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10 July 2009

Dear Sir/Madam

As the peak body for community owned children's services in Victoria, Community Child Care appreciates the opportunity to comment on the Australian Treasury Inquiry into Creeping Acquisitions.

While the specific questions inviting response in the paper are outside of the expertise of CCC we offer comment on creeping acquisitions from the experience of the community children's services sector given the rise and fall of publicly listed corporate childcare chains over recent years.

We would be pleased to provide further comment if required.

Yours faithfully

A handwritten signature in black ink that reads "Barbara Romeril". The signature is written in a cursive, flowing style.

Barbara Romeril  
**Executive Director**



# CCC submission to Australian Treasury Inquiry into Creeping Acquisitions – The Way Forward

10 July 2009

Community Child Care (CCC), the peak body for community owned children's services in Victoria, appreciates the opportunity to comment on the Australian Treasury Inquiry into Creeping Acquisitions.

The first question inviting response in the paper is outside of the expertise of CCC, and CCC does not intend to comment on the Aggregation model and the Substantial Market Power model of regulation. However we will comment on creeping acquisitions from the experience of the community children's services sector given the rise and fall of publicly listed corporate childcare chains over recent years.

ABC Learning has grown via the process of creeping acquisition of smaller child care chains and individual operators to become the largest corporate child care chain in Australia and indeed in the world. CCC believes that the domination of the child care market achieved by ABC Learning has been to the detriment of children, families, communities and the child care system and has worked against the achievement of government policy goals in relation to supporting the early education and care of Australia's young children.

The collapse of ABC Learning in 2008 and the resultant loss of services and public confidence in the children's services system is only the latest in a series of negative impacts that the existence and unchecked growth of this corporate giant has created.

We believe that government must use both regulatory and public policy levers to ensure that the remnants of ABC do not grow again and that no future child care operator can grow to dominate the sector.

We offer for your consideration the policy of our national peak body Australian Community Children's Services (ACCS) for a strong social policy to control planning for delivery of children's services:

## **ACCS Policy on Child Care Planning Controls**

ACCS believes that families and children have the right to choose not for profit community owned children's services. No community should be limited to commercial, for-profit services.

ACCS believes that the Australian Government has an important role in developing planning legislation for all service types (long day care, occasional care, family day care, outside school hours care, in-home care) that ensures that families have access to not-for-profit community owned children's services, allowing families' choice in child care. Australia needs a system that allows and encourages the development of community owned services, while preventing new commercial for-private-profit services from opening where they will undermine the viability of existing services.

Options for achieving this include:

- A cap on Child Care Benefit places for for-profit services in communities where the community based service has vacancies, or where there are existing private services with vacancies
- Denial of Child Care Benefit approval for new for-profit services in communities where there is no community based service or where the for-profit service will be located in close proximity to an existing community based service
- Government capital investment to develop community based services in communities where none exist and where there is evidence of viability.

Planning systems such as this are successfully applied in other industry sectors. For example, the National Health Act 1953 controls the location of pharmacies that are approved to dispense pharmaceutical benefits, taking into account the distance from the nearest approved pharmacy and the resident population in the catchment area.

ACCS believes that the Federal Government could develop similar legislation in regard to approval of children's services for Child Care Benefit fee relief, which takes into account ownership and location.

ACCS goal is for Federal child care planning policy that will:

- Build Australian community capacity and empower families
- Retain, grow and strengthen the community based children's services sector
- Provide **all** Australian families with the choice to utilise not-for-profit community based children's services

### **Market Failure in Child Care**

CCC believes it is essential for government to exert this kind of direct control in children's services as the service system does not operate as a free market.

The market power of families is extremely limited due to lack of choice in the child care sector. In most communities there is a lack of places in alternative services, and in some geographically isolated communities there is a lack of alternative centre based services.

When child care fees increase a decision is made in some families to withdraw from the workforce in order to care for the children resulting in the loss of skills and labour from the economy and a loss of career engagement for the parents. Most families however are not able to seriously consider this option as having both parents working is a necessity.

Many families will tolerate extremely high fees that absorb much of the earnings of the prime care giver, in the interests of maintaining a foothold in the workforce.

There is widespread concern about the quality of care that can be provided in a service which must generate a financial return to shareholders who have no direct stake in the local community or the families using the service.

The growth of the larger services generally produces loss of differentiation in child care services.

Parents are not seeking competition to deliver efficiencies and higher returns for shareholders in the child care market – they are seeking access to high quality, responsive, affordable care for their children.

When the ACCC agreed to the merger of ABC and Peppercorn in 2004 concern about the emergence of publicly-listed corporate child care chains was just starting to develop in the Australian community. Since then the level of concern has become extremely high, with mainstream media reports of poor practices in ABC child care centres, aggressive litigation against government and other stakeholders, and parental outcry at the lack of alternative services. And now with the company going into receivership, closure of many centres and transfer to new operators there has been severe damage to public confidence.

Mergers between ABC and other child care chains did not give ABC a monopoly in the strict sense of the word; what it achieved was consolidation of the dominance of one commercial entity in a service sector which is best delivered by locally owned and operated services.

This is more than an ideological position – this is based on clear research evidence of what is in the best interests of young children. The Australia Institute 2006 study 'Child Care Quality in Australia' demonstrated that that 'corporate chains offer the lowest quality of care ... and in some cases it is markedly lower than that provided by community-based long day care centres.' One in five staff working in corporate child care centres 'would not send their own child under two to a centre of comparable quality to the one they worked in due to quality concerns' including:

- Lack of time to develop individual relationships with children (only 29% of ABC staff felt they always had enough time to develop individual relationships with the children they care for, compared with 54% of community based services)
- Less than half always provide nutritious food (49% of staff said nutritious food was always provided, compared with 74% of community based staff)
- Many regularly drop below minimum staffing levels due to staff absences

A follow up study by The Australia Institute of the largest corporate child care chain, ABC Learning, identified a number of systemic barriers to the provision of high quality care, all of which relate to the pursuit of profits:

- Low food budgets (55% of ABC said enough food was always provided compared with 80% of community based services)
- Poorly paid staff
- Requirement for child care staff to act as centre cleaners
- Equipment budgets must be spent at an ABC owned toy company

This Australian evidence of the downward pressure on quality brought about by commercial ownership is consistent with international research. In 2005 an econometric analysis of child care in Canada found that non-profit child care centres outscored their commercial counterparts in all aspects of early childhood care and learning; on average the overall quality of non-profit child care is 10% higher than commercial child care centres (Gordon Cleveland and Michael Krashinsky 'The Quality Gap: A Study of Non-profit and Commercial Child Care Centres in Canada').

The Australian community in general, and families in particular look to the Australian Government to ensure that babies and small children are able to access high quality community owned and managed children's services. Allowing the growth of ABC and other corporate chains has not and will not deliver on this community expectation.

CCC believes that the lessons learnt over the last year since the collapse of ABC Learning demonstrate clearly the need for planning controls and continuing government investment in community owned and managed children's services to ensure the quality and security of services for children, families and communities into the future.