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Personal Submission to the Productivity Commission Inquiry on ECEC

I would like to thank the Commissioners for the opportunity to contribute to the ECEC review. As an ECEC researcher and advocate, the ambition and scope of the Productivity Commission Review is exciting and it serves as an important measure by international standards to rethink ECEC funding, governance and delivery in the face of growing marketisation of these systems. The stated government aim to introduce a universal ninety percent childcare subsidy is highly commendable.

In terms of my claim to expertise in ECEC, I am a social geographer with fifteen years of research experience on the use of markets in the delivery of social care services. Within this area my specific research focus has been on the creation and implementation of marketised ECEC, and the growth of centre-based daycare in response. In 2022 I published a monograph with Bristol University Press entitled Childcare Provision in Neoliberal Times: The Marketisation of Care, which was an in-depth study of the childcare market in New Zealand since the late 1980s. From this research and my ongoing interest in the development of ECEC markets internationally, I would like to submit the following observations.

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1. *Achieving greater affordability and access to ECEC*

   The reliance on demand-side funding models, based around approaches like tax rebates and subsidised ECEC hours, have been deployed across childcare markets internationally for some time. While considerable government investment has been committed to these funding approaches, they have continuously failed to address out-of-pocket childcare costs for parents in the longer term (Gallagher, 2023; Stebbing, 2022). One of the primary reasons for this failure is that new funding has not been accompanied by a restriction on the fees which services can charge. As has been shown in New Zealand, and elsewhere, any new funding injected into the system to offset parental costs risks being absorbed by fee increases in the medium term (eg. Duff, 2023).

   As an attempt to reduce parental fees for preschool aged children, some countries have introduced 'free' hour payments (like the 30 hours in England or the 20 hours in NZ currently[i]). While an important step in recognising the value of quality pre-school education, these payment schemes have also not achieved the cost reductions for parents that were intended. Despite the ambition to have 'free' hours in place, this ambition has been undermined by allowing services who claim to work at higher levels than regulated standards (and therefore above the average rate calculated by government for the payment) to charge for 'optional' extras. In locations where parental choice is limited, services have required parents to enroll their child for more than the 20 paid hours. Furthermore, the fee structure for hours outside the 'free' paid hours have become more expensive as a means of offsetting any shortfall in income for services. This particularly impacts the cost of care for children under two[ii].

Recommendation:
In the current market-based system, a fee cap or similar restriction on what services can charge would be needed if affordability and relatedly accessibility is to be addressed by the review. Any new funding risks being absorbed by fee increases. A 90% government regulated subsidy for all children in ECEC would significantly reduce the ability for fee inflation over time.

2. *Impacts on demand, supply and fee growth.*
   Marketised ECEC systems can be highly uneven in their distribution and location of services ([Paull, 2012]). In the absence of a system management approach whereby data on diverse ECEC needs is centrally gathered, there is a tendency for either a geographic oversupply or undersupply of services to manifest. This problem has been especially pronounced as ECEC systems tip towards a reliance on the commercial sector, as for-profit services generally gravitate towards locations where greater profit margins can be achieved (usually in higher socio-economic communities where fee ceilings are greater). Indicative of this trend, a 2019 report on ECEC finances commissioned by the UK government found that "private providers have higher mean hourly fees, are more likely to use additional charges and have a higher mean income-to-cost ratio than other provider types" ([2018: 17]).

   In terms of ECEC supply, international research on heavily marketised ECEC systems has evidenced the tendency for children to be viewed differently within the for-profit business model, leading in many cases to a reduction of opportunities in the system for children under two. In essence, young children are viewed as more 'labour intensive' to care for in terms of staff-child ratios, and therefore not as profitable from a business perspective. As ECEC experts Press and Woodrow ([2005:284]) discussed in relation to the Australian context, "this leaves the community or 'public' sector to provide for these children, and families with more complex requirements."

Recommendation:

A system wide management approach for the supply of ECEC is required to effectively ensure supply for younger children and in turn meet the economic objectives of the funding review for working families.

3. *Professionalisation of the sector*

The NZ ECEC sector is considered to have high structural quality measures by international standards. Since the introduction of the 20 hours ECE payment in 2008[iii], the Ministry of Education has explicitly sought to use the funding model to improve quality measures in the sector, where quality is linked to staff professionalisation. This objective was built into the creation of the tiered 20 'free' hours funding system, whereby funding was directly linked to the level of qualified staff employed by a service. The funding model also sought to even out historical wage discrepancies by linking funding to the primary wage award, the Consenting Parties Agreement for ECEC teachers.

Despite the stated objective to achieve one hundred percent teacher-led services by 2012, there were a range of unforeseen issues which impeded this aim[iv]. While most of the not-for-profit sector already recognised the Consenting Parties Agreement and paid staff in accordance, the majority of the for-profit sector only adhered to the minimum wage rates required to access the funding. Even today, most staff in for-profit services are on an individual, rather than the collective contract (Ministry of Education, 2020). This has perpetuated discrepancies in salary and working conditions across the sector, evident in wage costs which are considerably lower overall in larger commercial services than not-for-profits (Mitchell et al, 2022).

Recommendation

With new funding into the sector, it may be prudent to offer a separate supply side fund for staffing costs to go directly to services, as a way of ensuring the professionalisation and retention of skilled ECEC staff.

4. *The operation of the market in terms of the auspice of service*

For many researchers of highly marketised ECEC systems, the opening-up of government funding to the for-profit sector has been a watershed moment in the direction of travel for these systems. There is now extensive research evidence documenting some of the problems of the unrestrained growth of the for-profit, and more specifically the larger commercial and corporate sector in the delivery of quality ECEC (see a recent book by Vandenbrock et al 2022). In the last fifteen years, marketisation processes have led to a change in the balance of providers in the sector, from what have been a greater proportion of community, not-for-profit services to a notable increase in for-profit ownership. Moreover, what have tended to be fragmented, single owner-operator delivery models are rationalising to a concentration of the ECEC sector under the umbrella of larger commercial, chain and corporate entities[v] (Simon et al 2022). While there are some economies of scale afforded by this change, particularly as the administrative costs of meeting regulatory expectations increase, there have been a host of concerns raised about the lack of political oversight of these larger business entities. As a recent UK government report into the use of finances in ECEC suggested, it is crucial at this juncture to consider providers' investment models as a motivating aspect of the development of the sector (Dept. of Education, 2019). While all funded services in NZ are expected to demonstrate to the Ministry of Education how funding received is spent, not-for-profits are also expected to offer a statement of their balance sheet, financial position and equity[vi]. This is not the case for the commercial sector.

Recommendations:

Stronger governance and political oversight of all parts of the sector, and in particular the diverse for-profit sector, is needed if a mixed economy of care is to remain. One additional option which has been suggested in NZ is to make it compulsory for *all* services, not only not-for profit services as is currently the case, to have a governance board with representation from parents. This approach has been used in Norway to good effect and can work to retain the social ethos of an ECEC business for their communities of interest (Jacobsen and Volsett, 2014).

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[i] This payment was initially only intended to be offered by the not-for-profit sector, but was opened out to the for-profit sector after considerable lobbying by providers and some parent groups (Gallagher, 2022).

[ii] Parental fees in NZ have risen overall by 50% since the introduction of the 20 hours payment (OECD, 2018).

[iii] This payment has been available to all 3-5 year olds, but from April 2024 will also be available to two year old children.

[iv] It is important to note that the objective to achieve 100% teacher led services by 2012 was not a cross party objective and was rolled back in 2010 when a National-led coalition government came into office. As a consequence, enrolments in ECE training fell by 40% between 2010 and 2016. Currently, NZ has a significant skills shortage in the ECEC sector.

[v] In NZ, the five largest childcare chains received almost twenty percent of the ECE funding in 2022.

[vi] The Ministry of Education only audits 20-30% of services annually to verify funding usage (Duff, 2023).