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Child Care in Australia
A market failure and spectacular public policy disaster

Australia, once regarded by international observers as having an enviable child care system, has become a case study for other countries in what *not* to do. But how did this happen? Essentially, it was the result of a shift by the Australian federal government away from policy and funding strategies that supported the planned development of inclusive non-profit community based services towards a free market approach that resulted in the privatization and corporatization of child care services. The consequences of this change in policy direction are well illustrated by the growth and dramatic collapse of one private child care company: ABC Learning Centres Limited (ABC Learning).

The shift to privatised child care has had devastating consequences for parents, families and staff. It has also cost the Australian taxpayer dearly. When ABC Learning went into receivership on November 6, 2008 the future of more than 1,000 centres, 120,000 children and 16,000 child care workers was in doubt. Had normal commercial processess been allowed to operate, around 400 ABC centres would have closed but the Australian government immediately came forward with A$22million of conditional funding to keep all of the ABC child care centres open until December 31, 2008. Fifty-five centres closed at the end of the year and the receiver reported that a further 241 centres were unviable under the ABC Learning business model. Again under normal circumstances, these centres would have closed but the Australian government came to the rescue with an additional A$34 million to keep them open until March 31, 2009. On Mar 15, 2009 the government announced that it needed *another* A$70 million for the scheme that pays entitlements to employees of liquidated or bankrupt companies...the majority of the new funding, A$50 million, to be earmarked for ABC Learning workers, as the receivers of the child care company announced it could not cover costs such as unpaid annual leave. It should also be noted that in addition to this “emergency” funding. ABC Learning received approximately A$300 million in federal subsidies in 2008 from the government's fee relief program. The shift to privatised child care has had devastating consequences for parents, families and staff. It has also cost the Australian taxpayer dearly.

The ripple effect of the collapse continues to be felt far and wide. Not only has it led to uncertain times for many parents and child care workers, it has also had a number of significant impacts on the related corporate world. As the story unfolds it has become clear that many banks (real estate trusts and associated property investors), other child care chains and related businesses were exposed and vulnerable.[1] The government, through the Ministry of Defence and a number of large corporate employers, were caught up in the conundrum; in the interest of offering workplace child care as a company benefit, they had entered into contractual arrangements with Corporate Care Australia, a wholly owned subsidiary of ABC Learning, to build and manage child care centres specifically for use by their staff (a model similar to the corporate solutions being promoted throughout Canada by Ontario based Kids & Company). Many of these centres are on the unviable list and management in these entities are now dealing with the unanticipated impact on their human resources.

> ABC Corporate Care manages 18 Defence-owned child care centres and offers priority placing in another 20 ABC Centres for Defence families. Approximately 1,450 Defence children are enrolled in ABC child care centres across the country but this provision for priority placing which is so important for Defence Force families must surely be in doubt now.
> *(http://www.liberal.org.au/news.php?Id=2068)*

ABC Learning is not the only child care corporation to fail. Others have followed suit. As the forensic and other analysis of the collapse of corporate child care in Australia is still in progress all the reasons why have not yet been fully revealed but it is expected that they will fall into two categories: public policy and corporate behaviour.

Public policy

In the wake of ABC's collapse, Australia's Deputy Prime Minister Julia Gillard blamed the previous government for having "let the market rip," for having no workforce plans, no quality plans and no plans for market development. There is some truth in this statement, but it is far from the whole story. It was a Labour government led by Bob Hawke that, in 1991, introduced market forces into early childhood and promised that the market would lead to greater choice and lower fees. It extended child care assistance to the users of for-profit care. It marginalized the community sector and encouraged provision by private businesses. It decreed that private entrepreneurs, not governments, should determine the location of services, even though huge public subsidies were involved. And, to allay the anxieties of those concerned that profits were incompatible with high quality care of children, Labor found it necessary to introduce an accreditation program.

But under Labor's system there was no cap on the number of child care centres that private operators could set up, no guidance about needs or planning, no cap on public subsidies. Instead, "market signals" were to guide these processes. Small operational subsidies for community-based non-profit care were retained, in recognition of the sector's significant role in caring for babies, working with non-English speaking families and caring for children with disabilities (services that the corporate sector was less-inclined to provide) - but this was the only concession to Australia's tradition of non-profit care.

Labor's responsibility for the "turn to the market" in early childhood is a relatively familiar story to those who follow Australian child care politics. What is not so well known is that one of the major reasons that the government pursued the path of private, for-profit care was to contain the small advances that had been made towards increasing the qualifications of workers in child care and improving their professional status. This is in direct conflict with the evidence-based research that clearly links the quality of care and education that the children receive to the training and remuneration of those whose work is to provide it. Regardless, Labor's finance minister Peter Walsh and his supporters were scathing about the employment of trained teachers in early childhood. They argued that efforts to extend the employment of teachers were intended "to make even softer the nests of bachelors of early childhood education and their middle-class well-feathered friends" and they accused child care workers of crippling the system with "creeping credentialism." The largely young, female and poorly-paid workforce was thus pilloried by highly-paid male journalists and politicians who devalued child care as "women's work".

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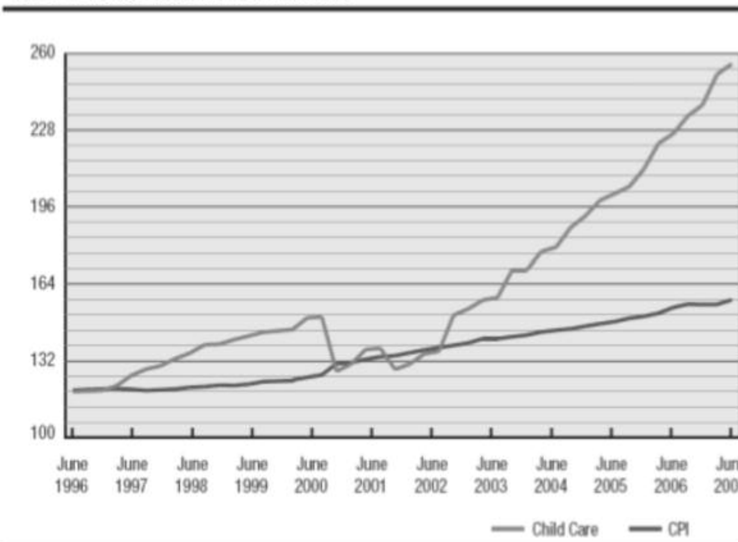
During the later half of the nineties the Howard government, a Liberal-National Party Coalition intensified Labor's market focus. It ended operational subsidies to community-based care and abandoned plans to expand the non-profit sector. The community-based child care sector stagnated and the pressure on sponsoring bodies, particularly local governments, intensified, leading some to vacate the field. The most significant policy shift in terms of laying the ground for corporate providers occurred in 2000. As part of a suite of family policy measures introduced in connection with a new tax system, the Howard government initiated the Child Care Benefit. This is effectively a voucher that parents can use at any "approved" child care service (mainly child care centres and family child care homes). The amount depends on family income, the hours of care used and the type of care. From a comparative policy perspective it is similar to the child care subsidy provided in Canada by the provinces and territories to eligible low-income families. A significant difference is that in Australia the family income threshold is much higher and most low- and middle-income families are eligible for it.

The Child Care Benefit positions the parent as a consumer who chooses from a range of "products." Since many types of child care are in short supply, and since finding child care is a time-consuming and sometimes emotionally fraught activity, there is little real prospect of parents using their power as consumers to “discipline” the market. Most parents elect to have the benefit paid directly to their provider, entitling them to reduced fees. Direct payment also provides a cash stream to providers and minimizes their exposure to unpaid fees, especially on the part of low-income families who gain the most from the Child Care Benefit.

ABC Learning listed on the stock exchange shortly after the introduction of the benefit and Eddy Groves, the company’s founder and former Chief Executive Officer, explicitly linked the growth of his company to the possibilities opened up by the Child Care Benefit. ABC grew rapidly, snapping up small independent providers and other centres around the country, particularly in Victoria and Queensland, before expanding internationally. As well as owning more than 1,200 centres in Australia and New Zealand at its peak, ABC had substantial holdings in the United

Child care cost index 1996 to 2007[6]



Source: Australian Bureau of Statistics, Consumer Price Index Australia, Cat. No. 6401.0, June 2007.

States and Britain. It also owned a training college for early childhood staff and had substantial interests in other businesses, including a toy and equipment provider that had an exclusive contract to supply ABC-linked centres around the world.

Australian government data do not permit detailed analysis of the industry. As a result of ABC's collapse, we now know that its presence varied across the states, with most centres concentrated in Queensland, Victoria and New South Wales. Figures published by the Productivity Commission[2] show that 73% of centre based child care spaces across Australia are owned by private, for-profit operators but the number of private spaces owned by independent businesses or run by corporate providers is not known. Also, ABC's annual reports provide inconsistent data from year to year, so it is not possible to get an accurate picture from that source. However it is known that as ABC increased its share of the market, the "choices" in many communities diminished and the costs of care grew far more quickly than general consumer prices.

The Child Care Tax Rebate has also been integral to the rapid expansion of the Australian corporate child care market. This measure, introduced in a slightly different form by Labor in 1994, was originally intended as an alternative to tax deductions for child care expenses. It was seen as fairer than both tax deductions (which provide most to those with the highest marginal tax rates) and tax rebates (which deliver nothing to those outside the tax system). Under Howard, the value of the rebate grew to cover 30% of "out of pocket" expenses — the difference between what parents paid and the amount they received from the Child Care Benefit. The new Labor government has increased the value of the rebate to 50% of out of pocket expenses up to a ceiling of A$15,000. Parents who use "approved" care for work-related purposes are now entitled to a taxpayer subsidy for half their child care costs up to this limit (which applies per child, not per family). In addition, as mentioned above, most receive at least some means-tested Child Care Benefit. The rebate is seen by many observers as an open invitation to providers to increase their fees. ABC Learning attracted particular criticism for the sharp spike in fees that coincided with the implementation of Labor's new policy, but no one should have been surprised.

> ….they say it (ABC) is the most subsidised company in Australia.
> When you learn in some cases the government rebate is 85% of the fees charged, it makes you really wonder what is served by having private enterprise cowboys running the show – just so they can skim some profit off the top. Maybe the government could cover 100% of the fees if the profit margin wasn't present?
> It makes you wonder why the government doesn't just set up its own child care centres and cut out the middle man, or, at the least, better fund traditional community child care centres. The kind that used to exist in the majority 20 years ago. Where the tension between quality and profit was non-existent.
> *(Tim Brunero LIVENEWS.com.au 28/02/2008 9:04:00 AM.)*

Some would think it generous to say that the road to corporatization was in part paved with good intentions. But those that believed in the virtues of the market may have assumed that due to the normal rules of supply and demand promoting for-profit provision of child care would have positive outcomes: more spaces, increased choice for parents, reduced government expenditure, reduced parent fees, increased diversity of provision, and increased quality. However, with the exception of the first, spaces, the opposite occurred. As noted, parent fees escalated. So did government expenditures — from A$1 billion in 1999 ($800 million of which was directed to fee subsidies) to A$2 billion in 2007 and climbing. Through the same period many small independent operators were driven out of business. The result was increasing uniformity and a reduction in parent choice. There was also a downward pressure on regulation as a result of corporate sector lobbying. This resulted in escalating concerns about quality and talk about the need for national standards.

Corporate behaviour

In addition to flawed public policy, Australian observers have expressed concerns about the behaviour of corporate child care providers. Some of these behaviours — for example, maximising shareholder returns at the expense of service quality — could be considered "normal" business practices that are simply inappropriate for a child-focused enterprise. Others are more problematic. For example, complex relationships between "related parties" have been reported to create unhealthy business relationships and perverse incentives. In Australia, these have included private child care corporations giving contracts for centre maintenance worth tens of millions of dollars to family members, without going to tender; having child care "real estate" owned by one company and the child care "business" itself owned by another, related party. In this instance, the owner of the real estate has a direct interest in rents going up, and the owner of the business may be happy to go along with this (especially if he or she is part-owner of the business that owns the properties) even though raising the price of child care puts stress on families and adds to the burden on taxpayers through child care subsidies.

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On February 27th the *Australian* reported that high rents on properties — up to A$700,000 a year — had scared away more than half the 470 parties that lodged expressions of interest in buying the 241 "unviable]" ABC child care centres last month. A leading contender — non-profit consortium Childcare 21, which has the backing of a Bendigo and Adelaide Bank subsidiary — has emerged as the only entity to bid for all the centres as a group. Childcare 21 has stated that its offer to buy all 241 centres is conditional on rental reductions or ongoing taxpayer support.

Unfortunately, it seems that some of those promoting child care as a business are really interested in the gains to be made from real estate, high rents and capital gains. When public money is invested in private services, taxpayers end up with nothing, despite having invested heavily. Hundreds, perhaps thousands, of millions of dollars of public subsidy have been paid to ABC Learning but, when the company collapsed, the Australian government did not own a single sandpit, much less any real estate or centres. This is one of the most important lessons from Australia for Canada.

What's next for Australia?

The demise of ABC Learning could result in the Australian child care landscape being fundamentally reconfigured. Deputy Prime Minister Gillard has encouraged private providers and not for-profit organizations to register their interest in buying or managing ABC centres. The inclusion of not-for-profit organizations in the expression of interest process suggests that the government is considering an enhanced role for community-based providers, even if these providers do not have the capital to purchase ABC centres. Such a scenario suggests the possibility of re-instating a measure of diversity into a sector dominated by private interests. A number of other strategies are being suggested.

There are widespread calls for greatly increased regulation of child care services and many are proposing that the Australian government, in partnership with providers, unions, educators and other stakeholders, should resume responsibility for the planned provision of services that meet community needs. The current system, which places all power in the hands of entrepreneurs, while sending the bill back to taxpayers, has to end. Even the organisation representing independent private child care operators, Childcare Associations Australia, has called on the Government not to allow "another child care monopoly" to take ABC Learning's place.

ABC Learning's demise also presents a great opportunity to think more sensibly and creatively about the division of responsibility between the federal government and the states. In most parts of Australia, services for children below school age are split into "education" (state-funded) and "care" (federally-funded). "Educational" services such as kindergartens and preschools usually employ degree-qualified teachers, but their hours of operation do not suit most working parents and they do not cater for babies and toddlers. Running in parallel is a system of child care services intended to meet the needs of working parents. These generally do not employ teachers, and their working conditions are more onerous than those of preschools. While staff in both systems do a wonderful job, this is an old-fashioned approach that does not reflect contemporary thinking about children's development. It cannot meet the current government's objectives for integrated education and care. These days we know that high quality care and education are inseparable. And the division into separate service types certainly does not reflect the reality of busy parents' lives.

Finally, there is a great opportunity to bring the skills and talents of the non-profit sector back into child care policymaking.

The headlong rush to the market and to private profits that has characterized the delivery of child care since the early 1990s has marginalized community-based child care. This short-sighted approach needs to end.

> *Business-as-usual model for child care not viable*
> … The Government needs to spell out its vision for the structure, ownership, operation and regulation of the entire sector. This time of enforced change is also a time to rethink the model that has failed so many Australians.
> *(Editorial,* The Age*, December 12, 2008)*

The challenge for the current Labor government will be to manage the politics (and economics) of ABC's demise, without losing sight of the medium and long-term public policy objectives to which it is committed.

Lessons for Canada?

Many people assume that you can make money out of child care and in North America and Australia many try to do so. It appears to make sense — what with the huge demand and undeveloped supply. Market advocates think that costs will go down due to competition, and that parents will have more choice of providers. Australia's experiment with a market-oriented strategy should sound alarm bells in Canada: it shows that the reverse is just as likely to happen. In that country, costs escalated, choice was reduced and government subsidies were siphoned into private profits. Regulation was not the answer either. Evidence from Australia shows that for-profit providers do not sit back and wait for governments to write the rules about staff ratios, qualifications and so on; they actively try to shape those rules in their own interests — often arguing that parents will sort out any quality issues by refusing to "buy" sub-standard child care.

The market approach and reliance on investment funds for the development of child care services has cost the Australian government and Australian parents dearly. Australians have learned too late that corporate child care (with its innocent origins in single-owner businesses) is about real estate and property development. Children suffer while shareholders thrive. Now entrepreneurs are attempting to import investment schemes from that country to Canada — most recently child care property development and leaseback schemes similar to those which appear to have contributed to the high rents that have been a factor in the collapse of ABC Learning. This is of great concern to those who seek improvement in the quality and affordability of child care in Canada.

Market strategies are not the solution. More progressive countries such as France, Belgium and Denmark do not rely on for-profit providers to supply early learning and child care; they provide services through government and non-profit organizations, build a strong and capable workforce, pay decent wages to staff and emphasize the public benefits generated by quality provision, rather than the private profits that can be made by businesses. In Canada, market solutions are emphasized. Perhaps this is why Canada places last, Australia second-last and the U.S. third-last in the December 2008 UNICEF Innocenti Research Centre comparative analysis of the status of early childhood education and care in the 25 economically advanced countries.

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ENDNOTES

[1] The Commonwealth Bank – A$630 million exposure. Wespac Banking Corporation – A$200 million. ANZ – more than A$182 million.

[2] The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.