

## **Re: Productivity commission into childcare**

To whom it may concern,

I submit the following comments from the point of view of a participant in the childcare industry as an owner of a childcare facility premises currently leased to an operating entity. I note that as the owner of the property I was involved in the initial establishment of the centre, as owner, and development manager, and project manager, including feasibility analysis and submitting business case applications for funding of the enterprise. I was involved in site selection and applications to Brisbane City Council for rezoning of the selected residential site for operations of a childcare centre. I am fully aware of the costs involved in establishment of a centre and the feasibility of providing new centres based on the proposed income and occupancy levels.

In my view the government should consider the following:

- Provide all long day care operators with the same access to funding and tax incentives
- Remove tax free charitable status to large operations which distort the market
- Allow full tax deductibility to childcare costs.
- Increase funding for childcare to improve feasibility of new childcare centres
- Restrict funding to a family day care and nannies.

### **Provide all long day care operators with the same access to funding and tax incentives**

Rebates, tax incentives, and grants, are provided to some centres over others with little forethought on the broader implications of the impact and the inequity in these programs. All of these in some way affect the viability of current and future centres. For example the Labor government chose to provide limited funding to centres based on workplace agreements and union affiliation. This program falsely implied that all childcare workers would receive increased pay. This however was not uniform and only served to create inequity in the market and gave a competitive advantage to employers that managed to secure government funds. Creating inequity in the system is an impediment to establishing new facilities and the ongoing viability of existing facilities.

### **Remove tax free charitable status to large operations which distort the market**

The government needs to remove the provision of tax free status to those claiming to be charitable enterprises as it creates inequity in the system. The provision of multiple entities operating in a sector creates competition and diversity. Not for profit tax exemptions need to be removed immediately to improve the viability of the sector as a whole or alternatively applied to all centres. If one entity continues to retain a government protected market advantage over others it will continue to put pressure on smaller centres. Childcare costs are typically competitive within regions, allowing the largest single operator a market advantage by virtue of the non-payment of tax on profit sets a market price. This may appear on the surface to be a benefit to parents, however if the price of care is set too low smaller operators will close removing competition and parental choice of care.

Profit in centres is crucial to ensuring the survival of the system. It will do no one any favours if centres close simply because they are not worth the financial burden to keep them operating. It is important to note that so called "Not for Profit" centres do actually make a profit and pay the directors of those companies from the proceeds.

On review of the Goodstart 2012 and 2013 annual reports the schedule of "unsecured loans from founders", "subordinated loans from founders" and the uniquely named "Social capital loan contributions" indicate a healthy return on investment to those parties in addition to the base salaries paid.

Small operators typically do not have the option of using loans at 15% interest such as these to finance centre development. Finance provided at this rate would render the centre an unviable enterprise.

### **Allow full tax deductibility to childcare costs**

Equitable treatment should be the benchmark for this. Given that some employees can receive tax deductible childcare if the facility is on premises it is difficult to understand why others by virtue of choosing another centre or by having a different employer should not be given this advantage. Making childcare tax deductible for all would achieve an equitable result. Employer provided childcare simply creates an unfair system, where small business operators are disadvantaged as they cannot provide childcare facilities on site. Allowing full deductibility for childcare would have wider ranging effects, boosting workforce participation for women and providing an employment incentive.

### **Increase funding for childcare to improve feasibility of new childcare centres**

At present all levels of Government are involved in Childcare and early childhood education. The role of local government is often overlooked even though it has the greatest influence on the start-up and establishment of new facilities. As a building owner of a childcare facility that established a new centre on an inner city site, we have first-hand knowledge of the impediments that local government policy and town planning regulations place in front of prospective childcare providers /developers. The various local and state regulations on zoning, block size, disability access requirements and area ratio's are all roadblocks in the way of providing childcare facilities. While it is important to regulate services and ensure quality facilities are being provided, it is often overlooked that the processes to develop childcare facilities is drawn out and complicated.

The questions being asked by this productivity commission seems to be centred on the childcare providers, the educational outcomes and the funding of places. In my view while all of these are important issues, these questions are mute without investigation of the way new centres are established and the role private enterprise has to play in the provision of facilities. The people that need to be involved in this process are the owners and operators of small centres, those developed by educators, who are looking to provide quality care and education. The commission needs to engage with architects, town planners, valuer's, and financial services to discover the real cost to provide childcare facilities, and subsequently the cost for care. Inner city areas currently have a shortfall of available spaces as evidenced by the substantial waiting lists of centres. High land costs and local government restrictions on location will continue to prevent centres being developed in the areas of greatest need as the cost to provide compliant Long day care facilities significantly outweighs the return on investment. Increasing government funding for places is required to improve the profitability of new enterprises.

### **Restrict funding to a family day care and nannies.**

While compliance costs restricts the provision of long day care services, other models of care such as nannies and family day care have minimal impediments in this regard. These services should in theory be able to be delivered at a lower cost as they are less regulated. However the suggestion to provide childcare support funding to these services will simply fast track the demise of the long day care facility and lead to an overall reduction in the standard of care currently being provided in the industry.

Under no circumstances should nannies and family day care be provided the same level of funding to long day care centres. If funding is to be provided to these alternative services, these facilities and operators should be required to complete all compliance to the same standards as long day care operators, or funding levels set at much lower levels to ensure the viability of the Long day care sector.

Equitably to create a free market of services, government should not be applying funding to some areas of childcare based on regulatory compliance while allowing others outside of the regulatory framework to access the same funding.

Regards

Glen Mallett.