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1 January 2009

Mr John Carter
Committee Secretary
Senate Education, Employment and Workplace Relations Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

By e-mail: ewer.sen@aph.gov.au

Dear Sir,

Re.: Child Care Inquiry

In response to the Committee's above inquiry, we wish to make the following submission addressing some of the terms of reference.

1. The financial, social and industry impact of the ABC Learning collapse on the provision of child care in Australia

The main financial and social impacts appear to be the continuing uncertainty posed to both parents of children at most ABC Learning Centres ("ABC") and the childcare workers working at those centres, particularly those centres that ABC's administrators have deemed to be unviable or of questionable viability. There is a continuing risk that those centres will have to close, causing job losses and disruption to parents who will have to make new childcare arrangements. There will be also a social impact caused by this uncertainty and disruption on the children involved. There will also be negative financial impacts for the following:

- (a) the Federal Government in having to fund ABC's administrators to keep these centres open;
- (b) the lenders who have lent money to ABC, who may not be repaid in full and would be wary of lending to child care providers in the future;
- (c) the shareholders of ABC who have lost their investment and would be wary of investing in child care providers in the future.

As for the industry impact, the ABC collapse would remove a major provider of childcare places. Presumably this vacuum will ultimately be filled by other providers (particularly community, not for profit and independent service providers) taking over viable ABC childcare centres. These operators may actually provide a better service for children than ABC, which seemed to spend

the minimum amount necessary to meet government standards in order to maximise its profits. The demise of ABC could actually be a positive situation, due to its unhealthy dominance of the childcare industry caused by its large size and its allegedly anti-competitive practice of opening loss-making centres to drive out independent competitors from certain areas.

2. Alternative options and models for the provision of child care

In our view, any alternative options or models for the provision child care must prevent the ability of any large provider or providers to dominate the child care industry.

The current institutionalised child care model gives government funding to childcare centres in 2 ways:

- (a) Direct funding of places in institutional childcare centres; and,
- (b) A generous tax rebate to parents who send their children to these centres.

These childcare centres are thus ultimately responsible not to parents, but to the Federal government (the source of their major operational funding). The standards set by the government mean that there are significant barriers to entry into this government-funded childcare market. For example, parents cannot directly gain access to this funding by providing childcare services to their own children “in-house”.

This creates an artificial environment where private institutional childcare providers like ABC are allowed to thrive, and somehow be regarded as “special”. This environment encouraged many normally savvy investors (including the normally prudent Singapore Government’s Temasek Holdings) into investing in the company. It also encouraged lenders into lending more to ABC on the strength of the cashflows generated by generous Federal Government subsidies.

In our view, the government funding currently being channelled directly and indirectly to institutionalised childcare needs to stop.

A better option would be for the Federal Government to simply pay these subsidies directly to parents. Parents can then have the freedom to choose their preferred child care arrangements. Such an option would be simpler and easier to administer for the government.

It would also give parents real choice as to how their children are looked after. They could choose to undertake this work themselves, or to sub-contract it to a person, organisation or childcare centre of their choice.

Such an option would make it very difficult (if not impossible) for another ABC to emerge and dominate the market, since if parents had the full freedom to make

better arrangements for their children, many would not stick with a profit-driven ABC childcare centre which had driven out smaller competitors.

Adoption of such an option would also have the following social benefits:

- (a) the many mothers currently compelled to be in the paid workforce but who would prefer to stay at home to care for their own children would be free to do so;
- (b) more children would be cared for by their parents or relatives instead of strangers. Studies show that these children generally enjoy significantly better learning and social outcomes than children cared for in institutionalised child care; and,
- (c) it would give parents a real choice as to how their children are cared for.

3. The role of government in funding for community, not-for-profit and independent service providers

We do not believe that there should be government funding for institutionalised child care providers. Ultimately, government funding should be directed to parents (see above).

We have no comments to make in respect of the other terms of reference.

Sincerely,

Suryan & Therese Chandrasegaran