The shaky business of childcare and past lessons [1]

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EXCERPTS

Australians seem, on the whole, to be happiest when our government is quietly taking charge of things without really bothering us with the ins and outs. We like it best when it acts like benevolent parents, efficiently cleaning up our messes, footing the bills and occasionally splashing out on the odd treat. But much like we expect of parents, we expect the government to get it right and without embarrassing us too much.

Perhaps this is why the Julia/Kevin spectacle irked us so much (mum and dad fighting?) and why seeing Tony in his Speedos makes us cringe (''Mum, dad's being embarrassing again!'').

Parents are also supposed to act in our interests. We expect them to have long memories of our misdemeanours and to put limits in place to ensure that we don't make the same mistake twice.
The Australian government cleaned up and paid the damage bill for one childcare mess after that spectacular failure of publicly listed provider, ABC Learning. Will the listing of a new childcare company on the stock exchange mean another damage bill for the country?

When ABC Learning went bust in 2008 it cost the Commonwealth $56 million to keep the centres operating until buyers were found for them. At the time it went under, ABC Learning provided almost 20 per cent of Australia's childcare. Post the bailout, the government made strong noises about ensuring that it would put in place effective measures to ensure that never again would so many families' childcare be put at risk.

But somehow, unlike the watchful parent we would like it to be, the government seems to have forgotten the misdemeanours of the corporate world when it comes to childcare and is now watching on the sidelines while three new corporate providers arise. The first company to list publicly after ABC Learning's demise, G8 Education, holds about 3 per cent of the market with its 233 centres. The second one, Affinity Education started trading in December and will operate 68 centres. A third one, Sterling Early Education was supposed to go public early this week. This has been delayed while management recheck its forecast figures. Sterling hopes to purchase 77 centres.

Since the Howard era, successive governments have been indifferent as to the ownership structure of those providing childcare. If a service can attract families it is paid Child Care Benefit on behalf of those families. This is one of the things that makes childcare look such a good investment on paper - a guaranteed cash flow paid directly into company bank accounts by the government each week.
What is never seriously considered, however, is which sort of provider offers the highest quality childcare. For some provider types, financial return on investment is more highly prioritised than quality of care on offer.

All childcare centres now face rating against a National Quality Standard. Of the G8 Education services rated so far, more than 43 per cent have been rated as working towards (that is, not yet meeting) the National Quality Standard.

For corporate providers, growth is everything. While they can grow by opening new childcare services, they prefer to take the less risky option of purchasing existing services. This is the strategy that G8, Affinity and Sterling have chosen.

Over the past year, G8's share price has skyrocketed from $1.35 to $3.30 on the back of capital raisings, debt issuance and service acquisition announcements. The G8 share price appears to have already fully anticipated the immediate growth prospects for the company. By failing to hose down investor expectations as the share price shot up, the company is faced with having to support what some would consider a manifestly overpriced stock. It can only do this by either cutting costs or growing.
Cutting costs in childcare generally means reducing staff costs and G8 is currently close to the bone, spending just 60 per cent of its revenue on employee expenses.

Some of us look at the inflated share price as a symptom of a problem, but those who structure finance look at it as an opportunity. Hence, the listings of Affinity and Sterling. From the perspective of a private operator, one publicly listed company is good for an exit strategy; three such companies competing for market share is Christmas. No matter that paying too much for centre acquisitions is one of the things that got ABC Learning into hot water.

Publicly listed companies' first mandated responsibility is to increase shareholder value - this can be in conflict with the provision of high-quality childcare. But even ignoring the ethical question of who should be providing childcare, the similarities between the new corporate providers and ABC Learning should be ringing warning bells. Could possible inflated share prices, questionable quality and shareholder pressure to grow cause similar results?

Unless our government takes some action to put boundaries around the growth of these three corporate providers now, once again they could be left cleaning up a big childcare mess.

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Region: Australia and New Zealand [2]

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