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Making profits out of preschoolers [1]

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EXCERPTS

Child care in this country has always been a highly political business, but until recently the politics involved community-minded women lobbying Labor ministers in Canberra to ante up funds that would increase the number of places available to working parents.

Today the lobbyists are more likely to be men in suits, often with high-level Liberal connections, seeking to protect their investments in a rapidly expanding and lucrative industry.

Federal funds intended to make child care more affordable for parents have been targeted by a new breed of entrepreneurs who see this money as providing profits for their recently listed companies.

In what has been dubbed the corporatisation of child care, these private companies are aggressively edging both small private operators and community-based not-for-profit groups from a sector that has suddenly become big business as a result of Howard Government policies.

Last Wednesday Peppercorn Management, a company that provides management services to 178 child-care centres around the country, became the fourth child-care company to list on the Australian Stock Exchange. Two new entrants to the industry listed last month. A year ago ABC Learning Centres, a Queensland-based operator of 102 centres, was the first to list.

Each float has done well, but ABC's success has been mind-boggling. Its $1 listing price peaked at more than $14 last month and closed on Friday at $11.67.

Each of these listed companies promises investors large profits. These profits are totally dependent on the continuation of a Federal Government program called the Child Care Benefit (CCB) which is paid to parents to help them meet the cost of child care.

With $8 billion committed to the CCB over the next four years, we are not talking peanuts - and it is this money that has brought child-care entrepreneurs out of the woodwork.

Every parent with a kid in child care is entitled to some help with fees. Even wealthy parents receive a guaranteed $22.35 a week, while low-income families get the maximum $133 a week. Care costs from about $35 a day in Queensland to at least $50 a day in metropolitan Sydney.

The great thing about the CCB, from the entrepreneurs' point of view, is that it is usually paid directly to the centres, meaning cash flow is assured.

Until very recently, child care was dominated by the not-for-profit sector. But the Howard Government's abolition in 1996 of the sector's operational subsidies forced it to increase fees, meaning that it lost its price advantage over the private sector.

The private operators had been receiving government assistance via the old fee-relief system since the early 1990s, but the big boost to the industry came in July 2000 when the Government replaced fee relief with an increased CCB and made child care GST-exempt. Suddenly the private sector was on a roll and, as a result, now accounts for almost 70 per cent of the 2700 day-care centres in Australia, which accommodate some 677,000 children.

Does it matter that profit-seeking now drives the provision of child care? A lot of people think so, because they are concerned that quality will be the first casualty in this new approach. One worry is how inexperienced operators can extract the promised profits without resorting to huge economies of scale involving large numbers of children cared for by young and underqualified staff. McKids, in other words.

It is no accident that most of the new operators are in Queensland, the least- regulated state (child-care licensing is a state matter). Nor that the new operators are buying up centres with large numbers of places. FutureOne, which listed last month, promises shareholders $1.8 million profit on its 10 Victorian centres, a result that seems unachievable even by cramming 100-plus kids into each centre.

But the Liberal political connections of these new operators are their most noteworthy feature. FutureOne is chaired by former Kennett government minister Vin Heffernan, while Liberal Party player Sallyanne Atkinson chairs ABC (and made a handy profit last month by selling, at near top of the market, 3000 of her 103,000 issued shares).

Child Care Centres Australia (CCA), which launched last month and immediately doubled its $1 listing price, has the most interesting political bloodlines. CCA is the brainchild of Victorian Liberal heavyweight Michael Kroger and Christopher Stear, a former US Marine turned property developer who owns three child-care centres on the Gold Coast.

These centres were among 30 that CCA intended to buy with the proceeds of the float in order to launch its business. Kroger has appointed his father-in-law, former Opposition leader Andrew Peacock, to the board of CCA - and allocated him more than 500,000 shares in return.

On Friday these shares, which must be kept in escrow for two years, were worth $975,000.

The political sensitivity of this industry is clear from CCA's prospectus. Its risk analysis section makes no bones about the need to protect the golden egg: "Any diminution in the level of payment made by the Federal Government to families to assist them with the cost of child care may have a serious effect on the business of CCA, as many parents are not able to afford child care in the absence of the subsidy."

Nor is CCA too keen on the prospect of paid maternity leave, which would allow many mothers to stay home longer, thereby reducing their need for child care.

The Minister for Children and Youth Affairs, Larry Anthony, said last month, partly in response to lobbying from the community sector, that he would "monitor" the corporatisation of child care. The federal ALP, long the champion of community- based child care, has been strangely silent.

Yet it is the impending triumph of corporations over both the not-for-profits and the Mum'n'Dad private operators that should have Labor up in arms. Without the CCB the new entrepreneurs would not have a business.

The CCB has no cap and the Federal Government has no planning model. Together, these allow McKids to set up in competition with existing centres, initially undercut them and then close them down. ABC has written to every local government in NSW offering to take over their community-based centres.

It seems just a matter of time before a few listed companies totally dominate the sector. Child care will have gone the way of nursing homes, where all too often quality of care is subjugated to the profit imperative. In both cases it is government funds that ensure these profits. Only the child-care companies are listed, however, incurring all the additional costs entailed in maintaining a share register, issuing options and paying a director and dividends.

Is this how we want to spend the fees paid by parents and underwritten by government for the care of children?

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