The road to corporate learning begins in child care [1]

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EXCERPTS

The effects of the ABC Learning debacle, which continue to reverberate as the week goes on, raise many questions about financial and corporate propriety, as well as concerns about the potential risks of placing too many essential public services in private hands.

Amid the hurly-burly, it is perhaps salutary to remember that the day-to-day operations of what could be called the core business &emdash; ABC Learning's 1095 Australian child-care centres &emdash; are likely to remain relatively unaffected. The Federal Government, which subsidises about 30% of the costs of these centres and has promised to increase the child-care tax rebate to 50%, has already indicated it will not allow any of them to close.

Whether this means the Government would step in to run some of these centres if ABC Learning implodes is unclear. ABC Learning's founder, Eddy Groves, insists he will not need to sell any of his Australian centres. However, the company's future may hinge on investor reaction when it returns to trade on the stockmarket.

Of increasing concern are the wider issues that have emerged since Monday, when ABC Learning announced a 42% fall in half-year profit. The following day the company's value dropped by as much as 70%, to $1.15 per share. On Wednesday, Mr Groves revealed that he and three other directors, including his wife, Le Neve, had to sell $52 million worth of shares in the company to meet margin calls (the repayment of borrowed funds that can be recalled if purchased shares fall below a certain level). The same day, ABC Learning's shares were placed in a trading halt, pending offers for an unspecified part of the international business. Yesterday the Australian Securities Exchange said it would examine various disclosure issues surrounding the company, and the Federal Minister for Corporate Law, Nick Sherry, has asked the Australian Securities and Investment Commission for an updated briefing on sharemarket regulation.

ABC Learning, which runs 30% of this country's child-care centres as well as ones in Britain, New Zealand and the United States, has seen its total centres double to 2300 since 2005. The entrepreneurial Mr Groves, who took advantage of a fragmented, under-managed local child-care industry to build an empire, has discovered that even the mighty are not immune to the storms and stresses of a volatile sharemarket and the ominous swiftness of lenders demanding their money back.

The aftermath has prompted various ethical concerns, encapsulated by the chief supervision officer of the Australian Securities Exchange, Eric Mayne, who says there is an issue "whether or not directors should be required to disclose to the market if they have entered into margin lending arrangements to purchase shares and the shares are used as security for the loan". Determining this should be a priority, if only to assuage any doubt that shareholders have been properly and fully informed over matters critical to a company's continuing operation.

The ABC Learning experience also raises issues about how child care in this country is controlled and funded. Deborah Brennan, a professor at the Social Policy Research Centre, University of NSW, writes in today's Age of Australia's heavy reliance on a single corporate player and the resultant erosion of parental freedom of choice and the loss of community child-care facilities. Professor Brennan draws attention to the conflict of the interests of shareholders and the interests of children &emdash; after all, it is easy to disregard the principal constituents in this matter. Disturbingly, Professor Brennan says the Government's proposed increase in the tax rebate will merely enable for-profit child-care services to lift their prices at public expense without necessarily using the 50% subsidy for the greater public good.

Clearly it is time for the Government to reassess child care and, if necessary, examine the role of the main players to determine where the best benefits lie. If there is one main lesson from this week's series of fiascos, then let it be in the form of provoking renewed debate on the level of private-sector involvement in the child-care industry and for a more transparent approach to the way directors of these companies operate. It would not be that surprising if Labor were to seek to distance itself from its Coalition predecessor, which, had it won the election, would have almost certainly paid child-care rebates directly to operators instead of to parents.

In the end, it comes down to the elemental foundations of our society: mothers, fathers and children. It is all very well for child-care operators to be entrepreneurial and to reap the benefits from their investments. But this week's disastrous outcome for ABC Learning suggests that greater protection needs to be offered to Australian parents and their children &emdash; and to mum and dad investors too. It must be hoped that smart and achievable ideas on the future of child care emerge from Prime Minister Kevin Rudd's summit in Canberra at the end of April.

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