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Please find below Australian Community Children's Services NSW (formerly NACBCS) submission to the Senate's Education, Employment and Workplace Relations Committee Inquiry into the Provision of Childcare.

Thank you for the opportunity to comment on the impact of the ABC Learning collapse on the provision of child care in Australia and related issues.

Yours faithfully,

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## **Background on ACCS NSW**

The objective of the Australian Community Children's Services NSW (ACCS NSW) is to ensure that all Australian children, their families and their communities are effectively supported in order that they can live happily in a democratic and peaceful society. A cornerstone of achieving this vision is to ensure that all children and their families have access to affordable, quality children's services.

ACCS is the peak representative body for all Australian community owned children's services and operates as a non-profit organisation. The Association is democratic in structure and relies on participatory and inclusive processes to achieve our goals.

ACCS promotes not-for-profit children's services in Australia by:

- advocating for and assisting the development of community owned children's services providing good quality care.
- initiating public action to promote and defend community owned children's services throughout Australia.
- acting on behalf of community owned children's services in relation to governments and other bodies.

## **Submission**

Since our organisation's inception we have been vocal about the problems being created by the corporatisation of child care in Australia and we have consistently warned about the possibility of corporate collapse and the dangers of having one organisation having a monopoly stranglehold on childcare provision in Australia.

We say this not to be able to say, "we told you so" but to point out that the collapse of ABC was foreseeable, preventable and inevitable. We need to grasp the opportunity now available to rethink the provision of early childcare and education in Australia to ensure that never again can so many families be reliant on care provided by one dominant provider.

### **Impacts of corporatisation on childcare provision in Australia.**

The impacts of corporatisation on childcare provision in Australia over the last 10 years can be summarised as:

- a shrunken community based (non-profit) childcare sector;
- the use of public funds to support for profit and corporate care;
- the manipulation of public policy to support for-profit child care; and
- the negative effects of the rapid growth of one company.

### **A shrinking Community Sector**

Childcare in Australia has always had a healthy mix of centres sponsored by councils, parent groups, church groups, universities and TAFE colleges. But between 1991 and 2001 the number of places in privately owned for-profit long day care services increased by almost 400 per cent compared to only 55 per cent in not-for-profit services. The 2006 Child Care Census does not record data on auspice type but according to the 2004 Census only 33% of children's services were then non-profit. The proportion varied across Australia – 37% in NSW, 54% in Victoria, 29% in QLD 84% in the ACT and 66% in SA. We can presume in the 5 years since these figures were collected that the proportion of non-profit long day care services has further shrunk. Since 2002, in fact, the growth of for-profit services has continued at a rate eight times greater than that of not-for profit services.

Most Australians would agree that families should have a genuine choice between commercial childcare and non-profit childcare. That choice was eroded by the fact that the non-profit sector shrunk. It shrunk because of the growth of the private and in particular, the corporate, sector.

### **The use of public funds to support for profit and corporate care**

In the 2004/2005 financial year, ABC Learning Centres had revenue of \$292.7 million dollars. 44% of this came from Child Care Benefit payments - \$128.8 million dollars of government expenditure on childcare went to ABC. Undoubtedly that helped ABC in making the \$52.2 million dollar profit they declared that year. And it would also no doubt make the \$27 million they paid in tax that year seem like small change. There are few industries where the Government gives you \$100 million more dollars in taxpayer's money than you give them in tax.

We need to ask how it helped the early childhood service system to have one company making so much money from the Government. What were the opportunity costs of this expenditure – of this transfer of taxpayer's money to the shareholders of one corporate organisation?

## **Public policy support for-profit child care**

Once the large private and corporate childcare sector developed in Australia, public policy was changed to support that sector. In Australia we saw a roll back of policies that distinguished between auspice and an initiating of policies that were favourable to for profit and corporate child care operators. We saw the development of a favourable fiscal and regulatory climate for for-profit and corporate child care.

This sometimes occurred because of direct lobbying by the private and corporate sectors and sometimes occurred through the last Government's belief systems about why and for whom childcare is delivered.

The best examples of public policy changes that favoured the private and corporate sectors were the removal of operational subsidies for non-profit child care services in 1998 to "level the playing field", the decisions by states such as NSW to not reduce regulated child: staff ratios and the very existence of a voucher system, the Child Care Benefit (CCB) system, as the main funding mechanism for childcare in order to give families "choice". All of these actions favour the needs of owners and shareholders and are antithetical to the best interests of children.

A 2005 submission by ABC Learning to a House of Representatives Inquiry into Work/Family Balance argued for four things:

- less regulation of child care services;
- an increase in CCB to reflect the true costs of childcare;
- an increase in the 20 hour cap on CCB; and
- for policies to encourage the growth of teachers to work in Long Day Care Services.

Is it co-incidental that most of these things would result in either lower costs for ABC or higher CCB income, in other words more profit?

We also saw over the years how Government tenders were written to favour large corporate providers. We saw the loss of the provision of child care to the Department of Defence by a non-profit provider in favour of ABC and we saw a call for a tender written for the provision of childcare for Centrelink employees in such a way that only one organisation in Australia then, ABC Learning, would have been capable of fulfilling.

The very existence of a childcare shortage and the very existence of the reliance on market forces to fulfil childcare needs, developed because of the existence of the private and corporate sector. ABC Learning was always quite clear about the fact that to be profitable, their centres needed to achieve at least an 80%, preferably 90% occupancy rate. This meant that it was almost necessary to have a childcare shortage because if there was not a shortage, ABC may not have survived. No Government would pursue policies that would force the possible collapse of the provider of 20% of the nation's childcare.

## **Rapid growth of one company**

ABC Learning became the world's largest public childcare company in 2005 when it snapped up the American Nasdaq-listed Learning Care, operator of 460 childcare centre in 25 states in the US. With the takeover of Peppercorn, Kid's Campus and Hutchisons there was no other listed player of any size in the Australian corporate sector, except Childs Family Kindergartens, which had 39 childcare centres in NSW. Reading the Childs Family Kindergartens prospectus when they listed on the stock

exchange it was clear they were setting up an organisation that would be attractive for ABC to buy out.

One of the reasons thrown at the non-profit sector as to why privatisation was good for child care provision was that it gives parents choice. How much choice do you get when there is only one large provider?

At the end of 2004, ABC owned 327 centres. At the end of 2005 they owned 660 centres. When they collapsed in 2008 they owned over 1200.

The collapse of ABC Learning was not unable to be forecast. In the drive to create profits and to appeal to shareholders, corporations can become unrealistically ambitious within their markets and collapse in a spectacular fashion. This happened with HIH in Australia and Enron in the United States. It was always a possibility that ABC Learning could collapse.

ABC Learning appealed many times against rival's planned centres in courts across Australia. Children's Services complained about being bullied against making an objection to the development of a new ABC centre. All of these court cases had the effect of hindering competition in the child care market... and yet competition was supposed to be one of the benefits that privatisation and corporatisation bring to the sector.

Everybody is probably familiar with the Victorian case in which the Victorian Supreme Court ruled that ABC can be held criminally liable when children escape from its centres. ABC had appealed a \$2000 fine given for their breach of the Children's Service Act. They appealed because they believed that the escape of the child was due to the failures of two of its staff and not to a lack of proper management so that they could not be held accountable.

An ABC Annual Report from a few years ago read:

“By remunerating senior executives through long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.”

In other words, ABC gave senior executives shares in the company because they believed that this “aligns the interests” of those employees with the shareholders.

Not only was the major *raison d'être* for the company the increasing of shareholders profits, but it was set up so that it was in the interest of the key employees to increase shareholders profits.

Who, in a system like this, was looking after the children's interests?

Corporatisation is the epitome of a privatised, and designed to make profit, early childhood service system. How could anyone argue that privatisation and profit enhances the quality of the early childhood service system? What is good for a shareholder is not always, in fact is rarely, good for the children they wish to profit from.



## **Legacy of ABC Learning on child care provision in Australia.**

As well as the financial, social and industry impact of the ABC Learning collapse on the provision of child care in Australia, we also need to examine the ongoing legacy of the growth and demise of ABC Learning on child care provision in Australia and examine how this impact can be ameliorated.

The major ongoing effects of the domination of the child care sector by ABC Learning in Australia includes:

- **The lack of any planning system for childcare provision**  
Prior to the expansion of corporate and for profit childcare in NSW, the Federal Government took responsibility for childcare planning. Services were only granted Child Care Benefit Approval if they were in areas of need. Gradually, over the years of the growth of the corporate sector, the Federal Government resiled from this role. We now have a situation where we have over supply in some areas, undersupply in others, and no data as to where each area currently sits. Local Governments are in a situation where they can be inundated with development applications for childcare centres, because of the publicity about the money that can be made in childcare, with no assistance from any other level of government as to whether these centres may or may not be needed.
- **A smaller, less supported community based /non-profit based sector**  
Non-profit community based services have been repeatedly shown to have higher staff/ children ratios and to employ more qualified staff than corporate services– often operating at above regulated requirements in these areas. Child care research has repeatedly shown that these two factors are key determinants in child care quality. The more staff and the more highly qualified those staff are, the better quality care children will receive.

In NSW, where there is a recognised teaching staff shortage, the NSW State Government introduced a policy of interim approvals for exemptions from the requirement to have a teacher for all childcare centres above 29 places, where a service was unable to recruit. A 2004 report from the Social Policy and Research Centre found that under this policy privately operated services were highly over-represented among services with interim approvals. Of the 176 interim approvals granted at that date, 84.1 per cent were held by private licensees. The report noted that “One corporate service provider alone, ABC Learning Centres Pty Ltd, holds 31 interim approvals, or 17.6 per cent of all interim approvals, even though they have only 65 centres requiring ECTs (4 per cent of centres requiring ECTs).”

It is clear that the community based non-profit child care sector is more likely to have qualified teachers and better ratios. The value of having a robust community based non-profit sector is therefore not just because it offers parents true choice in care, but because it is the non-profit community based sector that can deliver and model what quality childcare looks like to the entire childcare sector.

The shrinking of this sector has meant that examples of high quality care are no longer as prevalent. Without these services modelling quality care, the corporate centres have been able to drop care quality with no threat of loss of patronage.

Prior to the previous Government’s policies of “levelling the playing field” between for profit and not for profit child care centres, non-profit centres received an operational subsidy from the Federal Government. The removal of this subsidy forced many centres to struggle for survival.

- **A community sector in competition with corporate centres**  
Because of the unplanned growth of childcare centres, especially long day care centres, we now have a situation where some non-profit community based centres are fighting for survival. It was not uncommon that when ABC Learning took over a new centre in a new community, they would embark upon a price war with existing centres. Unable to sustain low fees for as long as the corporate giant, many small community based centres were forced to maintain their fees at an uncompetitive level. By the time ABC increased their fees back to market rates, many of these other services were only marginally viable. These centres are now struggling to cope with the increased demand forced upon them by the corporate closures. Some of these community sector centres require additional funding injections to compensate for years of poor revenue caused by the competition with a now defunct centre.
- **Use of CCB and CCTR as the major funding mechanisms for childcare**  
Although Australia does not spend as much on early education and care as other OECD countries, it still commits a large amount of public funding to the support of childcare. By far the majority of this expenditure goes on Child Care Benefit and the Child Care Tax Rebate. This funding is for parents to help parents offset the cost of childcare. In June last year we saw what happened to an increase in these amounts. The Federal Government announced an increase of the Child Care Tax Rebate from 30 to 50% from July 1. ABC Learning increased their fees by 11% from June 30.

Changing the entire mechanism of funding childcare from funding parents, to funding child care centres, would give the Federal Government more “bang for their buck”. We fund schools and universities in this way, why not child care centres?

- **A disproportionate amount of care for children with additional needs is currently borne by the non-profit childcare sector**  
Again this information was missing from the 2006 Child Care Census, but previous child care censuses showed that community based not for profit services have always shouldered the burden of caring for children with additional needs. ABC Learning was quite open about the fact they would not accept children with additional needs unless the child was approved to receive Inclusion Support Subsidy (or the earlier Special Needs Support Subsidy).
- **Shortage of care for under 2 year olds**  
Babies under 2 years of age are more expensive to care for because of the higher staffing needs of this group. Community based not for profit child care centres also care for a disproportionate percentage of this age group. Because it was not as profitable, corporate service were less likely to offer this care.
- **Lack of public policy measures to support quality childcare provision**  
Quality child care, predicated as it is on factors such as better staffing ratios, smaller group size, qualified staff, etc is expensive. Time and time again over the last few years the community based not for profit sector has seen public policy measures that would have forced an increase in quality not been implemented. Some of this was obviously because of direct lobbying by ABC Learning, but it also would have been a brave government that would have bought in measures that would have upset the ABC juggernaut. Over the last five years in NSW we witnessed sustained lobbying by ABC Learning to ensure that the ratio of carers to babies was not reduced to the better, but more expensive 1:4 from the existing 1:5.

- **Degradation of physical assets of non-profit centres**  
Without access to large amounts of capital funding, non-profit centres have seen the degradation of their physical assets, especially buildings and equipment. The previous Federal Government believed that large investment of funding in this area would unfairly advantage non-profit centres over for profit ones. We now have run down non-profit child care centres that need capital funding to ensure their ongoing safety and suitability.
- **Lack of lease security by non-profit lessees**  
Whereas once corporations and governments were prepared to lease premises to non-profit childcare centres for peppercorn leases, we have witnessed the emergence of landlords witnessing other landlords making large profits out of leasing centres to ABC Learning. There is now a belief within the rental market that child care centre premises can earn large returns. The effect of this on non-profit centres has been an increase in lease insecurity and an increase in rents.
- **Reduction in support by local governments in moves to cost neutral service provision.**  
Local Governments across NSW have long been supporters and providers of non-profit community based care. A large number of providers have examined selling their childcare services to corporate providers. Others that have not gone this far, have still moved towards cost neutral service provision, at the detriment of community based services in their LGA.
- **A less trained childcare workforce.**

Childcare workers who were employed by ABC Learning were not encouraged to engage in inservice training provided by organisations such as Professional Support Co-ordinators in each of the states and instead attended internal training of dubious value. Because of this, and because of the nature of childcare provision under the ABC model we now have a number of childcare workers in the sector who are less trained than their counterparts.

### **Alternative options and models for the provision of child care**

ACCS NSW has long argued that “children are too precious for profit”, and we would argue that the demise of ABC has shown this out. Now that Australia’s experiment with corporate childcare is all over bar the shouting, it is time for us to seize the opportunity we now have to ensure that childcare, that early education and care, is focused on **children**.

We knew. We knew the quality was lower. We knew the concentration of ownership boded ill if there was corporate failure. We knew that ABC Learning had gotten too big, too fast. We knew that it was a myth that big dollars or even small dollars could be made out of childcare. We knew that the voucher system of Child Care Benefit assisted the growth of corporations but does little to ensure quality, affordable, accessible care for families. We knew that childcare provision needed to be planned – that we have areas of oversupply and areas of massive undersupply. We knew that something was rotten when Eddy Groves talked about children as “units”. We knew that the close connections between members of the Liberal Party (such as Larry Anthony and Sally Anne Atkinson) and ABC Learning were suspect.

We knew, above all, that the domination of ABC Learning over children’s services in Australia was not in the best interests of children.



We said it. We talked about it. We debated it. We wrote about it. But we did not, and were not, able to convince those with the power to check the growth of corporate child care, that our knowledge of children and childcare should be listened to. We could not convince governments that children's interests were not amicable to the interests of shareholders. The Director's and Managers of ABC Learning had a responsibility, (which ultimately they failed) to increase the value of shareholder's investments. Child care was just the vehicle they chose to do it.

So many times in the last few years we have been told to modify the message. We have been told to stop talking about the benefits of community based not profit child care over for profit care. We have been told that private care is here to stay.

Now it is time for us to say there is no place for profit in caring and educating children.

The community non-profit sector can work with Government to ensure that families across Australia can have access to care.

Government and the community sector can work hand in hand to seize this opportunity to ensure that we re-create **child care for children**.

Community owned not for profit children's centres build social capital in our communities. Community owned children's services are owned by community groups or organisations rather than by individuals. They are run on a not for profit, break-even basis by voluntary parent and community committees of management, local government, church groups or tertiary institutions. Any operating surplus is directed back to the service. There are no owners, directors or shareholders requiring a financial return on an investment.

Community owned children's services, be they parent run, or run by a larger non-profit organisation, have unique features which enable them to contribute to community building and social capital in a way which commercial services can never do.

Community owned services empower families through genuine partnership, to advocate on behalf of their children and their children's services. Rather than passive consumers, parents are able to actively participate in the care and education of their children. It is a model in which professionals are "on tap, not on top". (Brennan 1994)

Fundamental to community owned services is the active involvement of parents in the care and education of their child, not just as consumers but as high level decision makers thus developing a true partnership in the care and education of their children. This high level collaboration can lead to new and innovative ways of providing programs, thus ensuring programs remain truly reflective of the needs of the children and the community. Because they are owned by the community, there are no structural impediments to the formation of partnerships with other not-for-profit community service providers.

Community owned not for profit children's services should be the model endorsed for the provision of child care in Australia.