ACA Hourly Rate Caps Consultation Submission Wednesday 12th October 2022

QUESTIONS	RESPONSES
Accessibility and Affordability	
In general, do you think that the Hourly Rate Caps contribute to accessibility and affordability of child care for families?	The impact of the Hourly Rate Cap (HRC) varies depending on the service fees of the individual service. Where the service fees are at or below the HRC, then yes, the HRC does contribute to accessibility and affordability of child care for families. However where the service's hourly rate exceeds the cap, then no, it does not deliver the intended affordability outcomes. In services where the hourly rate exceeds the cap, some of the underlying costs (eg. rent & payroll) make it impossible to deliver the service at or under the cap and these services charge out of necessity rather than choice. The combination of the HRC and the activity test steps 1 and 2, mean that **shorter sessions** to meet activity test eligibility result in an hourly rate that exceeds the cap.
Do the Hourly Rate Caps play a role in constraining fee growth and supporting affordability for families?	Services set fees based on their underlying operating costs. The Hourly Rate Cap (HRC) is not taken into account when setting fees, as the fees must be set high enough to cover the increased cost of service delivery which occurs annually regardless of the HRC. Fee growth occurs to allow services to catch up on the increased cost of service delivery which occurs annually due to increases in staff wages, rent and inflationary impacts on other key cost factors such as insurances, utilities, licences, computer programmes, equipment, resources, staff training, food etc.

To what extent do providers take the Hourly Rate Caps into account when setting fees?	A service provider may then review the relativity of the proposed fee increase to the rate cap but that is not the first consideration. **Operating costs overview** Payroll costs consume up to 70% of turnover so there is no capacity to absorb wages and other fixed cost increases and little option other than to pass them on as fee increases, regardless of the cap. This is even more so if a centre is operating below the 70% breakeven occupancy which is happening more and more with the mushrooming growth of new centres creating additional licensed places at a rate exceeding the birth rate. This further undermines the ability of such centres to absorb any cost increases regardless of the cap and will tempt them to seek even higher fee increases to get back some of the losses associated with low occupancy. These factors are further impacted by other considerations such as the age mix of children at a centre, impact of 3-5 year olds leaving to attend government pre-school facilities, the number of special needs children enrolled & the absorption of fixed cost rentals. Another key factor for single centre owners is how they get remunerated as Approved Providers. If they do not take out or account for any remuneration in the accounts for their centre they rely entirely on any surplus left over as profit to pay their cost of living, return on their capital invested, taxes, payroll taxes etc and this gives a false indication of profitability of the centre Approved Providers are significantly concerned when shorter six-hour sessions are not funded appropriately for families, therefore, reducing affordability for those vulnerable families. The HRC does not directly support affordability for families as they have to pay the increased out-of-pocket amount required to meet the increased costs of service delivery, as noted above. All of these considerations ought to impact on the need for the Hourly Rate Cap to be increased substantially to allow for the variations in all of these factors without impacting on CCS unduly with implications for the gap payments parent have to face. From the Governments point of view however increasing the Hourly Rate Cap may be seen as an invitation to unscrupulous operators to increase their profit margin rather than recover

	additional costs. However, a constraining factor is the growing level of competition from centres especially new centres in the catchment area who, to support additional enrolments, will be constrained in their competitiveness of fees charged.
How do changes in the Hourly Rate Caps impact fees and out-of-pocket costs and what role do they play in your business decisions?	The annual indexation of the CCS hourly rate has not kept up with the increase in operating costs to deliver a service resulting in higher gap fees for families. Changes in the HRC do **not** impact the full fee as they are set at a level required to ensure the cost of service delivery is covered so that the service remains viable. However changes in the HRC **do** impact the out-of-pocket costs for families. For example, if the HRC is increased or decreased the families out-of-pocket costs would change accordingly. The main impact is on services where the cost of delivery is higher. E.g. increased rent in CBD locations and where shorter sessions are offered.
Sustainability	
Do the Hourly Rate Caps support a sustainable and financially viable early childhood education and care sector?	Yes but only to a certain extent - regardless of the HRC the full fee must be high enough to cover the cost of service delivery and to ensure the service remains viable. ACA recommends that the government introduces a process that ensures that the annual increase to the HRC accurately reflects increases in operating costs from year to year.
Do the Hourly Rate Caps adequately reflect the cost of delivery?	No, definitely not, as the cost of service delivery depends on many different factors, which vary from service to service. The cost of delivering a high-quality service is difficult to standardise as it can be impacted by geographic location, the educator-to-child ratios and qualification requirements for the particular state, varying rental costs, the specific needs of the community, the cultural context, the impact of workforce supply and the need for and availability of adjunct services. The HRT can have a positive or negative impact on quality depending on the combination of the above factors. **Varying educator-to-child ratios across age groups and states**

	There is no national consistency to educator-to-child ratios and qualification requirements. This means that the HRC doesn't necessarily reflect the cost of delivery from one state to another accurately. HRC doesn't reflect the cost of service delivery for children under three years of age, due to the educator-to-child ratio requirements.
If not, in what circumstances is there misalignment? How significant is the gap?	As advised above.
Unintended consequences and opportunities for improvement	
Do the Hourly Rate Caps have an impact on quality? *If so, to what extent?*	If services set their fees based on the operation costs of delivering a high-quality service, the HRC will have a minimal impact. However in areas where families can't afford the gap fee, service providers have to make the difficult decision around certain operating costs and what families can afford. These decisions can impact the quality of the service. As previously stated, the cost of delivering a high-quality service is difficult to standardise and is likely to be impacted by a range of varying factors. The ideal scenario would involve setting the HRC at the cost of achieving excellence in all areas - whatever that may look like for each individual service - as opposed to looking at the operating cost of the existing service.
Are there other unintended consequences associated with the Hourly Rate Caps?	Yes – the HTC does not make allowances for the difference of cost of service delivery. It's a very blunt instrument which doesn't take into account the wide variations in operation costs discussed previously– from varying costs across age groups (ie. the ratio of staff required for babies vs older children) through to more subtle differences such as the location, staffing needs, etc.
Are any changes needed to improve the way the Hourly Rate Caps contribute to affordability, accessibility, quality and sustainability?	The HRC should reflect the wide variance in the cost of service delivery referenced above - from varying costs across age groups (ie. the ratio of staff required for babies vs older children) through to more subtle differences such as the location, staffing needs, etc.

How do providers currently manage and facilitate a family's understanding of the hourly rate caps when using the service?	Upon enrolment service providers broadly explain to families how the HRCs work as part of the Child Care Subsidy environment and how they will affect that family's out-of-pocket costs. However generally service providers don't attempt to explain the specific detail of the HRC to their families due to its complexity in the context of an already complex calculation for each family. Families are already perplexed by the calculations surrounding the activity test and the Child Care Subsidy (CCS). Most families don't have the appetite to understand the level of detail around the HRC. Service providers generally only explain this level of detail when required as a result of changes in fees.