OSHCA
OUTSIDE SCHOOL HOURS
COUNCIL OF AUSTRALIA

4 October 2024

Senate Standing Committee on Education and Employment
Parliament House
CANBERRA ACT 2600
Submitted via email: seniorclerk.committees.sen@aph.gov.au

Submission: Outside School Hours Council of Australia

Dear Committee Members,

We are grateful for the opportunity to provide a submission as part of the inquiry into the *Wage Justice for Early Childhood Education and Care Workers (Special Account) Bill 2024.*

The Outside School Hours Council of Australia (OSHCA) encompasses providers who account for around 30 per cent of the national outside school hours care (OSHC) market. OSHCA members represent approximately a third of the around 5,000 services that are operated on school sites throughout Australia, employing more than 10,000 people across all mainland states and territories. Our sector provides affordable care for the children of over 350,000 Australian families who rely on our services to be able to work & support family needs. The view of OSHCA is that fundamentally children require safe, engaging, age-appropriate programs delivered by a quality workforce.

We are grateful for the Government's acknowledgement that Early Childhood Education and Care (ECEC) is an essential service, integral to Australia's economic prosperity and a powerful lever for increasing workforce participation and we look forward to continuing to engage in this important work. Our educators are the backbone of the ECEC sector, caring for children every day throughout the country and they deserve to be better remunerated. We welcome the government's announcement to fund a wage increase for the entire ECEC workforce.

Whilst OSHCA supports the *Wage Justice for Early Childhood Education and Care Workers (Special Account) Bill 2024* in theory, OSHCA is concerned about various aspects and limitations of the Bill and their implications for the future of the Outside School Hours Care (OSHC) sector. These concerns are outlined below.

Our sector operates subject to a different commercial model compared to the long day care sector (LDC) and we have outlined these points below for your reference:

i. While OSHC is a part of the broader care sector there are several key differences between OSHC and its adjacent sectors. OSHC services typically have lower margins when compared with long day care providers, less flexibility when setting prices and greater volatility in revenue.

ii. We are aware that the new childcare price index (to be published by the ABS) will not have varying price indexing for the different childcare types. This, we believe, will disadvantage OSHC. We strongly recommended that this is reconsidered, and a price index be defined for OSHC rather than an homogenised view that will skew towards centre based long day care"

iii. As reflected in the NSW IPART report OSHC providers operate on net margins of 6-9% (significantly lower than long daycare in most instances) and we are concerned that the fee cap of 4.4% might erode this by up to 10%. This is at a time that OSHC providers are only just establishing a post Covid equilibrium in operations, having attended to considerable workforce shortages, wage and other cost inflation and the variable rates with which families have returned to care across the country. As the Government's broader work has identified, OSHC services are critically important to the functioning of the broader workforce. It is critical that the potential unintended consequences of this cap and how it may impact the availability of OSHC services is considered as part of this work.

iv. Unlike long daycare services, OSHC services, due to the nature of our contractual relationships with schools and State governments, are only able to raise its fees once a year (and normally at the start of the school calendar year). The normal fee increase considers the rate of costs rises over the preceding 12 months. For 2024, the last time OSHC could generally raise prices was in January, whilst the LDC sector for example, has been able to raise prices unilaterally at any time throughout 2024 to account for ongoing price increases. The OSHC sector had been relying on price increases above 4.4% in January to claw back rises which have occurred throughout calendar year 2024, including the impact of the 3.75% increase in the minimum wage in July 2024. The proposed fee constraint will have a considerable adverse impact on the sector in FY 25 and FY 26 if there is not a specific fee structure designed for OSHC. An ongoing challenge for the OSHC sector is that policy and regulation intended for long-day care services are applied to OSHC services by default. These policy settings which often do not take into account the unique nature of OSHC services cause unintended consequences that negatively impact viability, as will occur again in this instance.

v. The sector has already absorbed the regulatory reform administration, award, super and cost of living increases from July 1, and typically will have borne the increase in costs for at least 6 months before a rise in prices to assist absorbing this.

vi. Unlike long day care providers, OSHC services are not able to immediately increase prices in response to increase wage costs due to the nature of the agreements we have in place to operate on school sites. In some state jurisdictions (e.g. Victoria), OSHC services hold contracts directly with the school that lock in fees for extended terms and in other State jurisdictions, those contracts are held directly with the relevant Education Departments, with contractual constraints on fees. This was noted by the ACCC as part of its recent inquiry into childcare:

> *I. "As observed in our September interim report and discussed in chapter 2, the market for outside school hours care operates very differently compared to other care types. Providers typically operate under a license agreement with a school, which usually include provisions about fee changes. The need to recontract and tender to operate a service may also encourage more competitive pricing."*[1]

OSHCA estimates that a fee increase of around 6% would be required in January 2025 in order to allow the sector to keep up with cost increases, with any rate lower than this resulting in the sector going backwards.

Overall, we are concerned about the quantum of the fee constraint and the adverse impact on sustainability given cost increase incurred year to date and constraints on our ability to increase fees. The reduction in earnings potential on already narrow margins, comes at the expense of investing in ongoing operations such as programming quality, compliance systems and educator development.

[1] ACCC Childcare Inquiry Final Report (Page 103), December 2023

Additionally, OSHCA queries how the pricing cap of 4.4% was derived and whether it was drawn from LDC figures only. Given the operational differences between the LDC and OSHC, as highlighted in this submission, it is essential that OSHC's distinct operating conditions are actively considered as part of the broader scheme, and we acknowledge the Department of Education's work to date in this regard. Acknowledging that OSHC providers operate on significantly lower net margins than long daycare providers and that the OSHC sector is limited in its ability to increase fees unilaterally at any time, it's crucial that the potential unintended ramifications of this cap on the availability of OSHC services is understood. The OSHC sector is often stratified in the ill-fitted cast of the LDC sector causing unintended consequences that impact viability.

We note that OSHC providers attend to contract renegotiation with schools 3-6 months prior to the start of the new contract term, typically at the end of one year, or the start of the next. There are a number of schools for which new pricing had already been agreed, with contractual documentation pending, or if settled, with the application date for the new pricing only applicable from the start of the 2025 school year. Pricing in these instances was calibrated to attend to the other commercial aspects of the agreement with schools including the payment of license (rent / facility hire) fees. It leaves providers in an invidious position to have to approach schools or state governments to renegotiate those parent and license fees on the basis that the fees for the year ahead on the basis of the fee constraints. Where there is evidence that offers had been made to schools and accepted by them prior to the August retention payment application date, can we ask for those fees to be grandfathered to apply going forward.

Finally, in relation to the proposed allowable instruments as part the scheme, we are pleased to see that Individual Flexibility Arrangements (IFA's) have been confirmed as allowable instruments as part of the recently released grant guidelines. The use of IFA's will allow our sector to enrol our educators as quickly as possible so that they can immediately benefit from the pay rise from this December.
We appreciate the opportunity to make a submission to the Wage Justice for Early Childhood Education and Care Workers (Special Account) Bill 2024 Inquiry.

For further information please contact OSHCA President Warren Jacobson on , alternatively the OSHCA Secretariat is available on info@oshca.org.au.

Yours sincerely

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