

# **Senate Education, Employment and Workplace Relations Committee Inquiry into the Provision of Child Care**

## **Submission by KU Children's Services**

### **Introduction**

KU Children's Services is the largest not for profit provider of child care in Australia and the second largest provider overall. KU was the first provider of early childhood education and care in Australia and has operated continuously since 1895. Our Vision is: *Every family is able to access affordable, high quality early childhood education and care for their children.*

KU operates over 150 centres and programs in NSW, Victoria, Queensland and will soon have a centre in the ACT. We enrol over 11,000 children each year and employ around 2,200 staff. KU is also the National Inclusion Support Program Provider for the Australian Government.

KU offers to appear before the Inquiry to give evidence on the matters addressed in this Submission.

### **Summary of Submission**

KU believes that the ABC collapse is what happens when poor public policy meets corporate greed. There has been a significant policy failure with child care coming to be seen as a "commodity" to be bought and sold in the market like a hamburger, rather than as a community service. However the market too has failed with a mismatch of supply and demand and together with distorted market balance.  
[Pages 4 – 6]

The idea that that child care must be profitable because it is government-subsidised has been exposed as a myth and it comes as no surprise to the not for profit sector that so many ABC centres are not profitable. CFK and the Defence Child Care Program are considered as examples. [Pages 6 – 8]

The financial impact of the collapse of ABC will be felt mainly by those who had invested in ABC shares, creditors such as banks and ABC employees who have (now worthless) share options or have lost their jobs. However there will be benefits in terms of: an understanding that child care cannot make huge profits; more realistic expectations regarding the actual cost of child care; reduction in oversupply, thus

making remaining centres more viable; and more transparent and accurate financial reporting. [Pages 8 – 9]

In the short term, while there is distress for parents, children and staff, in the longer term the major social impact will be the potential lack of access to child care in particular locations, especially in country towns and lower socio-economic areas. [Pages 9 – 10]

In the longer term the impact on the child care sector is likely to be marginally beneficial. This impact will not be as great as it could have been as the Commonwealth Government has failed to take advantage of this major opportunity to rebalance the policy settings. The only real winners will be the ABC1 Group and the creditors. The losers are the taxpayer, the Commonwealth Government, the parents, the staff and the children. [Page 10]

While it is to be hoped that the sale of the 241 centres in the ABC2 Group will result in many of these centres remaining open in the hands of not for profit providers, the real likelihood is that the majority will not be viable without a government subsidy. The speculation that the not for profit sector may somehow be able to operate these centres when ABC could not, fails to recognise that generally the not for profit model is more expensive than the for-profit model. Not for profits are simply not able to absorb a group of unviable centres without jeopardising their ongoing existence. [Pages 10 – 12]

The public policy purpose of child care is not clear. Early childhood education and care should be seen as having a social capital (including education and community service), rather than economic capital, public policy base. It should not be permitted to be market driven. [Pages 12 - 13]

Parents should have a choice of providers of early childhood education and care (including not for profit, local government and small, independent private providers) but large corporatised providers (listed or unlisted) should not be permitted to provide child care and all should be required to meet the same standards. [Pages 13 – 14]

The Government should plan to ensure there are sufficient child care places available to meet demand and to regulate the supply of child care places that are eligible to receive CCB or CCTR. [Page 15]

Given the current state of child care provision in Australia and the fact that so much of it is already operated by small for-profit providers, it is very difficult to radically alter the model. However changes are needed to restore balance in the policy settings and prevent a collapse like ABC occurring again. Recommendations as to the key elements of a rebalanced model are provided. [Pages 15 – 16]

There are only two places that funding for early childhood education and care can come from: the government, and the parents. Increased standards being imposed by governments will only increase these costs, which are already unaffordable for

parents in lower socio economic areas, even with increased levels of CCB and CCTR. There is a very real concern that, in the future, child care will simply price itself out of the market, and without additional funding, there is likely to come a time when child care is only available to the wealthy and not for profit providers such as KU will cease to be able to operate long day care centres in the very areas that need them most. KU believes that in some areas we are close to reaching that point. [Pages 16 – 18]

Early childhood education and care across Australia is a mass of complex and differing systems which create a proliferation of Commonwealth and State bureaucrats, red tape and additional costs for providers, and complexity and uncertainty for parents. We are strongly of the view that there should be one national, consistent licensing and regulatory framework of child care across Australia. Examples are detailed and a number of recommended reforms are suggested. [Pages 18 – 21]

While national data is not useful for parents, if it can be made reliable and be used as part of a planning system to ensure that supply and demand at the local level are properly matched then it will be valuable to collect and evaluate. This should be done at the national level. [Pages 21 – 22]

It is desirable to establish a national authority to oversee the child care sector in Australia. The development, implementation, oversight and evaluation of consistent standards, including the Early Years Learning Framework, licensing standards, accreditation and assessment including quality ratings, as well as the matching of demand and supply, demand a national approach. [Page 22]

Funding for children with additional needs comes from a plethora of State and Commonwealth sources, with different accountabilities and acquittal requirements and in both calendar and financial years. This is expensive and confusing for parents and for providers. Support for children with additional needs to be included in mainstream early childhood education and care services can and should be done better and the Submission recommends a number of actions. [Pages 22 – 26]

## **Body of Submission - Response to Terms of Reference**

### **a. the financial, social and industry impact of the ABC Learning collapse on the provision of child care in Australia;**

The collapse of ABC Learning has affected the provision of child care in Australia in a number of ways and the outcome of the Receivership process for the ABC1 and ABC2 groups will shape the provision of child care in Australia for the foreseeable future.

#### **The ABC Collapse: when poor public policy meets corporate greed**

As the impact of the collapse of ABC Learning and a number of other private child care providers who run on a similar model (CFK, Neighbourhood Early Learning Centres, 123 Group) becomes clearer, governments as well as families are entitled to ask: What went wrong?

Quite simply, KU believes that this is what happens when poor public policy meets corporate greed. This is encapsulated in the astonishingly naïve comment by Sallyanne Atkinson (former Chair of the Board of ABC Learning) who has been reported as saying: "This is a business subsidised by the Government. How can it be unprofitable?"

#### **Policy failure: from "community service" to "commodity"**

The key words in Ms Atkinson's comment are "business" and "profit". They show just how much child care has come to be seen as a commodity, to be bought and sold, like cans of soft drink.

The resetting of the policy levers by the Howard government in the 1990s, when the national planning framework ceased and child care subsidies were increased and paid directly to child care centres, was the catalyst for the growth of child care as a competitive, profit-making industry and the unrestrained market domination of ABC.

The use of the words "child care" helped embed this idea of a "commodity" and reveal the economic basis of the policy. To get more women into work, affordable child care was required. The policy ignored the outcomes for the children themselves by allowing governments to forget that young children require early childhood *education* as well as care.

This was convenient, as Australians believe that "education" is not a business and that it should be both free and universally available. Public policy settings that disconnected education from care enabled both the commoditisation of child care as well as governments avoiding having to fund early education. This is nowhere more clearly demonstrated than in NSW where the Government funded 80% of the costs

of preschool in 1989 and now funds around 20%. Of course it's the parents who have to pick up the gap.

It is unclear how Australian society has come to believe that government responsibility to provide free universal education only starts at age 5 and ends at 18. Research tells us that quality education in the early years repays itself many times over. However government policy (both State and Commonwealth) reveals it is viewed as an optional extra, like tertiary education, and bizarrely, costs about as much.

### **Market failure: a mismatch of supply, demand and market balance**

The attempt to create a "market" in child care has failed in every important aspect.

Public policy settings framing child care as a "business" encouraged a competitive market and therefore failed to regulate supply. Early childhood education and care is partly *education* (in common with publicly-funded schools) and partly *care* (in common with government-licensed aged care). In both of those sectors, supply and standards are regulated through the twin mechanisms of government funding subsidies and licensing.

The policy task is to ensure that all families have access to high quality, affordable early childhood education and care. And because child care is a "local" issue this means that the policy task is to ensure supply matches demand at the local level.

However, in early childhood education and care there has been a complete lack of strategic planning. Instead it has been left to the "market", where Government subsidies have perversely encouraged competition and led to both under and oversupply, while licensing has only regulated the minimum *standards* of centres, not whether a centre was *needed* to meet the demand.

The intention of extending the CCB to private providers and removing the Commonwealth recurrent funding to community-based long day care centre was apparently to create a level playing field for child care operators. The field was never going to be "level" as the aspirations of community-based and for profit operators have entirely different drivers. As well, the creation of a "market" where child care centres can be traded and ownership changed, is completely antithetical stability for young children, which is recognised as one of the key components of quality child care.

The rapid expansion of for-profit providers also led to a complete lack of balance in the market. In October 2008 ABC held 28% of the long day care market in Australia (Source: IbisWorld October 2008 Industry Report). In no other country in the world does any provider hold more than 1% to 2%. For comparison, KU, which is the largest not for profit provider of child care in Australia (including long day care and preschools), held approximately 0.9% of the long day care market.

In fact, the sector moved from one in which child care was largely provided by the not for profit and local government sectors (clearly recognised as a “community service”) to one where ABC controlled approximately a quarter of the market, the small for profit providers about 50% and the not for profits and local government another quarter.

## **The Profit Myth and its Legacy**

The result of this uncontrolled market and proliferation of private providers in what is essentially a community service leads us straight to the issue of *profit*. The idea that child care must be profitable because it is government-subsidised is just as absurd as saying that school education or aged care must make a profit because they are government subsidised.

Profitability, as everywhere, is determined by the amount of income you receive (from parent fees and government subsidies) minus the costs you incur. Because child care is regulated, especially around the key cost drivers such as staffing, there is only a certain amount you can do to reduce the costs without reducing quality. If fees are too high, parents will not pay them, which automatically limits profit. And no-one, no matter how efficient, can make a profit in places where parents cannot afford the fees required to cover the gap between government subsidies and actual costs.

In the not for profit sector, where every cent we earn is put back into improving the quality and affordability of our centres, rather than into the pockets of shareholders, it comes as no surprise that so many ABC centres are not profitable. We knew they couldn't be.

The not for profit sector has wondered for years about how they could claim to be making such high levels of profit when we were unable to do so.

Child care centres that meet licensing requirements (such as staff to child ratios - strictly, all the time - employ qualified, experienced staff, provide professional development and programming, include and support children with additional needs and provide high standard premises and equipment) find it difficult to make more than a modest surplus even in wealthy areas where utilisation rates are high and fees can be set to cover costs. In areas where parents cannot afford the fees necessary to cover the costs of child care and utilisation is less predictable, not for profit providers such as KU cross subsidise their services to keep quality high and fees affordable.

In considering the profit myth and its legacy, it is instructive to consider two examples.

The first is **CFK**, a NSW provider operating 43 centres that went into receivership when a proposed sale of some of its centres to ABC for a reported \$8m was unable to be completed when ABC collapsed.

An analysis of the operating figures for the 32 CFK centres placed on the market (provided by the Receiver) shows that CFK was *making a loss of at least \$3 million per annum*. Only 6 of these centres covered the operating expenses (not including CFK Head Office costs) in the last 2 years and 4 of these were centres that were intended to be sold to ABC.

Some of the contributing factors to this seem to have been rental payments for premises that were well in excess of the local market (eg \$342,000 pa for a 90 place centre in Frenchs Forest, \$110,000 pa for a 26 place centre in Pennant Hills) and low utilisation rates. However even if utilisation could be increased and fees raised, KU's assessment is that most of these centres would not be viable.

It is difficult to escape the conclusion that, whatever business CFK was in, child care was not its primary concern.

The second case study is the Government's own **Defence Child Care Program** (DCCP).

The DCCP was first tendered out in 1998. KU won the tender and operated the 21 Defence Child Care Centres until 2005.

In 2005, ABC (with former Howard Government Minister Larry Anthony on the Board and Sallyanne Atkinson as the Chair) convinced the Government that the DCCP could be operated without a Government subsidy. This was despite the fact that in every year of the DCCP prior to 2005, Defence had accepted that due to its unusual requirements (centres on bases, flexibility to meet the needs of Defence families, children attending for long days, and a high proportion of 0-2 year olds) KU would need to be paid a subsidy in order to operate the centres without making a loss. [The amount of the subsidy can be provided in confidence to the Committee, as can a comparison of one Defence centre budget operated under special Defence requirements and a budget for the "same" centre if it were operating in the nearby community.]

The tender documents for 2005 duly included that the DCCP would have to be operated without Government subsidy. KU knew that this was not possible and put in a non-compliant tender. The tender was subsequently awarded to ABC Learning.

At the time of Larry Anthony's appointment to the company's board, Labor's then family spokeswoman, Tanya Plibersek, accused him of having a conflict of interest, saying he would have "unparalleled access" to the Howard government with ABC Learning Centres to be the big winners. Following the awarding of the tender to ABC in 2005, questions were asked in the Senate Estimates Committee and a copy of the extract from Hansard is attached to this Submission.

It is not surprising to KU that the Defence Centres were included by the Receiver McGrathNicol in the ABC2 Group of centres deemed to be unviable.

KU has recently responded to an Invitation from the Department of Defence to submit a proposal regarding the Defence Centres which is on the same terms as the 2005 tender. KU remains of the view that these centres cannot be operated without a subsidy and can provide further details in confidence to the Inquiry to demonstrate why this is the case.

### **The financial impact of the ABC Learning collapse on the provision of child care in Australia**

The financial impact of the collapse of ABC will be felt mainly by those who had invested in ABC shares, creditors such as banks and ABC employees who have (now worthless) share options or have lost their jobs.

However there are some important financial benefits which will flow from this shakeout in the child care sector.

The first is the inescapable realisation that the Emperor has no clothes: child care is not a licence to print money and any profits on the scale being reported to be made by ABC were not due to the provision of child care.

It is to be hoped that this knowledge will ensure that those going into child care in the future do it as a community service and in full knowledge of the facts. Indeed, as the Commonwealth and State governments implement the various reforms in early childhood education and care (lower ratios, higher staff qualifications etc), the ability for fees to cover costs will diminish, not improve.

Allied to this is a likely second benefit. For some time now, large organisations wishing to provide work-based child care for their staff, have been questioning the costs KU has indicated in tenders, and wanted to know why KU's costs are consistently higher than ABC's. KU has lost a number of tenders to ABC because of this (the Defence Child Care Program is a good example, but it applies to a number of other companies).

Since the collapse of ABC we have started to see the beginnings of a distinct change in attitude of the corporate sector to the costs of work-based child care, with a much more realistic approach being taken. It is to be hoped that this will ensure that not for profit organisations, which provide high quality child care, can once again compete in the work-based child care market on a level playing field.

The third benefit is that it seems that the closure of some ABC, CFK and other centres has reduced the oversupply in some areas. This is important because where there is oversupply, the utilisation level of every centre in that area is likely to fall below the level needed to break even. When some centres close, and families move to other nearby centres, the utilisation level for all of those remaining centres rises, thus increasing their viability. KU has clearly seen this phenomenon in some of its centres.



The fourth benefit is that in future, transparent and ethical accounting practices will be expected in the accounts of child care companies, making it harder for “profits” to be inflated.

For example, ABC Learning had valued its child care licences at some \$300m and the new Auditors appointed by ABC prior to its collapse raised this as a major concern.

KU and other not for profit providers have never included licences as asset values in our financial reports. This is because child care licenses are personal and cannot be sold or transferred. That is, if a centre is sold the new owner is required to apply for a new licence. The fact that the centre was previously licenced is irrelevant to the licensing authorities deciding whether or not the new owner will get one, and accordingly licences have no monetary value.

As ABC Learning valued licences as assets, the value of the company would have been overstated to value placed on those licences. Due to increased awareness of this issue and scrutiny by Auditors it is to be hoped that this practice will have ceased and the value of child care centres will be more realistically stated.

### **The social impact of the ABC Learning collapse on the provision of child care in Australia**

There is no doubt that the short term social impact has been severe on families. Entrusting their child to a centre is a decision families make with much care, and the experience of separation causes anxiety and emotional stress for both parents and children. Relationships, between children and the centre staff, and between staff and families, are at the heart of early childhood education and care. Once these are established, the threat that they will be ended through the closure of the centre, or the actual closure of the centre and the need to find a new one, has undoubtedly caused much heartache and social disruption for many families.

In the longer term, the major concern in respect of social impact is the potential for lack of access to child care in particular locations. This may occur where an ABC (or other) centre, which has provided the only child care in a particular location, is closed and/or is not purchased and reopened by another provider.

This is especially likely to affect country towns and lower socio-economic areas where the closing ABC centres may be unviable and where, even if a purchaser/operator is available, they may not be able to negotiate a suitable rental arrangement, as has occurred in Coonabarabran with a former ABC centre. (This is one of the 7 centres in country NSW which were sold by ABC to a related company and which closed some months later, at short notice, leaving a number of country towns such as Harden with no child care centre.)

In these cases the only way to ameliorate the social impact of having no access at all to child care would be if the Government was prepared to subsidise its provision. Failure to do so will impact on other government social agendas such as

encouraging increased participation of women in the workforce and stimulating the economy in country towns.

### **The industry impact of the ABC Learning collapse on the provision of child care in Australia**

In the longer term, the industry impact is likely to be marginally beneficial, although, paradoxically, not as beneficial as it could have been. As stated earlier in this submission, the provision of child care in Australia has become extremely unbalanced, with a huge share of the market in the hands of one operator. Nothing that is happening is likely to change this to any significant degree and, through lack of action, the Commonwealth Government has failed to take advantage of this major opportunity to rebalance the policy levers.

While it is no doubt a great relief to parents and staff of the 720 centres which now comprise the ABC1 Group that the Receiver has deemed them to be viable, the only real winners out of this are ABC1 Group (which the Receiver will be able to place on the market as a profitable company which has had all its loss-making centres closed or passed on the Receiver of the ABC2 Group) and the creditors, who may therefore get their money back.

The losers are:

- the Australian taxpayer, who has essentially funded this outcome to the tune of at least \$56 million so far
- The Government, which has been left to try and deal with the ABC2 Group of centres which Receivers McGrathNicol considered unviable
- the ABC parents who have lost, or may still lose, their child care or suffered months of anxiety
- The children who may have suffered high staff turnover if they remained in an ABC centre, distress if they changed centres and disruption as they are sensitive to parent and staff stress and uncertainty
- the ABC staff who have lost or may lose their jobs

The really disappointing aspect is that the underlying policy positions which allowed this to happen in the first place have still not been addressed.

While it is to be hoped that the sale of the 241 centres in the ABC2 Group will result in many of these centres remaining open in the hands of not for profit providers (thus rebalancing the market to some extent) the real likelihood is that the majority of these centres will not be viable without a government subsidy. Prior to these centres being placed on the market KU was on the public record as saying that in our view it was likely that on average these centres were making a loss of around \$560,000 *each* per annum.

[The financial data for these centres is not publicly available however, as the government has made in excess of a \$34 million investment in them, the Senate Committee should require that this information be provided to it by the Receivers, to understand the situation for themselves.]

There has been much speculation that while McGrathNicol considered that they were unviable under the ABC operating model, these 241 centres may be viable under another model such as a not for profit operation. Sadly this fails to recognise that generally the not for profit model is more expensive than the ABC model due to such things as the higher quality of care (including higher staff to child ratios and better qualifications and experience) and the inclusion of children with additional needs (such as children with a disability, children with Aboriginal and Torres Strait Island heritages (ATSI), children from cultural and linguistically diverse backgrounds (CALD), children at risk and children with challenging behaviours).

Not for profit organisations return any surpluses they generate into quality and affordability, including keeping fees affordable for parents in disadvantaged areas – but they can only do this if they can balance centres that require support with those that can operate at a surplus. They are simply not able to absorb a group of unviable centres without jeopardising their ongoing existence.

The only way the not for profit providers could offer to operate a group of unviable ABC centres was if they could be packaged with a group of viable centres to offset the ongoing losses. The opportunity to do this was lost when the Receivers were allowed to carve up ABC Learning “vertically”, ie into “profitable” (720 centres in the ABC1 Group), “not profitable” (241 centres in the ABC2 Group plus Defence Centres) and “failed” (the 55 closed centres).

This closed off the opportunity to package “horizontally”, including both profitable and not profitable centres. If this had been allowed, not for profit providers could, and would, have offered to take on packages of centres under which not profitable centres would have remained open and which would have been sustainable in the long term without requiring government subsidies.

KU and other not for profit providers have been urging the Government to use the ABC collapse as an opportunity to reset the policy levers to rebalance the provision of child care in Australia. The CEOs of KU, SDN, UnitingCare Children’s Services and Lady Gowrie NSW met with Maxine McKew and the Government Child Care Task Force shortly after the collapse of ABC to present a written submission advocating this approach, but it was not taken up and we fear that an important opportunity has been missed.

KU is therefore of the view that, in the longer term, while there may be some increase in the number of centres operated by not for profit providers:

- There will still be one huge listed company dominating the market with government subsidies being channelled to shareholders, who may not even be in Australia
- Child care will still be seen as a commodity, to be bought and sold like a hamburger, rather than as an essential community service.

This is a failed model and there is no guarantee at all that in a few years we won't be back in exactly the same place.

## **b. alternative options and models for the provision of child care;**

Given the current state of child care provision in Australia and the fact that so much of it is already operated by small for-profit providers, it is very difficult to radically alter the model. However there is no doubt that the current model needs some major rebalancing.

There are three issues which need to be considered in this context: what is the "public policy" purpose of child care? Who should provide it? Should supply be regulated? How it should be funded is also a key issue and this is considered under (c) below.

Some suggestions as to the key elements of a rebalanced model are provided.

### **The "public policy" purpose of child care**

One of the problems the child care sector faces is that its public policy purpose is not clear.

As we have already seen, the use of the words "child care" diminishes the importance of the educational aspects of caring for young children. This is compounded by the acceptance of the idea (often unspoken) that "anyone can look after children" and the consequent employment of low paid, low qualified staff. While "teaching" in a primary school is accepted as a profession, teaching in a child care centre is not.

In addition, the reference to child care as an "industry" also diminishes its value to the community. For example, all other aspects of education (primary school, secondary school, or university) are not referred to as an "industry" – why is early childhood education and care? Early childhood education and care, including the provision of long day care and preschool services, does not receive the status and standing in the community it deserves and is not seen on the same level as other sectors in the education profession (even though there is now a clear body of research that highlights the importance of the early years for children as individuals and in the longer term, society at large).

As well, the policy that links the payment of CCB for more than 24 hours child care per week to parents undertaking work, study or training clearly leaves child care (at least from the Commonwealth Government's viewpoint) resting on an economic policy base rather than an educational, social capital or community service one.

The Rudd Government is moving towards greater professionalisation of the sector, including qualifications for all child care workers and KU welcomes this. However it is not sufficient. When we know from research that exposure to good quality early childhood education and care is predictive of lower government costs in a range of areas such as education, health, welfare and corrective services later on, it may be time to expand our thinking about the public policy purpose of child care.

KU would support a public policy position that: *Every family is able to access affordable, high quality early childhood education and care for their children.*

If early childhood education and care is accepted as resting on a social capital, rather than economic capital, public policy base, then it follows that it should also be regulated in terms of demand and supply and should not be permitted to be market driven. This is discussed further below.

### **Who should provide early childhood education and care?**

In the context of the collapse of ABC Learning, there has been some debate about whether there is any place for private, for-profit providers in the provision of early childhood education and care.

KU believes that, just as there are private providers in the health, education and aged care sectors, there is no intrinsic reason why small private providers should not also operate child care centres, as long as they can meet the licensing and accreditation requirements and offer high quality early education and care, with professional, qualified, experienced staff.

However KU believes there is no place for large, corporatised providers (whether listed or not) which provide dividends to shareholders and investors because of the conflicting priorities involved.

On the one hand there is a requirement to provide quality early childhood education and care with qualified, experienced staff, appropriate child-to-staff ratios, and educational programs which extend children's curiosity, development and learning. On the other hand there is a need to make a profit and continually expand the size of the business to meet shareholders and investors expectations for dividends and capital growth.

The anecdotal evidence of what happened at ABC Learning clearly indicates that when it came to whether children's or shareholders' interests were paramount, the shareholders won.

Interviews by KU of former staff of private providers, including ABC, reveal that in some centres children were restricted as to the amount of paper they could use for drawing (as little as half a sheet of A4 paper a day in one centre), that the food was controlled down to the number of points of sandwiches a child could have, and staff were sent home without pay for the day if the expected number of children failed to turn up.

More telling is the (successful) attempt to get around licensing requirements with regard to use of unqualified staff in NSW to fill positions requiring qualifications.

According to Pam Cahir of Early Childhood Australia (in a paper presented to a Conference in November 2007) in 60% of services in NSW, the only State to regulate for teachers in long day care centres, unqualified or poorly qualified people have been deemed to be teachers. KU understands that (in 2008):

- There were some 300 DoCS exemptions given to centres which failed to meet the Regulations and did not have a qualified teacher in centres with more than 29 children
- NONE of these exemptions were for community-based centres
- Exemptions are granted when a service says it has tried and failed to recruit a teacher – in such cases unqualified or TAFE qualified staff are “deemed” to be teachers for the purposes of the Act.
- Some of these exemptions have lasted for more than 3 years
- A number of these centres are in metropolitan areas and are close to KU centres that have been able to recruit teachers.

This of course helps explain why commercial centres are able to keep their costs down – and why their quality is sometimes poor.

KU believes that regulators must be even-handed and impartial and should act on such clear breaches of licensing, rather than just handing out exemptions. If the community child care sector can do without exemptions, we think it's not unreasonable to expect the commercial sector to do so too.

KU believes that parents should have a choice of providers of early childhood education and care (including not for profit, local government and small, independent private providers) but that large corporatised providers (listed or unlisted) should not be permitted to provide child care and all should be required to meet the same standards.

## Should supply be regulated?

KU believes that it is essential for the Government to plan to ensure there are sufficient child care places available to meet demand and to regulate the supply of child care places that are eligible to receive CCB or CCTR.

The current policy levers encourage centres to be set up in areas where higher fees can be charged (thus increasing the likelihood of viability). This demonstrably leads to oversupply in some areas and, perversely, as oversupply increases, utilization decreases and viability reduces. It also means that no-one is encouraged to provide child care in areas where there is demand, but the demographics mean that fees are unable to cover operating costs.

When the Commonwealth Government funded providers (rather than parents through CCB) this used to be the case, but was ceased in the early 90s when the market was freed up and for profit providers flooded in. It was quickly realised that the consequence would be an oversupply in some areas and an attempt was made to reintroduce the planning model. This was short-lived as so many new providers had made financial commitments and started new centres based on the changed policy settings that the process could not be reversed.

Local government, although aware of the uneven and, in some cases, excessive and inappropriate expansion of child care centres is not permitted by State planning laws to prevent services (of any type, not just child care) from being established. State Government licensing authorities are also not permitted to refuse to grant a licence on the basis that this would lead to oversupply in an area. This lack of power in the face of obvious chaos in child care provision has frustrated other local operators, local government and regulatory authorities alike.

However the child care market is now mature and there is no reason not to reintroduce a planning model that only approves the payment of CCB in new centres where demand can be demonstrated. The current model operating in aged care centres could provide a policy rationale and framework for such a model in child care.

## Key elements of a “rebalanced” model

KU believes that the following changes are needed to the child care model operating in Australia to restore balance in policy settings and preventing a collapse like ABC occurring again:

- The view of child care as a *commodity* in an “industry” must be reframed around the concept of early childhood *education and care* as a “community service”
- The idea of child care as a profitable business (because it is subsidised by the Government) needs to be refuted

- Child care should not be permitted to be operated by large corporate providers, who distribute profits to shareholders and investors, whether publicly listed or not
- No single provider should be permitted to dominate the market
- Child care should primarily be delivered through a community-based model (including not for profit, local government and small independent providers) to ensure real access for all children regardless of ability, race, socioeconomic status
- Supply of licensed places should be regulated through the twin mechanisms of government funding subsidies and planning controls to ensure that:
  - Supply matches demand
  - There is not oversupply in some areas (which makes centres unable to achieve the utilisation rates required to be viable) or undersupply (which means parents are unable to access affordable child care)
  - The provision of early childhood education is responsive to demand at the local level and avoids 'corrosive competition' (ABC anecdotally forced the closure of other providers through strategies such as undercutting fees. This was a key factor in the growth of ABC and underutilisation of many centres.)
- The Government should direct future additional support to the not-for-profit sector who provide quality early childhood education and care for all children, inclusive of children with additional needs, children living in disadvantage (ATSI, CALD, socio economic and locational) and in areas of unmet demand.

### **c. the role of governments at all levels in:**

#### **i. funding for community, not-for-profit and independent service providers,**

There are only two places that funding for early childhood education and care can come from: the government, and the parents.

The sector is already highly regulated, especially in terms of staff which is the key driver of costs. In the not for profit sector typically around 80% of operating costs are for staff. (At one stage ABC noted on their website their staff costs were around 56%. Apart from the issue of how it is possible to meet licensing ratios with such low staff costs, it must be remembered that ABC rental structures also appear to have been disproportionately high, thus affecting the percentage comparisons.)

Increased standards being imposed by governments in terms of staff to child ratios and staff qualifications will only increase these costs, which are already unaffordable for parents in lower socio economic areas, even with increased levels of CCB and



CCTR. Child care fees are elastic up to a point, and then become completely inelastic, ie parents are willing to pay fees within a range, but once it goes over that level they simply don't access child care.

Although the not for profit sector supports these reforms as they will increase the quality of early childhood education and care, in KU we are increasingly having to subsidise centres in disadvantaged areas through our Affordable Fees Program.

There is a very real concern that, in the future, child care will simply price itself out of the market, and without additional funding, there is likely to come a time when not for profit providers such as KU will cease to be able to operate long day care centres in the very areas that need them most.

KU believes that in some areas we are close to reaching that point.

There has been recent media speculation that the Commonwealth Government is considering reducing the staff to child ratio for the 0 – 2 years olds to 1:3. It is currently 1:4 in Queensland and WA, and 1:5 in the other States with NSW and Victoria announcing they will move to 1:4.

While KU supports the move to 1:4, if the move to 1:3 occurred without Government funding (which could include the use of differential CCB) KU would have no option but to reduce the number of babies in our services or to close some services altogether.

If, as a policy position, the Government is committed to increasing the quality of early childhood education and care through lower staff to child ratios, increased educational qualifications for staff, as well as providing 2 days a week of affordable preschool for every child in the year before school, then the Government is going to have to provide support for the child care providers to implement these reforms.

In hospitals, in aged care and in every sector of education *except for early childhood education*, it is accepted that the Government will provide at least some funding to the providers, whether public, private or not for profit. And each of these is much less regulated by Government and has greater control over their cost structures.

Any model of quality early childhood education and care in Australia is going to require Government funding to be viable. Otherwise child care will become accessible only by the wealthy and an increasing number of families will be forced to opt for "backyard" illegal or inappropriate care situations, returning things to the situation of the 1990s and earlier.

However this leads to necessary consideration of whether, as a matter of policy, it is appropriate for private sector providers to make profits and distribute earnings to shareholders when the parents using those services receive government subsidies, ie, for the government to fund private profits. There is no doubt that the need to factor in a profit margin is a considerable driver of costs as the CCB enables providers to charge the highest level that parents can afford *after* CCB, rather than

the lowest level *including* CCB. This was seen very clearly in June when ABC increased its fees, in some instances by as much as 20%.

Not-for-profit providers seek to cover costs and make a surplus which is then reinvested in the organisation to either provide additional services, improve quality or to reduce fees through cross subsidisation. The fact the private providers choose not to operate preschools (where there is no CCB) shows how important this is in their profit equation.

This reinforces KU's view that large corporatised providers that distribute earnings (whether listed or not) should not be able to operate child care centres.

- ii. consistent regulatory frameworks for child care across the country,**
- iii. licensing requirements to operate child care centres,**
- iv. nationally-consistent training and qualification requirements for child care workers, and**

As the only large national provider other than ABC, KU is in a unique position to comment on these issues.

We are strongly of the view that there should be one national, consistent licensing and regulatory framework of child care across Australia, including training and qualification requirements for child care workers and teachers.

Early childhood education and care across Australia is a mass of complex and differing systems which create a proliferation of Commonwealth and State bureaucrats, red tape and additional costs for providers, and complexity and uncertainty for parents as outlined below:

- States "licence" all forms of formal child care where parents are not present. Informal care and care where parents are on the premises is not licensed, eg supported playgroups, childcare in gyms etc.
- Licensing requirements for premises including assessment of suitability to hold a licence, child to staff ratios, group sizes, policy and practice requirements, "working with children" suitability, staff qualifications, and even the number and configuration of toilets vary from State to State.
- As the licensee for KU, the CEO is required to undergo a different procedure in each State to be approved. In addition to Police Checks and Working with Children checks, in NSW, a form and referee reports are required; in Victoria a test on the Regulations and an interview are needed; in Queensland a "Blue Card" must be obtained.

- Overlaid on top of State regulation is the Commonwealth accreditation for all services which are “approved” for Child Care Benefit (CCB) and Child Care Tax Rebate (CCTR). Accreditation standards and licensing standards are often duplicated. Services go through the same check twice in respect of two different systems when one check could cover both.
- Although the Commonwealth Accreditation system was originally set up to measure quality it now tends to focus on compliance and whether policies exist, rather than on the quality of the interactions, whether policies are actually being implemented and whether quality education and care is actually being provided.
- The requirement for an educational program to be provided also varies. In some States, such as Victoria, there is no requirement for an educational program to be provided in long day care centres. In NSW, while the Department of Community Services requires an educational framework to be used in both preschools and long day care centres, the application of this varies according to the level of qualification of the staff implementing the program. For example, some staff may have a 2 year TAFE Diploma qualification and others may have a 3 or 4 year university Degree qualification.
- While the overlay of Commonwealth accreditation provides some coherence to most forms of child care, the glaring anomaly is the preschool system. In NSW, this is licensed (but not accredited), and therefore does not attract CCB and only a small amount of CCTR, even though many women return to work when their child starts preschool. Fees vary from nothing to full cost recovery depending on State government policy. (In NSW, Department of Education and Training Preschools fees vary from nil to up to \$15 per day, while not for profit providers such as KU must charge up to almost \$50 per day to cover costs.) The way in which services are funded for preschool also varies and includes subsidies to the provider (NSW) and a “per eligible child/hours” reimbursement to the provider in Victoria.
- The system can also lead to “double dipping”. For example, a 4 year old child in a long day centre may attract Commonwealth support via CCB and CCTR. If the same child is taken to a preschool during the day this may also be attracting State government support to employ the teacher, at the same time.
- Parents are often bewildered as to the difference between preschool, kindergarten and long day care and bemused by the variations in costs and subsidies. There is no consistency between what is called a “preschool” or a “kindergarten”, or what educational content can be expected in a long day care centre between the States. Also the Commonwealth Accreditation system does not cover preschools. This means that parents have no common yardstick for assessing the quality of services and are often confused as to what they should expect.

- Providers, especially those operating in more than one State such as KU, have to develop different policies, practices and training to cover their centres in different States. This is expensive and time-consuming.

KU believes that there are a number of actions which could simplify early childhood education and care provision and improve quality. These will require Commonwealth and State Governments to work together to achieve. KU supports the Commonwealth Government in the reforms it is already working to achieve in these areas.

- **Remove duplications and overlaps and standardise requirements.**

The development of nationally consistent licensing standards and the removal of duplications and overlaps between licensing and accreditation standards and monitoring would improve transparency and save money for both providers and regulators.

While one standard national system is our preference in the long term, in the short term harmonised State systems would be a major improvement.

- **Quality standards and their application need to be evidence and outcomes based.**

Considerable research exists regarding the components of quality early childhood education and care. However the standards applied vary considerably from State to State. In determining what standards should be applied, evidenced-based research needs to be considered.

- **Clearly differentiate accreditation from licensing.**

Returning to the original 1980s concept of the difference between accreditation and licensing would simplify the system and reduce duplication, overlaps and red tape. Licensing should cover all basic standards and requirements, including health, safety, ratios, qualifications etc, that are required to achieve a "Satisfactory" rating for accreditation. Accreditation could then be undertaken solely on how well the service meets standards that relate to quality as it could be assumed that the service meets licensing requirements (therefore not assessing these basic aspects again unless there were obvious breaches that needed to be addressed).

However, it is equally important to ensure that in accrediting services in relation to quality, the policies and practices are actually applied in the way staff work with children and how the centre is managed. Having good documentation is not sufficient - judging quality is both a qualitative and quantitative exercise.

It also needs to be ensured that centres have not just purchased a pre-written high quality "policy set" from a supplier – accreditation must ensure that services apply the philosophy, policy and practices that their documents set out

and that they are providing a service that reflects the diversity of the community in which they operate.

- **Include preschools in accreditation**

The investment of Commonwealth funding in the provision of universal preschools provides a platform to require all services which attract Commonwealth funding (either directly or via the States) to be accredited as well as licensed. This would provide clarity and certainty of standards across Australia and would enable parents to use the same “measuring stick” regardless of service type. “Accredited Services” could be defined as different from “approved services” if CCB and CCTR are not to be available to preschools.

- **Introduce standard nomenclature.**

There should be standard nomenclature as to what is a kindergarten, a preschool and a long day care centre, whether an educational program with a qualified teacher is required, and for what ages of children. This would assist in establishing funding eligibility requirements as well as providing greater clarity for families seeking early childhood education and care for their children.

- **Introduce a national “working with children” check, standard requirements as to who must hold clearance, and standard requirements for Licensees across Australia**

At present the requirements vary from State to State. It is possible for a worker to be cleared to work with children in one State but not in another which can pose a risk to children.

KU Board members located in NSW have to obtain a “Blue Card” for Queensland, even though they live in NSW and never see a child in a centre, let alone one interstate. Organisation staff who may oversee centres in more than one State, have to hold the checks applicable in each State, as does the CEO. This is time-consuming and expensive. A single system would benefit providers who operate in several States, be transportable by those working in child care, be less expensive for providers and be more transparent and provide better protection for children at risk.

- v. the collection, evaluation and publishing of reliable, up-to-date data on casual and permanent child care vacancies;**

A reliable up-to-date data base on casual and permanent child care vacancies is desirable but in practice is very hard to achieve. Any data base depends on centres providing accurate data regularly, however even if they do so, enrolments can change so quickly that the data can be out of date in 24 hours or less.

While a national data base may appear sensible from a government perspective, for parents it is not an issue, as the availability of child care is local issue for them.

Vacancies in Rockhampton in Queensland, are of no use if you live in Werribee, Victoria, and all the centres there are full.

Similarly, data on available places is open to misuse to distort policy responses. For example, the previous Commonwealth Government Minister for Community Services, Mal Brough, claimed that there was an oversupply of child care places. While this may have been technically true, there was also in fact an undersupply in many areas.

If data can be made reliable and be used as part of a planning system to ensure that supply and demand at the local level are properly matched then it will be valuable to collect and evaluate. This should be done at the national level.

**d. the feasibility for establishing a national authority to oversee the child care industry in Australia; and**

KU believes that it is desirable to establish a national authority to oversee the child care sector in Australia. The development, implementation, oversight and evaluation of consistent standards, including the Early Years Learning Framework, licensing standards, accreditation and assessment including quality ratings, as well as the matching of demand and supply, demand a national approach.

However this will need to be set up in close consultation with State Governments, who constitutionally retain responsibility for education as well as for child safety.

**e. other related matters: Including children with additional needs**

One of the great oversights of the early childhood education and care debate over the past year, including in the Commonwealth Government's *Plan for Early Childhood*, is the complete failure to mention the inclusion of children with additional needs. At present this is expensive and confusing for parents and for providers, as funding for children with additional needs comes from a plethora of State and Commonwealth sources, with different accountabilities and acquittal requirements and in both calendar and financial years.

Currently the Commonwealth funds the Inclusion and Professional Support Program (IPSP) which supports child care services to provide high-quality child care for all children, including children with additional needs. This covers accredited services eligible for CCB, which means that it does not cover preschools. The IPSP includes the Inclusion Support Agency (ISA) (provision is contracted out to agencies including KU for delivery) and the payment of the Inclusion Support Subsidy (ISS) for the inclusion of children with high support needs (provision is contracted to KU nationally).

Each State has a different system for supporting children with additional needs to attend preschool. In NSW children with additional needs are supported by the NSW Department of Community Services through the *Supporting Children with Additional*

*Needs* scheme (SCAN). This creates a nightmare for parents as a child moving from preschool to long day care (or vice versa) is assessed and funded under an entirely different system by different people and funding for support may be more or less, even though their needs remain the same. Further funding is then provided by the Intervention Support Program (ISP) through the NSW Department of Education and Training, which is also funded by FaHCSIA, with some additional funding available through the NSW Department of Disability, Ageing and Home Care.

Additionally, there is little or no recognition and funding for children with high medical support needs to attend early childhood services. These children require close monitoring and a swift response by staff in life threatening situations, which may require invasive medical procedures eg rectal valium for seizures or procedures which require regular monitoring through blood tests and the administration of medication, depending on results such as diabetes. This is staff intensive and highly problematic for services to manage for that child on a daily basis, while maintaining a duty of care to other children in the service without additional funding for staffing. Again, the response to this growing area of need is fragmented, inconsistent and in many cases, non existent.

KU estimates that it costs us approximately \$200,000 per year just to administer \$1.66 million of funding provided to employ staff specifically to support the inclusion of children with additional needs in our services. This money would be better spent on service provision.

The funding provided by the ISS does not cover the actual costs of service provision (at least in NSW). Services receive \$15.61 per hour in NSW and are funded to employ a support worker for up to 5 hours a day, with a maximum of 25 hours per week. The actual cost of providing a support worker (under the KU Award) is a minimum of \$21.81 per day. In 2008 KU provided over \$200,000 from its own reserves to cover the ISS and SCAN shortfalls. This is not a sustainable position in the longer term and is one reason why some small services avoid including children with additional needs and why children with additional needs are disproportionately represented in not for profit services.

KU believes that support for children with additional needs to attend mainstream early childhood education and care services can and should be done better. We recommend the following actions:

- **Review the current support system for families with a child with additional and/or high support needs to make it simpler, more transparent and more humane.**

Funding for children with additional needs is a labyrinth of programs which cause confusion for families, additional costs for providers and can result in a child receiving differing levels of support depending on where they live and whether they attend preschool or long day care, instead of receiving the support they need for inclusion. A review by State and Commonwealth governments to bring some consistency of funding and support would be beneficial to children, support

workers and providers and would free up funds which could be used to either increase inclusion support or hold down costs.

- **One agency to support and fund inclusion.**

The Inclusion Support Program as part of the IPSP currently operates in every State and Territory through the ISA. It provides a national approach, standards and funding to include children with additional needs in all licensed early childhood education and care services, except preschools. Extending this Agency to cover preschools, through agreement with State and Territory governments, would remove much of the duplication and administrative costs as well as being far simpler for parents. This could be done relatively simply by the States and Territories agreeing to contract support for inclusion of children with additional needs in preschools to the ISA, rather than providing separate systems. While it would be preferable for this to be done on a uniform basis, if some States wished to provide additional inclusion services, these could be contracted separately to the ISA.

- **Ensure sufficient funding for the ISA program**

While organisations currently contracted as ISAs have recently signed a new Funding Agreement there has been no significant increase in funding for this Program from the previous 3 year period. During that time, not only have costs increased but, most significantly, the number of services we are now required to support has increased dramatically.

The lack of a concomitant increase in funding means both a reduction in staff numbers while (in theory) requiring each Inclusion Support Facilitator to support about 60% more services in some cases. This is clearly not achievable so KU, SDN and Lady Gowrie in NSW have raised these matters with both the Parliamentary Secretary for Early Education and Care, Maxine McKew and with DEEWR.

We have been advised that the funding amount cannot be changed but some flexibility in work practices may be allowed. In practice this means we will be 'allowed' to work more slowly which will only delay child care services getting funding to support the enrolment of children with high support needs.

The end result of the 'flexibility' we have been offered will be a reduction in service delivery to children with disabilities, and an increase in complaints from services.

- **Ensure sufficient funding for the FSF**

At the same time, funding for Flexible Support Funding (FSF – time limited funding for children with high support needs, administered regionally by the ISAs) is also unable to meet demand. For example in the Gosford-Wyong Region, the KU ISA has already (at 27 January) committed almost the total amount of



FSF allocation for the January to June 2009 funding period and currently has another 4 applications waiting to be approved. This has happened for a range of reasons which include:

- Child care services are now more aware of FSF and are making use of it to include children
- It has been busy in the Vacation Care period and FSF is often the most appropriate form of funding for children attending intermittently
- Children who may have been at one service are now starting at another service and require FSF in the new care environment (this is happening in most of the KU regions where there are ABC/CFK services)

This region experiences a disproportionately high demand for both ISS and FSF due to the high number of children living in the region who have ongoing high support needs and are seeking to access eligible child care services. There is already a Waiting List of more than 100 ISS applications in this region, pending available funds, and this List commenced in August 2008. Both services and families are becoming increasingly unhappy about this situation and are now beginning to approach their local Member and to also contact the Department with their concerns.

- **Ensure the amount provided though ISS for support actually covers the cost of that support.**

In NSW Award rates are higher than in some other States yet the rate for support workers of \$15.61 is set nationally. Providing a scheme that actually covers the real cost of support would assist more services in including children with additional needs.

While the ISS funding is described by the Commonwealth Government as a "contribution" to supporting the inclusion of children with high support needs in mainstream child care services, the reality is that all costs of child care have to be paid for either by parents or the Government. Where the cost of support is higher than the subsidy provided by the Government there are only 3 options available to providers:

- Charge the parents of the child the cost directly, which they may not be able to afford and may cause them to withdraw the child
- Amortise the cost across all fees charged in every centre, which KU currently does, but which is becoming increasingly unsustainable due to the rising costs of child care, and is not an option for small operators
- Cease accepting children with additional needs, which many smaller operators have no choice but to do.

- **Make the ISS rules more flexible.**

Allow working families to use their maximum 25 hours of support per week by tailoring it to meet their needs rather than a fixed 5 hours per day, eg they could do 3 days with 8 hours support per day. For many parents, 5 hours support is not sufficient for a parent to return to work on a part-time basis, whereas 8 hours would be.

This is a low cost option and could be administered through the existing ISS program. Any increased costs would come from families using more hours (because of increased convenience) and the possibility of centres being able to include more children with additional needs (both desirable outcomes)

## **End of Submission**

### **Attachment:**

Extract from Hansard:

Senate Estimates Committee: Foreign Affairs Defence and Trade  
Tuesday 31 May 2005, pp 61 - 64

have been settled some years ago. That was in relation to the Army case that I mentioned earlier. But in that case the claim was not because the individual has developed a disease relating to beryllium but because they have confirmed exposure. I think the claim was based on an anxiety claim resulting from that. Again, the DVA can provide the definitive answer on that point.

**Senator MARK BISHOP**—That is a smart answer. We had that discussion last night and we had it earlier when Mr Smith cleared some stuff up. Minister Kelly is exercising her authority in this matter in her capacity as minister assisting, not as Minister for Veterans' Affairs—that is the attachment to the memo. So this is the appropriate place, is it not, to raise questions?

**Mr Grzeskowiak**—But nevertheless the people who feel that they have a claim would submit their claims to the DVA, the DVA has a well established process for handling those claims and it is rightly the DVA who could advise on the detail or otherwise of any of those claims.

**Senator MARK BISHOP**—I am advised that, on 29 September, two ADF members were exposed to radiation at the RAAF base in Pearce. There is a reference to that in the quarterly report of ARPANZA which is tabled in the parliament from time to time. What level of exposure to the radiation did the two ADF members at Pearce suffer back in September?

**Mr P Sharp**—We will need to take that on notice.

**Mr P Sharp**—It sounds like it—  
**Senator MARK BISHOP**—Do you know, Mr Grzeskowiak?  
**Mr Grzeskowiak**—I do not have a brief on the issue.  
**Senator MARK BISHOP**—Do you know whether the person would have undergone medical checks?  
**Mr Grzeskowiak**—I do not know that.  
**Senator MARK BISHOP**—Do you know, Mr Grzeskowiak?  
**Mr Grzeskowiak**—I do not know that.  
**Senator MARK BISHOP**—Has any one else got a brief on this issue?

Could you take these questions on notice with respect to level of members at Pearce. Was the level significant? Have the personnel run of ongoing medical checks been developed to monitor the future be contamination contained and cleaned up? Could you take those on notice?

to talk about the tendering of the contract to the ABC Learning Centres for families around Australia. Prior to letting the contract with ABC some long day centres at military barracks, did it not?

this year, has run a child-care program that is based on a build-own-operate model with about 14 child-care centres, many of which were unused married quarters to be run by parent committees and volunteers. Defence set up the program because they were struggling to keep those centres running. The program has been contracted to a not-for-profit agency to manage those centres on our behalf. Currently

the period 1998 to present, you have developed some 18 child-care

centres were on a build-own-operate basis?

Did you have some sort of parent community management committee?

Did you contract the management of those centres to a professional not-for-profit body?

What is the name of the professional body?

**Senator MARK BISHOP**—Okay. exposure to radiation by the two ADF members who underwent medical checks? Has a program been developed to monitor the health of those two men? How was that program? Questions on notice, seeing as you have

**Mr P Sharp**—Yes.

**Senator MARK BISHOP**—I want to provide child-care services to Defence Learning Centres, Defence used to fund

**Ms Stodulka**—Defence, until 1 July 2004, operated a build-own-operate model. We started back in 1998 with the married quarters—that sort of thing. They tend to be Defence Child Care Program because we funded since then, and we contract to a not-for-profit body to manage those centres. There are 18 Defence child-care centres.

**Senator MARK BISHOP**—Over 18 centres?

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—And the

**Ms Stodulka**—Yes.

**Senator MARK BISHOP**—And the

**Ms Stodulka**—Since 1998, we have contracted to a not-for-profit body who manage all of our child-care centres.

**Senator MARK BISHOP**—What is

Ms Stodulka—KU Children's Services has had that contract since 1998. It used to be Kindergarten Union but now it is known as KU Children's Services.

Senator MARK BISHOP—And that is a not-for-profit body?

Ms Stodulka—Yes.

Senator MARK BISHOP—And they had the management from 1998 until the present time?

Ms Stodulka—Yes, until 1 July, when that contract is completed.

Senator MARK BISHOP—What are the arrangements post 1 July?

Ms Stodulka—Over the past couple of years we have been very aware of the numbers of children in the child-care age group—nought to five. We have about 15,000 dependants of ADF members in the nought-to-five age group, and with our 19 centres we have been able to assist only about 1,000 children of ADF members nationally in the child-care program. So for a couple of years we have been looking at other ways that we could facilitate increased access to child care, knowing that that is an important lifestyle issue for Defence families.

We started talking with the child-care industry and experts in other departments about 18 months ago and have been through a two-stage procurement process over the last 12 months. We have developed a new service delivery model and signed a new contract with ABC Learning Centres.

Senator MARK BISHOP—Without going to commercial-in-confidence issues, what does the new contract with ABC provide?

Ms Stodulka—It provides the management of our 19 child-care centres, as does the current contract. However, it provides that at no cost to Defence, whereas the existing contract comes out at a cost to Defence. It also is going to provide an 1800 booking and information service to Defence families at no cost to them. ABC are also going to embark on a significant expansion program for us so that we can increase the number of places available to Defence families nationally. ABC currently have about 650 centres nationally operating. A number of Defence families use ABC centres at the moment, and where we have significant numbers of Defence families in those centres we will look at trying to establish them as corporate centres so that we can also hopefully achieve other benefits like salary sacrificing, as we are able to achieve at our Defence child-care centres.

Senator MARK BISHOP—So you have made a quantum shift in the administration and management.

Ms Stodulka—Yes. We have gone from a build, own, operate and pay for the management to contracting that out and having what we have contracted to a commercial provider who will manage all those centres for us and will also embark on a significant expansion program in areas of high Defence need.

Senator MARK BISHOP—I will come to the expansion.

Senator HOGG—Does this mean that Defence parents may well have a location closer to their own home rather than closer to their work—they may be separated by 20 or 30 kilometres, as would be the case in a place like Sydney—to place their children for child care?

Ms Stodulka—It is an interesting point because some of our families have indicated a preference for child-care centres located close to work and some families have indicated a preference for child-care centres located close to where their residence is. Through the new contract we believe we will be able to achieve access to centres both near the Defence location and near the home location, and potentially en route as well. So we are trying to give people choice.

Senator HOGG—You will not be forced into buying a block of places at a number of specific centres. It may well be something you can spread across the whole continuum.

Ms Stodulka—We are not looking at buying places at all.

Senator HOGG—I am putting that in inverted commas—reserving places, giving people the opportunity to access a facility where they might otherwise not have the opportunity.

Ms Stodulka—That is right. We are always looking to try and provide choice because people have very different preferences for how they want to manage.

Senator HOGG—When would this operate from?

Ms Stodulka—From 2 July.

Senator MARK BISHOP—When was the decision made to shift away from the pre-existing model to a new corporate model?

Ms Stodulka—I guess the decision was made at the completion of the tendering process, but certainly for a period of at least 18 months we have been looking at different models and benchmarking against what other organisations have done and what is happening overseas and seeing if we cannot develop a more responsive approach.

Senator MARK BISHOP—When did the tender process conclude?

Ms Stodulka—On 21 April this year.

Senator MARK BISHOP—When did the tender process open?

Ms Stodulka—We ran a two-stage procurement process. In August the request for proposals went out to the industry and then on 17 December the request for tender was released.

Senator MARK BISHOP—How many of the then existing 18 or 19 long day care service providers did not submit tenders or had their tenders rejected?

\* Ms Stodulka—The 19 centres that Defence has are managed by one contract, KU Children's Services.

Senator MARK BISHOP—They submitted a tender.

Ms Stodulka—Yes.

Senator MARK BISHOP—Their tender was found to be not as good as the preferred model.

\* Ms Stodulka—No. Assessed against the quality criteria and the value for money criteria their bid was not assessed as favourably.

Senator MARK BISHOP—Have KU Children's Services lodged any complaint or objection with the department post the contract being awarded to ABC Learning Centres?

Ms Stodulka—No complaint or objection but obviously they are very disappointed to lose the contract. They have been a terrific provider of that management service for us under the old service delivery model. Certainly, they are disappointed but they are maintaining their professionalism and working with us to transition to the new contract successfully.

Senator MARK BISHOP—Who made the decision? Was a committee established?

Ms Stodulka—Yes.

Senator MARK BISHOP—Who was on that committee?

\* Ms Stodulka—I chaired that committee as Director-General, Defence Community Organisation. I also had a director from the chief finance office and one from the corporate services and infrastructure group.

Senator MARK BISHOP—It was a unanimous decision.

Ms Stodulka—Yes. We also had independent probity sign off on the entire two-stage process.

Senator MARK BISHOP—Who did the independent probity?

Ms Stodulka—Blake Dawson Waldron.

Senator MARK BISHOP—Why did you see the need to get an independent probity check for a relatively routine matter?

Ms Stodulka—We were looking to change the system. We were looking to ensure that there could be no doubt in anybody's mind about the fairness of the process that we ran. We were wanting to look at what community providers, not-for-profit providers and commercial providers could provide to us. It ensured that the process that we ran to every participant in that process was fair, transparent and not able to be questioned.

Senator MARK BISHOP—Why would there be community involvement if there was only one other company as a competitive tenderer? There were only two; KU Children's Services and—

Ms Stodulka—There were four tenderers.

Senator MARK BISHOP—What was the nature of the other two tenderers?

Ms Stodulka—The other two were for-profit providers as well.

Senator MARK BISHOP—So you had three for-profit—

Ms Stodulka—and one not-for profit and no community based.

Senator MARK BISHOP—No community tenderers applied. This new contract applies to on-base child-care facilities, doesn't it?

\* Ms Stodulka—Yes, to all of the 19 Defence child-care centres, some of which are on base and some of which are off base.

Senator MARK BISHOP—I want to talk about depleted uranium in the Al Muthanna province in Iraq, if that is how you pronounce it.

Gen. Cosgrove—I will be able to talk about this. I might start.

Senator MARK BISHOP—Has the ADF hazard assessment team finished locating and mapping the risk areas for depleted uranium over there in the province?

Gen. Cosgrove—in order to obtain a better understanding of the environmental risks, which included depleted uranium, the Al Muthanna Task Group advance party conducted an assessment of air, soil and water quality and these will continue to be monitored during the course of the deployment. To date, the health assessment team has not detected harmful quantities of depleted uranium. The risk of exposure remains low. I could go on with other issues to do with this. They did their job, they have not found harmful levels but will continue to monitor.

Senator MARK BISHOP—So they have found some sources of DU, but it is not identified as being of a harmful level.

Gen. Cosgrove—My note says they have not detected harmful quantities. It is expressed, if you like, in the negative about harmful quantities, and it does not say that they have not found any.

Senator MARK BISHOP—The presumption being that they have found some, but it is not harmful.

Gen. Cosgrove—Yes. You might assume that; I cannot say no.

Senator MARK BISHOP—Air Vice Marshal, do you know anything on that?

Air Vice Marshal Austin—All I can say is that the assessment team were specifically requested to look at depleted uranium risks before they deployed into the Middle East area of operations. The information coming back to me is exactly as outlined by CDF. The only thing I can add is that prior to the arrival of the team, the wrecks of military vehicles that had been damaged by depleted uranium were identified and had been removed well away from the area where our people are located. The initial assessment made by the hazard assessment team is that depleted uranium does not represent a threat to our personnel in that area.

Senator MARK BISHOP—Has that information you have just relayed been disseminated to all ADF members currently in Al Muthanna?

Air Vice Marshal Austin—My understanding is that the assessment team did brief the senior executives at the camp before they departed from the Middle East. However, they are in the process of completing their formal report as we speak and getting the samples analysed that they have brought back from the Middle East.

Senator MARK BISHOP—in regard to the information that we are talking about, the senior people over there have been briefed but the operational people have not been briefed.

Gen. Cosgrove—We do not know that. I think if we took that on notice, we could provide you with an answer to say whether all ranks have been given that sort of information.

Senator MARK BISHOP—Can you take that on notice and advise what information, if any, arising out of the report of the hazard assessment team has been disseminated to all personnel located in the province? And if it was, could you advise when it was done and provide a summary of the information that was disseminated.

Gen. Cosgrove—Certainly.

Senator MARK BISHOP—Were all members of the hazard assessment team tested prior to their deployment to Al Muthanna?

Air Vice Marshal Austin—I would seek clarification: tested in what way?

Senator MARK BISHOP—Tested for any levels of prior exposure.

Air Vice Marshal Austin—No. The hazard assessment team members were not tested for exposure to depleted uranium prior to leaving Australia. That would not serve any purpose because as part of their normal duties they would not have been exposed to uranium or depleted uranium; therefore, we would reasonably expect that the results would be negative.