

## **Senate Standing Education, Employment and Workplace Relations References Committee**

### **Inquiry into the provision of childcare**

The Senate Committee has asked for input from the new Management of ABC Learning Centres (ABC) in relation its trading performance and stability, and further to provide comment on wider issues facing the Australian childcare industry.

The views expresses in this paper are those of ABC's Management and are not those of the Receivers (McGrath Nicol) or the Administrators (Ferrier Hodgson).

### **Background**

The introduction of the new ABC senior management team, comprising of CEO Rowan Webb and CFO Peter Trimble (appointed by the ABC Board in early October of 2008) and Group GM /Licensee Matthew Horton (appointed six months prior), reflected the need to mount a transformation of the business. The new management team are independent professionals whose combined high level experience covers Legal, Finance, and Accounting disciplines, as well as Strategic and Operational Management expertise.

The ABC Group, which controlled around 20% of the long day care market in Australia, was placed into Voluntary Administration by its Directors on 6 November 2008, when the full extent of its financial issues became apparent to the Board and Management. The Group's Syndicate of Banks appointed Receivers and Managers to take control of the ongoing operations immediately thereafter.

The period since has in effect been a "warts and all" case study into ABC and the recent history of Childcare in this country. While the process has been difficult, it has enabled us to gain a unique insight into the true financial position of ABC and the impact it has had on the childcare industry, including a number of misconceptions surrounding it.

Operating collaboratively with the Receivers and Government, the new Management team were charged with the objective of stabilising the financial state of the business, ensuring the safety and wellbeing of the children and preparing for transition to new ownership.

This effort has proven to be successful and the last ten months have seen costs reduce, operational efficiencies improve and occupancy levels increase, to the point now that ABC is no longer in a negative cash position and can look forward to a stable future.

The Receivers formally announced that the sale process is underway on 2 September 2009 with a finalised transaction expected early in 2010.

## Recent History

In its apparent desire to dominate the world of childcare ABC adopted a very aggressive growth strategy, through both organic expansion and the acquisition of centres. Unfortunately the accounting practises that underpinned this growth strategy appear to have served to materially inflate the true underlying operating performance of the business which is at the core of the problem.

The public reporting of ABC's profitability (Analysts forecasts in Jan '08 pointed to a profit of \$200 million) gave rise to the perception that the provision of childcare was an extremely lucrative and profitable industry. This attracted significant investment and enabled ABC to accelerate its expansion plans, including forays into international markets.

Those experienced in the childcare industry knew, given the regulatory requirements, it was not possible to produce the kind of returns being reported unless quality of care was being compromised. The seeds of discontent as to the motives of the ABC management were sewn and the reputation of ABC amongst childcare professionals further deteriorated.

A number of myths were created in the process, the key ones being:

- 1) That the provision of childcare created rivers of gold for investors; and
- 2) That ABC was a 'corporatised', money making machine, prepared to compromise standards of care for profit.

Our research has shown that these myths had no basis of truth.

Not only did ABC not make the huge profits publically reported, it has become increasingly evident that it was actually incurring large trading losses. The markets became aware of this in the months prior to its eventual corporate demise which led to a plummeting share price and the removal of those who had perpetuated the unsustainable growth model – busting the first myth.

There is no evidence to suggest that ABC ever deliberately compromised the care of children in their Centres. Nor did corners get cut in the education, safety or well being of the children. If anything, ABC was held a higher standard of achievement by the regulators because of its negative corporate reputation and perceived profitability.

The new management team have personally visited hundreds of Centres and have found that the levels of care and the quality of staff are of extremely high standard, as are the facilities. The relationship that Centres have with their parents and local community belies the corporate reputation and there is tremendous loyalty from the vast majority people who have firsthand experience of ABC.

The underlying fact that the vast majority of ABC Centres have been awarded the highest standards of accreditation possible by the NCAC also helps to discredit the second myth.

## **Industry Ramifications**

ABC's investment into the industry created a significant number of new centres as well as material upgrades to existing services, which undoubtedly raised the standards of facilities and provided additional places needed to cope with the increased demand for childcare.

With the economics of childcare, as we know it now to be, this investment would have been impossible because financial case for opening a centre to ABC's standards would not be viable. The investor's losses have, in at least some part, been to the industries gain.

The negatives to the industry are yet to fully play out, but it is feared that the perception of huge profits being created at 'for profit' childcare centres may have influenced the push for operators to invest more in the provision of higher quality care.

That is not to say that that the argument for increasing standards is not a valid one, but rather, that the vast majority of 'for profit' operators receive a moderate yield from their centre, and do not have large surplus pools of profit to pay for the cost of higher standards (refer COAG submission attached in response to the Regulation Impact Statement for Early Childhood Education and Care Quality Reform).

The economics of childcare as it currently stands (notwithstanding any future increases in the costs of providing of care) makes it difficult to see where the next level of investment will come from to cater for expected future demand growth in the industry.

## **What now for ABC**

A strategy of decentralising decision making, enabling Centre Directors to positively influence their Centre and to reengage with their local community, has been a fundamental shift in culture introduced by the new management team.

This, along with transparent reporting on centre performance and improved lines of communication with staff and parents, has produced a dramatic turnaround for ABC.

On virtually all measures of performance and productivity we are seeing dramatic improvement.

- Operating costs have reduced;
- Staff turnover has dropped (80% of ABC Centre Directors have been in their roles for two years or more);
- Staff vacancies have halved;
- Occupancy has improved;
- Accreditation standards are at, or near the top of, the industry;
- Centre maintenance standards have risen; and
- The business is returning to a moderate level of profitability.

The previous strategy of rapid expansion and Global reach has been replaced with the simple goal of providing quality care in each Centre for the benefit of their local community. Slowly, but surely, this is resonating with parents who are showing increased amounts of support for Centres right across the country.

This should be of great comfort to those who had understandable concerns of the perceived direction being taken by the previous ABC management.

Corporate costs have been significantly reduced and better processes for staff rostering, curriculum management, local marketing and parent responsiveness have been introduced.

In short, the provision of quality care is now the priority of both the centre teams and the corporate office. This has resulted in the achievement of even higher standards of care and a more profitable business.

ABC is now ready to transition to a new owner who can build on the foundations that have been laid over the last ten months, and has every reason to look forward to a stable future full of possibilities.

## **Conclusion**

The 'collapse' of ABC was a failure in financial structuring, not a failure in the provision of quality childcare. Despite its reputation to the contrary, ABC has invested tremendous amounts of money to increase the standard of childcare facilities across the country, on the training of qualified staff and on the wellbeing and education of the hundreds of thousands of children that have passed through its doors.

Far from earning fat profits from this venture, ABC did it for nothing; in fact, it incurred huge losses in the process. There is no longer anything to fear about ABC.

- It is no longer the perceived dominant Gorilla with market share now closer to 15%;
- It has been revealed that the standard of care being provided is extremely high;
- No corners are being cut to facilitate higher profits; and
- There are now over 700 high quality, well maintained Centres which are staffed by 13,000 dedicated, experienced childcare educators.

A stable ABC, with strong principles and professional management, is actually a positive for standards of childcare in this country and calls for the dismantling of the centre network ignore what a high quality large player can do for this important community service.

It is time for those in positions of influence, on both sides of the debate, to bury negative perceptions of the past and recognise ABC for its quality of operation and embrace the new owners in an effort to address the challenges that lay ahead.

## Questions on notice

The committee proposed a number of questions on notice, many of which could not be answered due to commercial sensitivities.

The following is an attempt to cover as many of the answers as possible.

Labour – There has been some reduction in the cost (as a percentage of revenue) of centre labour as a result of a significant lowering of agency usage and improved rostering techniques. The increasing levels of occupancy have also assisted to reduce labour percentages. Adherence to staff: child ratio regulations is, as always, non negotiable where it relates to staff labour management.

Exemptions – The number of exemptions for non-qualified staff has reduced nationally, with the possible exception of the ACT where we are informed there is an overall industry problem. We are not aware from our regular discussions with State regulators that ABC is operating outside industry norms on exemptions.

Greenfield Agreements – ABC are currently in advanced negotiations with the LHMU in relation to a mutually acceptable updated enterprise agreement for implementation this calendar year.

Rent – All ABC centres pay commercial rents.

Training – ABC has retained the National Institute for Early Childhood Education (NIECE) training organisation which is operated in parallel with the centre support functions. An increased commitment to this RTO has been made since Receivership in acknowledgement of the increasing demand for qualified staff.

Licensing/Accreditations – Other than through the financial issues which led to ABC being placed into Administration and Receivership, there are no issues we are aware of regarding licensing. Accreditation standards as mentioned are of very high standards with more than 90% of Centres validated this year achieving the highest possible rating.