

# Profit motive sits uneasily with aims of childcare <sup>[1]</sup>

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## EXCERPTS.

The importance of childcare and early childhood development cannot be overstated. Most of our development as individuals takes place in early childhood.

Research shows that it is from birth to age five that children rapidly develop the foundations on which subsequent development builds.

The increase in working parents in Australia has highlighted the importance of affordable, accessible and quality child-care services. It also raises an ethical dilemma.

Is child care about quality of services that includes higher staff-child ratios and better qualified staff?

Or is child care a corporate business making large profits and returns for investors? Or is it a mix of quality services and profitable business?

A report last year from the Office of Early Childhood Education and Child Care showed that 64 per cent of child-care centres are now privately run commercial companies.

When ABC Learning rapidly expanded its child-care business, non-profit child-care centres could not understand how the large, publicly listed company was making the profits it reported.

In submissions to a Senate inquiry, non-profit organisations stated that their services operated with staff costs typically at 80-90 per cent of operating revenues. In addition they did not pay rent, had similar fee structures to ABC and their education services were cost-neutral. Yet ABC Learning was reporting profits 30-40 per cent higher than them.

The subsequent demise of ABC Learning and other listed child-care companies appeared to show that profit and quality child care do not necessarily mix despite annual government subsidies of \$4 billion.

The non-profit sector argues that it offers higher-quality care for children at an inevitable cost.

KU Children's Services stated in a Senate submission that the non-profit model is more expensive than the ABC Learning model due to higher quality of care including higher staff-to-child ratios and better qualified and experienced staff, as well as the inclusion of children with special needs. In NSW the staff-child ratio for children under two increased this year from 1 to 5 to 1 to 4.

GoodStart Childcare, the consortium of non-profit organisations that bought many of the failed ABC Learning centres, is a hybrid of the profit-making and non-profit models.

GoodStart's chairman, Robin Crawford, said recently that the organisation was on track to generate possibly \$10 million this year. It also relies on a charity exemption from payroll tax reportedly worth \$20 million per year.

With a high fixed-cost base, occupancy levels are the make or break indicator for child-care centres. An industry report from IBISWorld estimates that long daycare centres require occupancy rates of at least 70 per cent to be profitable.

It is a reflection of the problems facing ABC Learning that its founder, Eddy Groves, reportedly told institutional investors that 90 per cent occupancy of child-care centres was the desired metric for the company. Anything less than this and the company would struggle.

The ASX-listed G8 Education, a merger between publicly listed Early Learning Services and a private company Payce, has acquired child-care centres in Australia and Singapore. Its website states it now operates/manages 108 of them.

Even with industry regulation, the failure of a large, publicly listed company such as ABC Learning has not been in the interests of Australians.

The successful organisations providing quality care appear to be non-profit or small to medium-sized commercial companies. Given this history, it will be very interesting to watch GoodStart Childcare's performance.

It is a consortium of non-profit organisations with funding from the federal government, non-profit partners, high-net-worth individuals, foundations and a bank loan. One hopes that it will be successful in providing the affordable, accessible and quality care that Australian children deserve.

-reprinted from the Sydney Morning Herald

**Region:** Australia and New Zealand <sup>[2]</sup>

**Tags:** quality <sup>[3]</sup>

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