IPSWICH CHAMBER OF COMMERCE & INDUSTRY

Submission

Productivity Commission Report on the Contribution of the Not for Profit Sector

The Ipswich Chamber of Commerce and Industry (ICCI) welcomes the Productivity Commission's upcoming report on the contribution of the not for profit sector (NFP) and is grateful for this opportunity to contribute to the analysis.

The key focus the ICCI takes in the submission relates to *Chapter 8 Competitive neutrality issues* with particular emphasis on the competitive advantage the not for profit sector has over the business sector in the provision of early learning services in Australia.

Competitive neutrality issues are outlined in Chapter 8 of the draft report on the contribution of the not for profit sector. In the key points it states that "while there are many potential areas where competitive neutrality principles are not met, only those imposing significant distortions need to be addressed". Such distortions exist in the early learning industry including the provision of long day care and preschool.

Currently NFP organisations working in the field of early learning have a wide range of benefits that comparable business focused (or for-profit) centres do not enjoy. These include:

- Payroll tax exemption;
- Fringe benefits tax exemption;
- Federal income tax exemption;
- Capital Gains Tax exemption; and
- Eligibility for grants.

This creates a situation where for-profit and NFP businesses are in direct competition, but with NFP receiving substantial tax payer funded benefits.

The early learning and long day care industry is growing rapidly. The Australian government's process of developing national standards for centres across the country is evident of the expanding sector and its increasing importance to Australia's social and economic fabric. This is not only good for working parents with young children; it is great news for employment and business opportunities and therefore, the economy.

Small business is recognised as the generator of the majority of Australia's employment and early learning and long day care centres are, in most cases, small businesses. The opportunity for these enterprises to expand and therefore create more job opportunities is clear.

However, small business expansion in the early learning industry is currently hindered by substantial inequities present between NFP and for-profit businesses. There are three areas discussed in this submission; government funding and support, taxation exemptions, and grants eligibility.

1. Government funding and support

Of the Australian government's proposed budgetary expenditure in excess of $1 billion in the past 18 months to expand the number of early learning centres in the nation, all funds spent to date have gone to NFP groups.

The Queensland Minister for Education the Hon Geoff Wilson MP announced in a media release dated 19 October 2009, that the state government would be funding long day care centres for around $100 million to provide kindergarten programs to be taught by a qualified teacher. Of the 100 centres selected for the pilot scheme, not one was a for-profit venture. C & K CEO Barrie Elvish stated in the same release that the organisation already supports "more that 350 services around the state", all of which are already heavily subsided by taxpayers through tax exemptions and subsidies.

As well as enjoying direct government funding, NFP businesses also have other support mechanisms at their disposal. They do not have to pay:

- stamp duty on property acquisitions;
- building approval costs through local council;
- consultant costs for building and design of the centre; or
- council head-works cost contributions.

The inclusion of these costs would add approximately $1million to the bottom line of a comparable for-profit early learning centre. Obviously this disparity gives the NFPs a strong financial advantage over the for-profit sector.

Some so called NFP schools also receive special funding support. The Australian reported on 13 January 2010 the Exclusive Brethren education network of schools is being funded "at a higher rate than independent schools in the battling regional communities" to the tune of more than $1 million a year in "overpayments".[1] The article also points out that the Brethren schools are receiving more that $70 million due to the "no disadvantage" clause.

[1] Wallace, Rick. 2010. "Brethren enjoying $1m taxpayer windfall". *Australian*. January 13, 2010.

2. Taxation exemptions

Payroll and fringe benefit taxation exemptions to NFPs boost their ability to sustain and grow their business. These costs not only add a considerable burden to for-profit early learning centres, they can also require the hiring of additional staff to manage these areas. The inequities between NFP and for-profit early learning business in regards to taxation exemptions manifests in a number of ways:

- The issue of payroll tax payments and early learning centres is demonstrated through the demise of ABC Learning that had a payroll tax debt of $4.7 million in 2008. This substantial sum is not one faced by NFPs and will not be a factor for the new owners of the majority of ABC centres as it is a NPF. The Chamber would not argue that ABC Learning would still be trading had it been payroll tax exempt. Clearly there were many other management issues with the business. However it does illustrate the size of the financial burden facing for-profit centres. The fact that the Australian government was forced to step in to the tune of $56 million in taxpayers' dollars so that the 262 ABC centres designated as "unviable" could be kept operating, should also not go unnoticed.[2]
- The chairman of the NFP consortium *Good Start* that is taking over ABC Learning stated in The Australian recently that the businesses charitable status would entitle it to payroll tax relief worth $21 million a year.[3]
- In their annual report for 2008, the C & K Association stated that their business retained earnings of $10,613,986 for which no tax is attributed.[4] C & Ks enjoy staff salary subsidies, pay no fringe benefits tax, no payroll tax and no stamp duty on the purchase of property. With such an ideal business model, it is no wonder that the C & K Association is able to produce such a meaty profit.

3. Grants eligibility

NFPs are able to apply for a range of grants to upgrade equipment and facilities in their centres. A for-profit business is not able to apply to access these funding streams. A substantial equipment upgrade can require an investment of up to $250,000. A for-profit business either has to have these funds on hand or they must seek a loan to provide them. Repayment costs with interest are then another item that must be factored into the business' bottom line, a cost not incurred by NFPs.

[2] Bently, Anita. 2009. "ABC Learning in 'financial turmoil' before collapse: court". *Sydney Morning Herald.* December 8 2009. http://www.smh.com.au/business/abc-learning-in-financial-turmoil-before-collapse-court-20091208-kgxc.html

[3] Bita, Natasha. 2009. "Plan for daycare at shopping centres". *Australian*. December 28, 2009.

[4] Crèche and Kindergarten Association. 2008. "Where Children Come First". *C & K Annual Report 2008.* C & K. Newmarket. Queensland.

In summary

There is currently no level playing field between NFPs and for-profit early learning and long day care businesses. The "community purpose" between both groups is comparable however the "competitive neutrality" clearly distorts the industry in favour of NFPs. This is being reinforced through taxation and levying by all levels of government, criteria established for grants funding and the governments' (both state and federal) current budgetary support of the NFP sector.

As early learning and long day care centres invariably fall into the small business category, and small business is widely recognised as a key driver of the Australian economy, it is imperative that greater equity be brought to this industry to encourage further business and employment opportunities within the for-profit sector of early learning centres.

Not only do NFPs receive tax payer funded financial benefits through a range of tax exemptions, they receive direct government funding support, staff salary subsidies, and are able to access other government and independent funding streams that are not available to for-profit enterprises.

The ICCI agrees with the draft report's statement in Chapter 8.1 that "competitive neutrality is a key aspect in promoting strong competition by removing distortions that inhibit resources flowing to their most efficient use". We look forward to the Productivity Commission's final report and their recommendations ensuring that any government generated benefits to the early learning and long day care industry for both NFPs and for-profit businesses, will in the future be provided in an equitable manner.