. POLICY, ADVOCACY, COMMUNICATIONS AND ENGAGEMENT

4.1.1 How can the role of advocacy by NFP organisations be better embedded and preserved in policy and legislation?

4.1.2. What mechanisms are needed so that the expertise of the NFP sector is better used in designing policy and services?

4.1.3. What could NFP organisations and networks be doing better to ensure their systematic advocacy directly involves the people and communities they serve?

4.1.4 How could the assets of the sector – for example, the research expertise of larger organisations, including public universities – be better used to build the evidence base for systemic advocacy and reform?

This chapter raises two key separate but related concerns:

- the ability of NFP organisations to publicly advocate on behalf of their clients for better public policy outcomes (what we call the 'outside track') and;

- the ability of NFP organizations to influence policy design and implementation with Government departments by sharing of information and experience (what we call the 'inside track').

NFP organisations are uniquely placed to contribute to public policy in both the inside and outside tracks and should not be prevented from doing so. The Issues Paper outlines some of the attempts in recent years to gag NFP organisations from speaking out. A future Blueprint for the sector should explicitly recognise the ability – indeed the obligation – of NFP organizations to advocate on behalf of their clients.

In doing so, there will always be 'red lines'. NFP organisations should avoid becoming involved in 'party political' activities and be seen to be supporting one party over another. This has the risk of eroding the 'social license' that NFP organisations have to access Government funding and preferential tax treatment. When one side of politics has a clearly better policy than the other, this balancing act can become difficult. The ACNC could assist organisations involved in advocacy in navigating these politically perilous waters, focusing on the desired policy outcomes rather than the politics.

Goodstart has always recognised advocacy as a core part of what we so. The six legs of our Strategic Goals include an 'impact' goal of creating "an unstoppable force for change in the early years ecosystem".[15] NFP organisations do much of the heavy lifting in policy advocacy in the ECEC space – Goodstart 5-person policy and advocacy team is easily the largest in the sector. We seek to actively partner with many other sector partners to progress our overarching vision for Australia's children to have the best possible start in life, and are active participants in Government consultative bodies and inquires. We believe that our contribution generally improves the quality of policy development and implementation, and that in participating in advocacy, we delivering better outcomes for all Australian families.

[15] Goodstart Strategic Goals 2021-25 https://www.goodstart.org.au/about-us/our-vision

5. PHILANTHROPY AND VOLUNTEERING

5.1.1 What policy and regulatory reforms would help increase giving to charities?

5.1.2. How can the NFP sector further mobilise and access philanthropy in support of its work?

5.1.3. How can philanthropic and volunteering resources be effectively targeted to community needs?

5.1.4. How might the sector adapt to more direct forms of giving and volunteering?

5.1.5 How should the Not-for-profit Blueprint support the goals and required reforms for the National Strategy for Volunteering?

Goodstart supports the ACNC as the national regulator of charities. We would welcome a more considered approach to development of charities policy at a national level, and, as part of that, a more considered approach to policy and regulatory reforms to increase giving to charities.

Goodstart has found the current regulatory approach to granting of tax deductibility and concessions inconsistent, frustrating and out of date, and in urgent need of change. In FY2022-23, Goodstart invested $21.2 million into social inclusion activities to support children with additional needs and First Nations children. However, we are not eligible to receive gift-deductible donations towards these activities. When Goodstart was first formed, we sought public benevolent institution status. However, this application was rejected. We also applied to the Assistant Treasurer to be recognised as a Deductible Gift Recipient by direct listing but were declined. The only limited DGR category that may be available to us is offering ‘scholarships’ for ‘preschool programs’ (item 2.1.13) but this would cover only a narrow part of our work.

As a non-DGR entity, we have found many philanthropic organsiations are reluctant to support our activities. We have had more success working with other charitable partners to establish broader programs to support children in ECEC. For example, we partner with the Benevolent Society and Uniting in the delivery of the Early Learning Fund which supports children who would otherwise miss out on access to ECEC.[16] This fund is auspiced through the Benevolent Society. Goodstart has established an employee planned giving program to support the fund, with Goodstart employees contributing more than $250,000 to the fund in the last year.

The category of ‘preschool’ may have been relevant in 2000 when the DGR categories were established. However, advances in brain development science and understanding of the importance of early childhood education render this category far too narrow. A separate DGR category of ‘supporting child development in the first five years for children experiencing disadvantage or vulnerability ’ would seem far more appropriate to what is now known about the importance of the early years.

Many philanthropic organisations are very interested in supporting place-based initiatives. Goodstart is uniquely placed to respond to these aspiration as a third of our services are in low-SEIFA communities. However, as a non-DGR entity, we are restricted in what we can apply for. If funding is provided to us through an eligible DGR entity, we need to pay the costs of that entity, which reduces the amount of funding that actually could reach the ground.

Goodstart recognises that not all of our activities should be eligible for DGR status, as there is the potential for donations to converted into private benefits for the donor if applied to the donor’s child care services.[17] However, we believe that there is a very strong care for supporting activities that support the development

[16] https://www.goodstart.org.au/early-learning-fund

[17] Productivity Commission 2023 Philanthropy Inquiry Draft Report p. 183

of children experiencing vulnerability or disadvantage. A compelling case can be made that it is in the public interest to invest in early intervention to support such children,[18]

The DGR frameworks were described by a Treasury NFP Sector Tax Concessions Working Group in 2013 as "cumbersome, inequitable and anomalous" and yet a decade later the provisions are largely reformed.[19] That review called for *"DGR status should be extended to all charities, but restricted to activities that are not for the advancement of religion, charitable child care and primary and secondary education, except where this is sufficiently related to another charitable purpose."* This approach would be broadly consistent with practice in comparable countries like the UK and Canada. It is also broadly consistent with our proposal in the previous section for a new DGR category of "supporting child development in the first five years for children experiencing disadvantage or vulnerability", in that the DGR should attach to the support of children experiencing disadvantage or vulnerability rather than the entire purpose of early childhood education and care.

The recent Draft Report of the Productivity Commission Inquiry into Philanthropy has taken a similar but narrower approach in its proposals it argues will 'refocus DGR donations toward activities with the greatest net community-wide benefits', proposing a carveout of all primary and secondary education and activities "unless the activity has an explicit equity objective", or, if it is "child care" (their words), the activity is conducted by a PBI.[20] The Draft Report does not even mention 'early childhood education' nor any awareness of the substantial role ECEC plays in supporting children experiencing vulnerability and disadvantage eloquently described in the Productivity Commission's Draft Report on ECEC delivered in the same week as the Philanthropy report. While the Philanthropy Inquiry received no submissions from any ECEC provider on ECEC matters, it is disappointing that they were not appraised of the extensive analysis of ECEC occurring simultaneously by another Commission team. Goodstart will be making a submission to the Philanthropy inquiry arguing for a more contemporary understanding of the substantial public benefit of supporting philanthropy for supporting child development in the first five years for children experiencing disadvantage or vulnerability.

6. GOVERNANCE, ORGANISATION AND LEGAL ENVIRONMENT

6.1.1 What might a regulatory framework for the sector that overcomes the complexity of our federation look like?

6.1.2. Are currently available legal structures, governance standards and tax concessions fit for future purpose? How might these be improved or changed?

6.1.3. What does the sector need in its boards to be effective?

6.1.4 How could regulatory data be better used and shared with the NFP sector and wider public to support future practice?

As a large NFP organization structured as a company limited by guarantee, Goodstart believes that the regulatory framework through the ACNC and ASIC is an adequate regulatory framework for the NFP sector as such. As an ECEC provider, we face substantially more regulatory requirements under the National

[18] Telethon Kids Institute (2019) "How Australia can invest in children and return more: a new look at the $15bn cost of late action" https://www.thefrontproject.org.au/impact-foundry/research/the-cost-of-late-intervention
[19] "Not for Profit Sector Tax Concession Working group" Final Report to Treasury May 2013 p. 5
[20] Productivity Commission 2023 Philanthropy Inquiry Draft report p. 188, 191, 196

Childrens Services Law (the National Quality Framework) and under the Commonwealth Families Assistance Act. These are currently subject of review by the Productivity Commission.

Goodstart as a charitable NFP is endorsed as an FBT-rebateable employer. This concession is a significant benefit to our higher paid employees, but is of no benefit to 80% of our employees with incomes below $65,000. Further, many of our early childhood teachers are unable to access the concession because of the treatment of HECS debts and repayments in calculating access to the concession.

The 2013 Treasury Working Group also called for reform of the concessions that charities receive for Fringe Benefits Tax arguing that they were inequitable in their current form and suggesting replacing the FBT concessions with annual payments to employers. This reform was never enacted and has been controversial in the sector. The Communities Council argued that the current FBT concessions for the NFP sector are inconsistent, have eroded over time and benefit the highest paid employees in the sector.[21] It suggested a more equitable approach would be an increase in the tax free threshold of $15,000 for all employees of charities.

We have argued that a simpler approach would be to replace the FBT rebate with a lower level FBT exemption for employees of charities in the ECEC sector. Set at around $10,000, this would provide a similar tax benefit in dollar terms to most educators on the 32.5% income bracket as a senior manager receives now from salary packaging with a rebateable employer (maximum benefit $3512 p.a.). The ECEC sector, like all caring sectors, is struggling to attract and hold staff. Replacing the FBT rebate with a flat $10,000 FBT exemption would provide a substantial incentive to hold current staff for charities in the caring professions. If the Government wanted to target funding to sectors with low pay struggling with staff, then it could exclude private hospitals and schools from the concession as their wages are already more generous are funded through other mechanisms.

Regarding boards and governance, Goodstart would note that NFP entities in the ECEC sector are generally more diverse in their management that privately owned entities. For example, in a sector that is 97% female, the five largest ECEC NFP ECEC providers all have female CEOs (including Goodstart). By contrast, the five largest privately owned providers all have male CEOs.

The Issues Paper has noted the decline in volunteering across the NFP sector. This is a particular issue in our sector with a large number of standalone child care centres and community preschools run by parent committees of volunteers. Each year, a small number of community preschools pass their businesses onto their central body to run as a 'branch' preschool. As the complexity of running a successful ECEC business increases, this trend may accelerate. Volunteer run organisations can find it challenging to keep up to date with modern pedagogical practices, to refresh and renew their capital structures and to stay on top of constantly changing regulatory functions. In December 2021, 11.6% of stand alone NFP centre based day care providers failed to meet the National Quality Standard, compared to 3.1% of large NFP provider services,[22] reflecting the greater support structures available in large NFPs to support quality improvement. More support, including access to capital and capability building, will be needed to ensure the full NFP sector is able to deliver quality ECEC into the future.

[21] Communities Council of Australia 2/5/2013 https://communitycouncil.com.au/2013/02/05/the-fbt-discussion-what-is-the-cca-position-2/

[22] ACECQA NQF Snapshot December 2021, large is more than 20 services.

7. LEADERSHIP AND STAFF DEVELOPMENT

7.1.1 What should the priorities be for future leadership in the sector and developing the sector's paid workforce and volunteers?

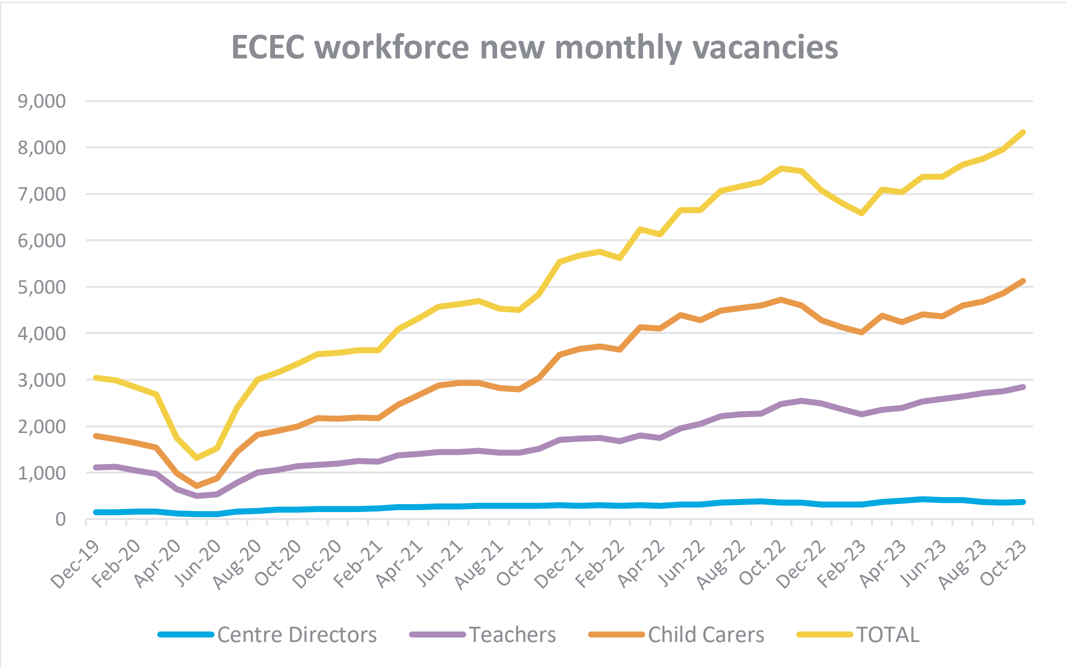
7.1.2. What can the sector do to change understanding of the role of overheads in the value it creates for people, society and funders?

7.1.3. How can we make employment opportunities attractive and build career pathways to develop the paid NFP workforce of the future?

7.1.4. How might the sector make more of its 'for purpose' status to attract and retain paid and volunteer workers?

7.1.5 How can the sector coordinate and resource its influence in workforce development with education providers and governments?

The workforce crisis is the biggest challenge that the ECEC sector faces. Vacancies have more than doubled since 2021. In the last year, while vacancies in the workforce as a whole have eased by 6%, vacancies in ECEC have continued to rise by 11%.[23] Many centres have had to cap places for families as a result of workforce shortages. This is a problem in our sector common to both the NFP and private sector, although the NFP sector has lower attrition rates than the private sector, albeit it at historically high levels. Addressing low wages in the ECEC needs to be the first priority of Government in moving towards its vision of a universal ECEC system.



(Source: Jobs and Skills Australia Monthly Internet Vacancies Index)

Access to professional development is crucial for continuous quality improvement in the education sector, and ECEC is no exception. While Goodstart invests $23 million in professional development each year, we know that our workforce would like us to do more. But the Child Care Subsidy funding system and the requirement under the National Quality Framework to maintain staff ratios at all times make it difficult to

[23] https://www.jobsandskills.gov.au/work/internet-vacancy-index

fund and facilitate whole of team professional development. In the schools and preschool sectors, teachers and educators enjoy 'pupil free days' for team development. We are not able to do that. We would encourage the Government to change the Child Care Subsidy rules to allow this to happen.

Leadership and Capability is identified as a key theme in the current National ECEC Workforce Strategy.[24] However, the Strategy, developed prior to COVID is not fit for purpose for the current challenges facing the sector and is not matched by sufficient funding to make a difference. Goodstart believes that the strategy needs to be refreshed and fully funded, a view which has received some support in the Draft PC Report. Both Commonwealth and State Government have important roles in building the ECEC workforce, by investing in expanding the pipeline into the sector, building capability through ongoing investment in professional development and upskilling and addressing retention issues through funding better wages and conditions.

8. GOVERNMENT FUNDING, CONTRACTING AND TENDERING

8.1.1 How should government improve the way it funds and contracts charities?

8.1.2. How could government funding, tendering and contracting drive a good balance of collaboration and competition to support innovation in the NFP sector?

Competitive tendering processes provide a level playing field for organisations to compete for scarce funding. However, as the Issues Paper identified, these processes also have their own risks and opportunities. There are considerable costs to writing grants, with Government procurement agencies often requiring extensive amounts of information, even for small grants. This prevents many organisations from applying. Governments should give consideration to reducing the paperwork required to apply for a grant, tailoring the information requests to meet the size of the grants available, and also considering the previous history of the grant applicant before requesting the same information all over again.

For larger grants (e.g. capital grants), Governments should consider providing some seed funding to support applicants to apply. The Victorian Government has adopted this approach for its most recent Building Blocks ECEC capital program and it is most welcome.[25]

Governments should be more open to longer term partnership funding arrangements, which would provide a more stable financial footing for NFP organisations. It may also reduce unnecessary competition between organizations that should be working together that may stem from competitive funding.

State and Federal Governments could also facilitate access of charities to Government panel procurement benefits. Some Governments already facilitate this (e.g. Queensland).

9. IT, COMMUNICATION & MARKETTING

9.1.1 What standards of digital capability should the sector aim for and how might these be achieved?

9.1.2. How might the sector aggregate support to maximise the digital capabilities of smaller organisations?

9.1.3. What is needed and what is the sector's role in advocating for digital inclusion and participation of citizens and communities?

[24] https://www.acecqa.gov.au/national-workforce-strategy

[25] https://www.vic.gov.au/kindergarten-facilities-and-capital-funding

9.1.4 How can Govts streamline digital systems requirements & support efficiencies for NFP providers?

This theme appears to be largely geared at smaller NFP rather than larger ones like Goodstart. Goodstart's spending on IT and building our digital capacity has expanded considerably, from $5 million a year in 2013 to $22 million a year now.

Government can be an important partner in ensuring that the NFP sector can continue to build efficiencies and capability through IT solutions. Thoughtful redesign of funding and reporting mechanisms to integrate with IT systems should be a priority. Yet poor examples of Government practice continue. Victoria's portable long service leave scheme for the community sector is a case in point, with the scheme's designers insisting on a level of reporting that falls outside our online payroll system and requires many days of manual data input to comply with on a quarterly basis. A scheme designed to support the community sector has ended up adding $3 million in direct costs to Goodstart with a substantial new compliance burden while delivering virtually no benefit to our employees.

Government and NFP providers need to be aware of digital poverty with many households not having access to computer or even mobile technology. While the vast majority of households can engage digitally, many are unable to do so. Program design needs to always include alternative engagement and reporting processes for these families.

Goodstart would encourage the Government to establish more high level consultative process between Services Australia and NFP organisations and the clients that they represent. Services Australia is the gatekeeper to Government support and many vulnerable and disadvantaged families do not get the support that they need because of the formidable obstacles required to access support through Services Australia. The solution in each case needs to be bespoke. Services Australia needs to be open to such solutions and willing to engage with the NFP sector to deliver them. This will require a clear governmental directive to Services Australia to achieve.

10. LEVERAGING ASSETS AND SOCIAL FINANCE

10.1.1 Is greater knowledge sharing about the assets of the NFP sector needed? If so, how might this be done and to what ends?

10.1.2. What resourcing and regulatory support could be introduced or better used to allow NFPs make best use of their assets in support of operational sustainability and delivering on societal needs?

10.1.3. What models of social finance best suit the needs of NFPs? How can these be encouraged or scaled?

10.1.4. What practical steps can the NFP sector take with governments, philanthropy and/or the private sector to redress underfunding and support innovation and financial health of the sector?

Accessing capital can be a challenge for NFP providers, as for-profit providers can be more agile in sourcing capital funding and increasing supply. As discussed earlier, NFP ECEC services are more likely to be higher quality[26], more likely to have services in communities with higher levels of disadvantage (low-SEIFA)[27] and generally charge lower fees than for-profit providers[28]. Not-for-profit services also tend to make higher levels of investment in inclusion. As a result, not-for-profit providers can have a positive impact in local markets in terms of placing downward pressure on fees and upward pressure on quality. However, service planning and approvals do not consider the provider ownership type (i.e. for profit or not-for-profit) or quality

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

[27] ACECQA Occasional Paper no 7 Quality ratings by SEIFA 2020 p. 14,

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

performance of providers, or recognise the importance of having the choice of different service types in local markets. In areas where families do not have the choice of a not-for-profit provider, some children may not be able to access a service that meets their needs, particularly where a child has additional inclusion needs. Between 2014 and 2022, the proportion of not-for-profit centre-based care centres declined from 32 per cent of all centres to 25 per cent[29], while 92 per cent of all new centres were for-profit services. This is because not-for-profit providers 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.

For-profit providers are generally able to achieve larger operating surpluses and often substantial capital gains on the value of buying and selling centres. 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 to larger for-profit operators seeking to deliver on growth and expansion targets. 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 investment and increasing demand.[30] The increased rental and finance costs are at the expense of educational resources, quality, inclusion, educator wages and affordability.

NFP 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.[31] Access to capital and access to government sites (such as schools) needs to be increased for not-for-profit providers, as does some form of location planning control, implemented in a way that mitigates over-supply without constraining supply. The Canadian Government is prioritising growth of quality, not-for-profit services in the rollout of its $30 billion Child Care Reform Plan.[32]

The opportunity for Government is how to direct capital and investment for reasonable financial returns in areas like early childhood – which have a strong evidence base and closely linked to human capital, productivity. Measures in the 2023 budget to build the impact investing market and address disadvantage through the $100 million Outcomes Fund are an important start. Goodstart supports the view that more is needed, and that Government should look to implement the other recommendations of the Social Impact Investment Taskforce to create to wholesale fund to drive and catalyse private capital.[33] This could be supported by the creation of an Office of Social Impact Investing to ensure rigorous evaluation and bring new investment opportunities to market.

Goodstart's formation is itself an internationally significant case study in the success of social impact investment.[34] Goodstart's continued growth is impaired by inability to access the substantial additional capital needed to build and develop new centres at scale. Other sectors underpinned by substantial streams of government funding such as housing and aged care could also be potential beneficiaries of a more supportive investment framework.

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[29] ACECQA National Register Jan 2014 & Jan 2021

[30] "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/

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

[32] https://www.canada.ca/en/employment-social-development/campaigns/child-care.html

[33] See comment by Social Ventures Australia 16/5/2023 https://www.socialventures.com.au/news/impact-investing-gets-nod-of-approval-in-federal-budget/

[34] Mike Steketee 22/10/2019 https://insidestory.org.au/is-goodstart-just-the-beginning/ see also https://www.socialventures.com.au/work/goodstart/