Employee Ownership Australia

Submission to the Inquiry into the ECEC Sector in NSW

2 November 2025

Executive Summary

Employee Ownership Australia welcomes the opportunity to contribute to the inquiry into the Early Childhood Education and Care (ECEC) sector in New South Wales (NSW).

We submit that employee ownership—particularly through Employee Ownership Trusts (EOTs)—provides a practical, scalable and sector-appropriate pathway to address persistent workforce shortages, improve service quality and safety, strengthen governance and transparency, and enhance long-term sector resilience.

EOTs align the interests of educators, families, operators and communities by embedding a custodial, mission-centric ownership model that stabilises provider succession, supports workforce development, and directs surplus back into quality, staff capability and child outcomes.

This submission responds to the Committee's terms of reference by:

1) setting out how EOTs work and why they are well-suited to the ECEC context;
2) explaining how employee ownership can improve safety, quality and educational outcomes;
3) demonstrating the workforce benefits of ownership participation, including attraction, retention and progression;
4) discussing fit-for-purpose governance, regulatory oversight, data transparency and training ecosystems in an EOT setting; and
5) proposing measured policy supports to enable (not subsidise) the growth of employee-owned providers alongside public and other not-for-profit and for-profit operators, informed by evidence from earlier national inquiries into productivity and business formation.

About Employee Ownership Australia

Employee Ownership Australia (EOA) is an independent, member-funded body formed in 2011 to advocate for broad-based employee ownership across Australian enterprises.

We support models that foster meaningful participation, stable governance and long-term value creation.

Our submissions to national inquiries on economic dynamism and business formation have highlighted that firms with employee share schemes experience lower turnover and higher productivity and growth, and that structured employee ownership can be a credible mechanism to strengthen competition, retain talent and diffuse firm-level gains more equitably.

These findings are pertinent to ECEC, a sector where stability, quality and workforce capability determine outcomes for children.

The structural features of ECEC—labour-intensive services, high trust and quality sensitivity, thin margins, and a decentralised provider base—make the sector well-matched to employee ownership.

1. The Case for Employee Ownership in ECEC

1.1 Sector challenges and ownership dynamics

ECEC providers operate under sustained cost pressures while being responsible for safety, developmental quality and family trust.

Providers face persistent difficulties attracting and retaining qualified early childhood teachers and educators, owing to wages relative to responsibilities, limited progression pathways, variable employment conditions, and, in parts of the market, casualisation and platform-style rostering models that can fragment accountability and continuing professional development (CPD).

At the same time, ownership consolidation and short-term return expectations can misalign incentives away from workforce investment and continuous quality improvement.

Employee ownership offers an alternative, mission-aligned path.

By vesting a controlling or significant shareholding in a purpose-built trust for the benefit of all current and future employees, EOTs enable providers to share value with the workforce, give educators a structured voice in governance, and stabilise provider identity and community purpose across owner transitions.

There is also some evidence that employee ownership leads to longer employee retention.

Evidence from broader productivity studies supports the proposition that when employees share in enterprise success, firms record lower churn, stronger engagement and measurable output gains.

These dynamics are directly relevant to ECEC, where continuity of educator-child relationships and embedded quality systems are central to outcomes.

1.2 What is an Employee Ownership Trust?

An EOT is a long-term trust that holds a significant equity interest in an operating company for the benefit of all present and future employees on an equal basis.

No individual employee owns or purchase shares in the EOT itself, though EOTs can operate alongside individual employee equity holdings in a company.

Instead, the EOT's trustee exercises custodial rights over the company, typically including consent or veto over major changes affecting the workforce and mission, and oversees broad-based bonus arrangements tied to enterprise performance and agreed criteria such as service, role and team outcomes.

The model is self-financing in practice: founders or exiting owners sell down to the EOT over time (supported by retained earnings and buyback mechanisms).

It avoids the need for employees to contribute capital and reduces reliance on external financiers (which are frequently not used at all in sales to EOTs).

Unlike most private equity or trade sales, in EOTs the departing owner may continue to hold some equity ownership and may continue to hold an executive position in the company, thereby facilitating a phased transition to new management and the transfer of valuable knowledge and experience.

Internationally, jurisdictions that have explicitly enabled EOT models have observed rapid growth in the number of employee-owned enterprises, reflecting the model's suitability for succession and its stabilising effect on purpose, workforce and local presence.

In the UK there are now around 2,500 EOTs, and they are found in all business sectors. The growth of employee-owned businesses since the introduction of a legislative framework in 2014 has been exponential, with sale to an EOT now being the most common form of succession in the UK with the sole exception of family transfer.

Other jurisdictions which have recently introduced EOT-friendly regulatory change include Canada, Denmark, Ireland and Slovenia, beginning a similar trajectory to the UK in their economies.

These features are directly applicable to NSW's diverse ECEC provider landscape.

1.3 Why EOTs fit the ECEC sector

ECEC is characterised by high relational and human-capital intensity, where quality flows from stable, trained, engaged educators working within well-governed services.

EOTs are tailored to these settings because they embed long-term stewardship that preserves provider identity, culture and values. This results in ownership, direction and profits being retained on a sustainable growth basis within local communities, addressing a major area of concern within Australia and particularly at the regional level.

EOT-owned businesses direct a share of surplus back to staff rewards, training and pedagogical support, which measurably improves quality.

They also provide meaningful employee voice through trustee representation and structures such as employee councils and forums.

This aligns operational decisions with daily practice and child wellbeing.

Furthermore, EOTs offer a credible succession pathway for small and medium ECEC operators seeking to retire or exit without being absorbed into competitors or selling to larger chains.

This supports sector diversity and competition.

Importantly, evidence from enterprise-level analyses indicates that employee ownership is associated with average productivity improvements in the year of adoption and materially higher sales per employee thereafter.[1]

In a service like ECEC, where the primary production function is the quality of educator-child interactions, these uplifts translate through reduced turnover, more consistent pedagogy and stronger practice leadership.

Case studies provide real-world evidence of the success of employee-owned childcare providers abroad, particularly in the UK. The EOA White Rose Employee Ownership Business Register currently lists three employee-owned childcare companies: Kidzcare (Edinburgh), Tops Day Nurseries (South East/West), and Childbase (Home Counties, expanding northwards into the Midlands).

These examples illustrate how EOT structures can scale credibly in childcare while supporting workforce stability, quality and community presence.

- **Tops Day Nurseries** became 82% EOT-owned in April 2024. Founded around 2000 near Bournemouth, it operates 33 nurseries serving approximately 4,000 children.

  Its turnover is approximately 20 million pounds and it employs 786 people.

  The founder-owner continues to serve as a director.

  Tops holds B Corp certification and received a Queen's Award for Business in 2022.

  Remuneration is better than sector averages, with 33% of employees earning the Real Living Wage (above the national minimum wage and based on the real cost of living).

- **Kidzcare**, founded around 2000 in Edinburgh, runs a small chain of nurseries in the city and also provides after-school, breakfast club and holiday activities for older children across Edinburgh.

  It became 100% EOT-owned in 2022 and employs 149 people.

- **Childbase**, founded in the 1980s, has incorporated employee ownership since the 1990s. Initially using employee share ownership schemes, it later established an EOT to buy out employee shareholders and the founders and has been 100% EOT-owned since 2017. It now operates over 40 nurseries, records turnover of 74 million pounds and employs 2,325 people.

[1] PEOPLE POWERED GROWTH 2023 - The rapid and impactful rise of employee and worker ownership in the UK' at https://ownershipatwork.org/wp-content/uploads/2023/10/People-Powered-Growth.pdf.

It has consistently won sector and broader business awards over many years, including the European Business Award, and has been rated World Class by Best Companies.

Childbase's articulation of ECEC-specific benefits of employee ownership emphasises motivation, collaboration and stability that directly support quality:

> *"Firstly, when employees have a stake in the business, they are more likely to be invested in its success and dedicated to delivering high-quality services. This sense of ownership can lead to increased motivation and commitment among staff members, ultimately benefiting the children under their care. Moreover, employee ownership fosters a culture of collaboration and teamwork within the organisation. When employees feel valued and empowered as owners, they are more inclined to work together towards common goals, such as providing exceptional childcare services. This collaborative environment can enhance communication, creativity, and problem-solving skills among staff members, all of which are essential for delivering quality childcare. Additionally, being employee-owned can promote a sense of stability and longevity within the company. Employees who have a direct stake in the business are more likely to stay with the company long-term, leading to lower staff turnover rates. Consistent care providers build strong relationships with children and their families over time, creating a nurturing environment that supports child development. Employee ownership can positively impact organisational culture and service delivery. By empowering employees to take ownership of their roles and responsibilities, companies like Childbase Partnership can create a supportive and engaging work environment that ultimately benefits both employees and the children in their care. Overall, being employee-owned enables Childbase Partnership to cultivate a dedicated workforce focused on providing high-quality childcare services through collaboration, stability, and a shared commitment to excellence."*

EOTs are also found in comparative sectors such as domiciliary and aged care.

2. Safety, Health and Wellbeing of Children

Employee ownership enhances safety culture by strengthening accountability and continuity at the service level.

Educators who participate in ownership are more likely to remain with their service, creating stable teams and reducing risks associated with high turnover.

Most importantly in the present context, EOT governance can entrench commitments to child safety standards in the EOT agreement, making adherence to the Child Safe Standards (CSS) and National Quality Framework (NQF) a trust-level obligation rather than a discretionary policy.

In practical terms, EOT providers can formalise trust-mandated minimum staffing and supervision standards above regulatory standards where needed.

They can ring-fence budgets for induction, safeguarding training and reflective practice, and provide escalation rights for employee representatives to the trustee where safety concerns are not addressed at service level.

Broader productivity evidence linking employee ownership to lower churn suggests fewer handovers and more embedded safety routines—both critical to maintaining consistent child-safe environments.

3. Quality of Services and Educational Outcomes

Quality in ECEC depends on pedagogical leadership, consistent educator-child relationships, and ongoing professional learning.

EOTs improve these drivers by linking enterprise performance to broad-based bonuses, investing in qualifications and mentoring, and using employee councils and/or forums to co-design curricula supports and practice improvement cycles.

Studies of employee equity models report improvements in commitment, engagement and wellbeing, which are leading indicators of process quality under the NQF.

International experience in analogous care sectors shows employee-owned providers more frequently adopt living-wage benchmarks, longer service recognition and structured CPD, all of which contribute to stronger process quality and child developmental outcomes.

4. Workforce Safety, Pay and Conditions

The workforce benefits of employee ownership are threefold.

First, remuneration can be augmented through profit-linked bonuses distributed on a non-discriminatory basis (meaning paid to every employee on the same basis, such as a uniform percentage of earnings or a flat amount pro-rated for service), improving attraction and retention without relying solely on fee increases. Depending on the structure and sector of the organisation, there is wide flexibility in how profit-sharing can be initially designed and evolve over time, with checks and balances through trustee oversight and other employee voice mechanisms.

Second, governance participation via employee councils and trustee-appointed employee directors lifts consultation quality on rostering, workload and wellbeing measures, improving psychosocial safety.

Third, EOTs support clear, internal progression pathways by embedding training commitments and creating roles in governance, practice leadership and mentoring that recognise and reward expertise.

Evidence from Australian firm-level analyses indicates that companies with employee equity exhibit lower churn, higher labour productivity and higher value-added growth relative to peers.

Translating these dynamics to ECEC suggests that employee ownership can support sustainable improvements in staffing stability and service quality within existing funding envelopes.

5. Regulatory Framework and Regulatory Authority Effectiveness

EOTs complement, rather than complicate, the existing regulatory framework by aligning ownership incentives with regulatory objectives.

Trust instruments can explicitly require adherence to NQF and CSS as conditions of trustee consent, creating internal compliance levers.

For the NSW ECEC Regulatory Authority, EOTs offer clearer lines of accountability than fragmented or platform models.

The trustee's custodial role and documented consent rights provide a transparent governance map, while employee councils and forums create early warning systems for quality or safety issues, aiding responsive regulation.

The stability benefits documented in employee ownership transitions—particularly in succession contexts—reduce the regulatory risks associated with abrupt ownership changes, integration upheaval and short-term cost-cutting.

6. Data Collection, Evaluation and Public Information

Employee-owned providers are well-placed to support improved sector transparency.

The EOT model can require publication of workforce stability metrics; qualification profiles; CPD hours; staff-child ratios; incident learnings; and aggregated bonus distributions linked to quality goals.

Embedding these disclosures in the EOT agreement ensures continuity across management changes and enables families to make informed choices, thereby elevating sector-wide expectations for data-driven quality improvement.

Employee ownership frameworks also facilitate systematic collection of retention and engagement data, which correlate with productivity and quality indicators noted in prior economic dynamism inquiries.

7. Training Ecosystem and Pathways

Workforce capability constraints are binding across ECEC.

EOTs create predictable, enterprise-level demand for qualifications and CPD by hard-wiring training investments into the ownership model.

Providers can use trustee-approved training plans to partner with TAFEs and universities for flexible, paid placement pathways; support recognition of prior learning; and co-design micro-credentials in pedagogy, inclusion and leadership.

Because employees are beneficiaries of enterprise success, training is more likely to be seen as a strategic investment rather than a cost centre.

Firm-level evidence on employee ownership links human-capital investment with productivity gains.

In ECEC, this manifests as higher-quality practice, better educator retention and smoother leadership pipelines at service level.

8. Sector Composition, Funding and Market Stewardship

The Committee's terms of reference call for consideration of sector composition and funding impacts. EOTs operate alongside public and other not-for-profit and for-profit providers.

From a policy perspective, a 100% EOT-owned company is akin to a not-for-profit because no dividends are paid to the trustee member and it rewards its staff through broad-based, non-discriminatory bonuses consistent with not-for-profit practice.

The EOT (with 100% or less ownership) is therefore a valuable, flexible extension to both conventional not-for-profit and for-profit models.

In the NSW context, the policy test should focus on governance, surplus application and workforce protections that mirror not-for-profit outcomes in 100% EOT models, alongside transparent regulatory oversight.

Importantly, EOT transitions can be undertaken without new public capital outlays.

Where public funding is involved—through fee subsidies or capability grants—EOT governance ensures benefits accrue to workforce and quality rather than short-term distributions, supporting public value.

International experience following explicit legislative support for EOTs indicates significant growth in employee-owned enterprises, with policy settings designed to ease succession and promote broad-based participation.

These developments are instructive for NSW as it seeks to maintain a diverse ECEC market while improving quality and resilience.

9. Inclusion: Children with Disability and Additional Needs

Inclusion quality is directly related to staffing stability, capability and planning.

EOT providers can embed inclusive practice as a trustee-protected value, with ring-fenced budgets for inclusion support, targeted training and coordinated partnerships with allied health and early intervention services.

Employee councils can co-develop inclusion policies and monitor implementation fidelity, ensuring that adjustments, family engagement and transition planning are consistent and responsive.

The stability effects observed in employee-owned settings—lower churn and higher engagement—are particularly valuable for inclusion, where continuity of relationships and specialised training drive outcomes.

10. Practical Pathways to Adoption in NSW ECEC

10.1 Target cohort

The most natural candidates for EOT transition are small-to-medium, privately owned ECEC providers with strong community ties and owners approaching succession, as well as mission-driven not-for-profits seeking to deepen workforce participation while retaining charitable purpose through hybrid structures.

Succession-driven transitions to employee ownership are associated with maintaining company stability, avoiding disruptive mergers and preserving local employment—benefits that align with the stewardship needs of ECEC services embedded in communities.

10.2 Governance architecture

A typical EOT adoption would include a corporate trustee with an independent chair, founder representation during transition and employee-elected directors.

An EOT agreement would require trustee consent for material changes to staffing models, quality frameworks, culture statements and bonus plans. An employee council or similar representative body would be responsible for nominating employee directors, shaping practice priorities and liaising on safety and quality.

It would also provide a broad-based bonus plan tied to transparent metrics such as service quality indicators, tenure and team performance.

This governance structure operationalises the participation and engagement mechanisms identified in prior productivity work as drivers of retention and performance.

10.3 Financing and transition

Share acquisition by an EOT can proceed via staged vendor financing and buybacks funded from operating surpluses.

No employee capital contributions are required, preserving equity of access and easing transition for every staff member. The enterprise remains a professionally managed trading company with the EOT as a stable, long-horizon steward.

Deferred, earnings-funded transitions avoid the need for employees to raise capital and reduce reliance on external financiers (in practice, sales to EOTS often do not involve external financiers at all), addressing a common barrier to worker-led ownership models while preserving service continuity.

11. Recommendations

To catalyse the benefits of employee ownership in NSW ECEC, we recommend the Committee consider the following measured supports, each consistent with competitive neutrality and regulatory integrity:

1) Recognise employee ownership (including EOTs) as an eligible stewardship model within NSW ECEC policy frameworks, acknowledging its alignment with child safety, quality and workforce objectives and the broader evidence that employee equity supports productivity and retention.

2) Encourage transparent, EOT-anchored governance by inviting providers to publish trust-level commitments to the NQF, CSS, training, inclusion and data disclosures, including workforce stability and CPD metrics.

3) Facilitate capability building by commissioning model EOT documentation for ECEC contexts and developing guidance on trustee roles, employee councils and bonus plan design aligned to quality metrics and retention outcomes, drawing on proven features from other sectors.

4) Pilot transitions with a small cohort of NSW providers approaching succession, evaluating impacts on educator retention, quality ratings, inclusion outcomes and family satisfaction, alongside productivity proxies such as staff stability and service occupancy.

5) Support workforce development through recognition of employee-owned providers in NSW training partnerships or placement programs, given their structural commitment to CPD and progression and the established link between human-capital investment and productivity.

6) Maintain strong, outcomes-oriented regulation and data transparency; leverage EOT governance to streamline engagement with the NSW ECEC Regulatory Authority and enhance responsive oversight, particularly during ownership transitions.

Conclusion

ECEC quality rests on a stable, valued and professionally supported workforce operating within trusted and accountable services.

Employee Ownership Trusts directly align ownership with that mission.

They provide a practical pathway to improve educator attraction and retention, strengthen safety and quality, enhance transparency, stabilise succession without consolidation, support regional ownership, and retain jobs and revenue within local communities—all without new public capital costs.

Alongside public ownership, EOTs offer a valuable enhancement to conventional not-for-profit provision and for-profit models.

We commend the Committee for its comprehensive terms of reference and would welcome the opportunity to discuss how EOTs can be responsibly integrated into NSW's ECEC policy and regulatory settings to deliver better outcomes for children, families, educators and communities.

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