

# Should child care be at mercy of market? [AU] <sup>[1]</sup>

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## EXCERPTS

The global credit crisis has claimed an unlikely victim in Australia with the fall of the world's largest child care company, leaving thousands of parents to wonder who will look after their children and raising questions about whether community services should be left to the marketplace.

The company, ABC Learning Centers, was placed in the hands of administrators on Nov. 6 when it revealed that it could no longer repay more than 1 billion Australian dollars, or \$1.54 billion, racked up during a debt-fueled expansion into the United States and Britain.

Chris Honey, a spokesman for ABC's receiver, McGrathNicol, said Wednesday that 656 of the 1,042 centers across Australia would continue to operate through next year under a revised business plan. But the future of the remaining 386 centers, covering about 30,000 children, is still in doubt.

The collapse of the company, which looks after about 120,000 Australian children, or 25 percent of the day care population, has sent the government scrambling to avoid the economic and political fallout of leaving tens of thousands of working parents stranded without child care services.

Critics say the rise and fall of ABC Learning will become a textbook case highlighting the dangers of allowing the private sector to dominate essential services like education, care for the elderly and utilities.

"This is not just an Australian story," said Deborah Brennan, a social policy expert at the University of New South Wales, who has been studying ABC for the past 18 months.

"It is a story about where a rather blind belief in market forces can get you in the area of community services."

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Flush with these government payments, ABC embarked on an aggressive strategy of buying up smaller, independently run centers across Australia. The company stock was listed in 2001 with just 43 centers. By 2006, ABC had claimed more than a quarter of all day care places nationwide; in some regions, it controlled up to half of the market.

The government's rebate strategy made the child care sector a more attractive place for private companies, which could count on a stream of public money to fill their coffers. It also gave them a green light to raise their prices, knowing the rebates would cover the difference, Brennan said.

About 70 percent of Australia's child care market is now controlled by private companies. What makes Australia unique, however, is the degree to which one company has been allowed to dominate the market. The largest child care providers in the United States and Britain control only about 2 percent or 3 percent of all day care places, compared to ABC's 25 percent in Australia.

Brennan and other critics say it is no coincidence that the cost of child care rose by 65 percent from 2001 to 2006, while household incomes grew by 17 percent, according to figures compiled by the Task Force on Care Costs, an independent monitor of the price of social services.

And quality may have suffered as well, according to a survey of 600 child care workers at 217 long-stay day care centers conducted in late 2005 by the Australia Institute, an independent research organization. One in five corporate child care employees who answered the survey said they would not send their children younger than 2 to the centers where they worked, citing poor staff-to-child ratios, lack of equipment and overly rigid routines.

Only one in 25 workers at smaller, community-run centers said the same.

"What was held out to the Australian public was that the market would bring choice, competition, higher quality and lower prices, and in fact it did none of those things," Brennan said. "There's never been another decade where the price of child care has increased so rapidly."

By the middle of 2006, ABC was being hailed as a stock market success story, valued at 4.8 billion dollars. Groves, a former milkman who turned his delivery run into a multimillion-dollar dairy distribution business before turning to child care, was named one of Australia's richest men under 40 by BRW, a monthly business magazine that publishes a closely watched annual "rich list." At the height of his fortune, Groves bought a basketball franchise, traveled by private jet and drove a red Ferrari, according to media reports chronicling his career. His professional success and love of fast cars also earned him the nickname "Fast Eddy" among business journalists and colleagues.

Also in 2006, ABC borrowed millions of dollars to buy a U.S. child care chain, La Petite Holdings, for \$330 million, and the British chain Busy Bees Group for £71 million, or \$109 million. By June 30, 2007, ABC owned more than 2,200 centers in four countries, making it the world's largest publicly listed child care company by the company's calculation. It had total liabilities of 2.16 billion dollars, up from 111 million dollars in 2004.

The ABC house of cards began to collapse in February, when auditors discovered accounting irregularities that, once addressed, caused a 42 percent decline in recorded profits for the six months to Dec. 31, 2007. The news led to a 70 percent slump in ABC shares, sending investors fleeing.

By mid-2008, ABC was struggling to repay its debts as a result of rising interest rates. But analysts say reckless management and a shaky balance sheet propped up by intangible, or nonmonetary, assets were also responsible for the company's failure.

The plunge in ABC's share price led to margin calls for Groves, who was forced to sell his stake of 40 million dollars stake in the company, leaving him with a minor holding, according to Stephen Mayne, an independent shareholder activist who tracks Australia's major corporations in his online newsletter, The Mayne Report. Groves stepped down from the ABC board and management altogether on Sept. 30.

Calls to ABC were referred to McGrathNicol, the receiver, which said it could not comment on past decisions by ABC management.

In an Oct. 14 speech to the Ipswich Chamber of Commerce in his home state, Queensland, Groves said the company's rapid expansion into the United States, coupled with sharp falls in the Australian dollar - which made ABC's U.S. debts more expensive, was partly responsible for the company's decline. He also blamed a climate of fear among investors and short-selling hedge fund managers for undermining debt-heavy companies like ABC, sending share prices into free fall

"We went down a pathway that we probably shouldn't have gone down when we headed to the U.S.," Groves said at the luncheon. But he blamed the imperative to please investors, rather than poor judgment, for the decision. "The enormous amount of pressure that the public market can put on a company to continue to grow is astounding," he said.

The Australian stock exchange halted trading in ABC shares on Aug. 21, when the company failed to release its latest financial figures. By then, shares had fallen 94 percent to 54 cents from their 2006 peak of 8.80 dollars a share.

The company has sold 60 percent of its U.S. operations to Morgan Stanley Private Equity and has also sold down its holdings in Britain. But Ferrier Hodgson, ABC's bankruptcy administrator, has said that the company still owes 1.6 billion dollars to creditors, including Australia's big four banks and Temasek, the investment arm of the Singapore government.

Now Australia must decide how to fill the hole left by ABC's collapse. Officials are searching for parties to purchase all or part of ABC. But finding a buyer may be difficult in the current credit market, especially since up to 40 percent of ABC centers are unprofitable in their current state, according to Deputy Prime Minister Julia Gillard.

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The government has pledged 22 million dollars to keep all of ABC's 1,042 Australian centers running until the end of the year, but it has ruled out nationalizing the chain.

Children's advocacy groups across the board have called on the government to rethink its market-based approach to child care.

"The government now needs to think about how we are going to change the competition and regulatory environment to make sure this doesn't happen again," said Helen Kenneally, executive director of Childcare Associations Australia, which represents independent operators. "We think that there needs to be a limit on the number of services that any one person can own or manage nationally, or manage in a regional area."

Prime Minister Kevin Rudd has signaled that he may do just that. In a speech to Parliament on Nov. 21, he said the government was considering introducing tougher "creeping acquisitions" laws to stop corporations from establishing monopolies by gobbling up smaller players.

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**Tags:** privatization [2]

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