



## Lessons from Down Under

A decade ago, Australia's national government introduced funding changes that allowed the growth of corporate child care chains and gave them access to public dollars. Today, Australia's private child care sector provides 67 per cent of the full day services in the country and is predominantly made up of large corporate chains making huge profits.<sup>1</sup>

In Canada, the federal government has made \$5-billion available over the next five years to the provinces and territories for licensed child care. There are few restrictions on the funds, making Canada an easy target for corporate child care chains.

### What changes did Australia make?

Between 1991 and 1997, the government changed the funding rules to make fee subsidies available to Australian families using commercial centres. These fee subsidies had previously been available only to those using non-profit centres. Under a heavy lobby from the commercial sector, the government also stopped providing direct operating grants to non-profit centres. (This approach of giving money to parents is similar to the approach being promoted by the federal Conservative party and others in some parts of Canada. The Tories promote giving money to parents through the tax system, going even further than Australia did with its subsidies for child care fees.)

"I don't think anybody would have imagined that in Australia such massive fortunes would be made in child care. I would really urge Canada to be very, very careful ..."

*Deborah Brennan, Business Professor,  
University of Sydney, quoted in the Toronto  
Star, Feb. 5, 2005*

As well, the Australian government established an accreditation system. Child care centres had to be accredited to be eligible for government fee subsidies. The commercial sector invested quickly in the accreditation process.

### How did the corporate child care takeover happen?

Non-profit centres struggled to maintain quality with suddenly reduced revenue while many single proprietors grew into small commercial chains. For example, Canadian-born Eddy Groves, owner of A.B.C. Learning Centres Ltd., operated one child care centre in Brisbane in 1988. In 2001, he owned 31 centres and was the first child care entrepreneur to float his company on the Australian Stock Exchange. Other corporate child care chains followed suit.

By 2003, child care corporations in Australia were merging. In September 2004, A.B.C. Learning Centres Ltd. merged with competitors into a single company worth more than \$700 million.

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<sup>1</sup> 2002 Census of Child Care Services. Commonwealth of Australia

### **How lucrative is child care?**

Eddie Groves is now one of Australia's richest people under 40. Others reaped the benefits of these transactions too. The chief executive of Peppercorn (PMG), one of the merged companies, gained nearly \$130 million from the sale of his 55 per cent stake in the company. He co-founded PMG as a single Brisbane child care centre in 1992.

A 2004 report to ABC shareholders stated that growth opportunities in the industry were abundant. ABC had doubled revenue with 50 per cent of each centre's revenue coming from government subsidies. Each centre aims to make around \$100,000 in profit each year. Now in 2005 the company controls almost 900 centres across Australia (and 70 in New Zealand)<sup>2</sup> and represents 23 per cent of the entire centre-based child care sector in Australia.<sup>3</sup>

### **How has commercial expansion affected parents and children?**

#### **Cost**

For middle- and low-income Australians, child care has become a lottery of trying to find a place and trying to find the money to pay fees.<sup>4</sup> Between 1991 and 1999, centres increased their weekly fees for full-time care on average by 6.5 per cent each year. This represented a total increase of 59 per cent, well above inflation and wage increases. From 2002-2003 the cost of child care rose by a further 30 per cent.

#### **Access**

Growth has been uneven. Commercial centres commonly locate where they can make a profit so some areas have an oversupply and others have severe gaps in service. Access for immigrants, aboriginal populations, children with special needs, rural and low-income families is limited.

#### **Quality**

Critics argue that the success of the commercial sector is based on an unsustainably low wage structure and poor working conditions that have led to chronic staff shortages which impact on children. They say the commercial sector reduces staff costs by employing people who have fewer qualifications than required by regulation, and using higher numbers of casual staff. Also, there have been safety concerns raised.<sup>5</sup> As a result, more state funding has gone to monitoring and prosecuting violations.

### **How has commercial expansion affected independent private operators?**

Many small independent private child care centres are being gobbled up by corporate chains. In Western Australia, A.B.C. owns more than 90 per cent of the private child care industry, in Queensland more than 60 per cent, and in most other states it operates at least half of the private child care services.<sup>6</sup>

### **How has commercial expansion affected the wages of those who work in the sector?**

Salaries in non-profit child care total about 80 per cent of a centre's operating budget. The commercial sector reports salary costs at about 55 per cent and aims to get these costs down to

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<sup>2</sup> <http://www.abc.net.au/insidebusiness/content/2004/s1197278.htm>

<sup>3</sup> Andrew Fraser. *Yes, ex-minister, you're hired*, The Australian, May 17, 2005

<sup>4</sup> [http://www.actu.asn.au/public/news/1084146163\\_27793.html](http://www.actu.asn.au/public/news/1084146163_27793.html)

<sup>5</sup> J. Kirby, *Millions Milked*. BRW 25(44)

<sup>6</sup> Jason Dowling and William Birnbauer. *The nation's child-care centres are being swallowed up by big business, who are reaping the benefit of billions of taxpayers' dollars. But has the drive for profits gone too far?* The Age.

under 50 per cent.<sup>7</sup> In many states child care workers are paid the minimum wage of \$11.80 an hour — less than \$450 a week and less than \$25,000 a year.

### **Does Australia provide a cautionary tale for Canada?**

Yes. Eddie Groves says he is interested in expanding into Canada. Al Perkins, chief executive officer of North Carolina's Blackstocks Development Corp., has also said his company is "absolutely" interested in acquiring day-care centres in Canada or opening new ones as part of an international expansion plan. Blackstocks operates centres in Charlotte, Philadelphia and St. Louis and plans to open new branches at a rate of 83 a year.

Canada's federal government has signed child care agreements-in-principle with a majority of provinces, but only Manitoba and Saskatchewan have explicitly committed to using new funds for the regulated non-profit system.

The federal government has not ensured policies that will keep the door closed to corporate child care chains. As the Australian experience shows, the risks to Canada's children and families are huge. There is a real possibility that foreign big box commercial child care providers could use international trade agreements to get access to a new Canadian "child care market", and then force governments to lower regulatory standards by claiming such regulations are "barriers to trade."

### **What is happening in Australia now?**

There is much concern that child care policy is subsidizing profits for a burgeoning commercial child-care industry over meeting the needs of parents and young children. Critics say the government has not only allowed the corporate sector to proliferate, but its policies have also undermined quality across the board.

Some investors clearly feel uncomfortable with the very nature of privatized child care. The debate among ethical fund managers was summed up in the July 2004 issue of *Ethical Investor*: "A moral argument lies at the heart of the child care debate. Who is the client and what is the service provided to them? For the non-profit centres, the client is the child. For other types of child-care centres, the client is the parent or the employer. The ramifications of this shift are enormous."<sup>8</sup>

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<sup>7</sup> Joy Goodfellow, Institute of Early Childhood, Macquarie University

<sup>8</sup> James Kirby. *Millions milked: Claims of mismanagement threaten the rapidly expanding child care industry* Business Resources Weekly (BRW), Volume 25, No. 44, 13 November 2003