ECONOMIC AND SOCIAL POLICY TENSIONS: EARLY CHILDHOOD EDUCATION AND CARE IN A MARKETISED ENVIRONMENT

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Abstract

This paper outlines the emergence and development of early childhood education and care in Australia, noting the shift in the 1990s to marketising these services via supply-side government funding and the ongoing trade policy implications arising from such a move. It identifies some of the concerns raised by childcare policy analysts, including the OECD, about the provision of childcare, and provides a case study of the emergence and domestic and international expansion of ABC Learning, Australia's, and the world's, largest listed childcare provider. The growth and apparent success of ABC, and other businesses dependent on ABC such as the listed property funds holding childcare properties, depends on continuing government funding, and these expectations seem to be reflected in their key asset values. Whether the amount of government funding provided represents the best use of taxpayer funding is not clear, especially given the reservations of childcare policy analysts about reliance on supply side funding seeming to support the development of childcare services in business interests, rather than in children's interests, and the tendency for monopoly-like conditions to result. It concludes with comments about the scope and need for interdisciplinary research to support future childcare, and other social policy developments.

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[1] This paper is drawn from an inter-disciplinary project conducted by: Deborah Brennan, Social Policy Research Centre, UNSW; Susan Newberry and Sandra van der Laan, Discipline of Accounting, University of Sydney.
We acknowledge the support of the Faculty of Economic and Business, University of Sydney.

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The General Agreement on Trade in Services (GATS) was a major outcome of the Uruguay Round of world trade liberalisation talks that concluded in 1994. Whereas previously, international trade liberalisation commitments related to goods, the GATS extended them to include all forms of services. Governments internationally, including Australia, have committed numerous services to trade liberalisation that the wider public regards as "public" or "social" services.

Governments can liberalise services by changing their policy approach to their supply in an effort to create a market in those services. This marketisation process involves a shift away from supply-side policies, such as directly providing services and/or funding the supply of services through mechanisms such as wage assistance or grants for capital expenditure, to demand-side policies, such as subsidising users' purchase of services from any provider including private providers, or giving tax concessions for the costs incurred by the users. Such a shift then brings into play the GATS rules that limit governments' policy options for shaping the ongoing provision of these marketised services. Governments may no longer limit the number or size of suppliers, or give preference to local suppliers over foreign ones. Neither may governments give preference to services provided by either public sector or community sector bodies such as non-profit organisations and charities. Further, if government subsidies are paid for services, foreign providers of those services are entitled to subsidy terms that are at least as favourable as those for domestic providers (Rosenberg, 2008). In the context of previously public or social services, demand side subsidies tend to stimulate for-profit service providers and increase the likelihood of the particular services increasingly being shaped by market factors rather than social policy objectives. Arguably, the GATS rules place social policy objectives as secondary matters to be addressed within the confines of the markets created.

This paper outlines childcare policy developments in Australia and traces the emergence and growth of ABC Learning Centres Limited (hereafter referred to as ABC), the largest publicly listed child care company in the world. ABC dominates the Australian child care market, is the major provider in the UK, the second largest provider in the USA, and has substantial holdings in New Zealand. The paper identifies tensions arising both from the apparent subordination of childcare policy to the market, and from the approach taken by this major corporate provider of early childcare services.

EARLY CHILDHOOD EDUCATION AND CARE (ECEC)

"The institutions we provide for children both 'shape' children and shape our understanding of them" (Petrie, 2005, cited in Press, 2008). These institutions are, in turn, shaped by both social and economic policy considerations that are not necessarily focused on the interests or needs of the children concerned (Press, 2008, p. 18). ECEC has experienced a 'surge of interest' from governments and policy makers throughout the OECD. The precise nature of this interest and the reasons for it have differed from country to country but common themes include the growth in women's labour force participation, an expectation on the part of many governments that both mothers and fathers should participate in paid work, and increasing evidence about the importance of the early years for later intellectual, social and emotional well-being. The balance of responsibility between families, governments and non-government organisations in providing care and education for children below school age is a longstanding and lively topic of debate in many countries.

In a paper prepared for the OECD exploring the financial instruments available to governments for the support of ECEC, Canadian economists Gordon Cleveland and Michael Krashinsky distinguish three relatively distinct types of assistance (leaving aside expenditure on child-related leaves) namely:

- Direct public sector provision such as pre-primary and ECEC services provided by public sector bodies or non-profit agencies
- Supply-side subsidies including operating grants, wage-assistance, capital assistance and tax concessions given to services
- Demand-side subsidies including vouchers, tax deductions and credits, and subsidies to low-income families (Cleveland and Krashinksy 2002, 24)

Cleveland and Krashinsky argue that the choice between demand and supply side strategies is a largely ideological one.

> Those who believe in markets – and they are not limited to those on the political right …believe that parental choice will maximise the effective use of scarce public resources. …Those who are suspicious of markets – and they are not limited to those on the political left …– are concerned that private organisations may waste public funds, diverting them to uses that were not those originally intended. Further, parents may not be able to accurately measure quality, or may have goals that differ from those that motivated the subsidy programmes in the first place (2002, 38).

The authors note that there has been relatively little research on the relative merits of supply-side and demand-side measures in ECEC. Australian governments emphasised supply-side policy measures[2] in the early 1970s and through to the early 1990s, but have since shifted towards a decisive emphasis on demand-side measures. This paper, therefore, seeks to contribute research on the emergence and activities of Australia's, and the world's, major corporate child care provider.

CHILD CARE IN AUSTRALIA AND COMMONWEALTH FUNDING

Long day care in Australia was, until the early 1970s, provided by a mix of philanthropic organisations and private businesses. Owner-operators played a significant role in post-war child care; 520 of the 560 day care services operating in 1969 were operated on a commercial basis (Women's Bureau 1970). Unfortunately, little is known about these services as they have been neglected in most historical accounts (e.g. Brennan 1998). Day care services were subject to regulation by State governments but received no assistance or support from the Commonwealth. In 1972, following pressure by employer groups, the Australian Pre-School Association and Liberal Party women, the McMahon government introduced the *Child Care Act,* enabling the Commonwealth to make capital and recurrent grants to non-profit child

[2] Pre-school and pre-primary education offered through State education departments are a clear instance of direct public sector provision in Australia which has no tradition of publicly provided long day care (although a small number of services designed for indigenous communities could, conceivably, fit this paradigm).

care organisations. From then, the Australian government took the lead in devising policy and providing funding for various forms of child care. The Commonwealth introduced its own staffing standards (which overrode State/Territory regulations) and paid 75 per cent of the award wages of the required staff directly to services. The *Child Care Act* thus embodied three principles that would later become controversial: (i) it set staffing standards at the Commonwealth level and provided funds to support the employment of appropriately qualified staff; (ii) it subsidised the supply of childcare services rather than demand for them; and (iii) it ensured that Commonwealth funds could be paid only to non-profit providers. These principles underpinned Commonwealth child care funding for approximately a decade and a half.

Over the years, the Commonwealth extended its reach from long day care to family day care, outside school hours services and special services for Indigenous children. State and Territory governments provide pre-school or kindergarten and are also responsible for regulating child care services.

During the 1980s, as new forms of public management gained ascendancy in the Australian public service, the Labor government paid increasing attention to the possibilities of a market-oriented funding system. Several features of a more market-oriented approach attracted attention in Canberra. In the first place, the potential cost of the growing demand for child care was a matter of concern to Treasury (Keating 2004, 90). Secondly, private providers pressed the case that there was inherent discrimination in subsidising the child care costs of families who used non-profit services but withholding support from those who made other choices (or who had no other options). And, thirdly, backbenchers responding to their constituents put pressure on the government. Interestingly, Labor seems to have accepted the view that shifting to a market-oriented approach would, in the longer term, contain costs and save the Commonwealth money.

In 1985, the Commonwealth revised its child care funding model, ending the link between subsidies and the award wages of qualified staff, cutting operational assistance by about 50 per cent, and restructuring it so that it was paid on the basis of the number of children enrolled in a service, not on the basis of the staff employed. Commonwealth assistance was increasingly directed to parents in the form of 'fee relief'. In this way, child care was increasingly framed as a commodity which parents could purchase in the market-place, rather than as a social good in which the society had a collective interest. In 1990 Labor announced that eligibility for fee relief would be extended to the users of private, for-profit care for the first time in 1991. Under the new system, services were bound by State regulations and, from 1994, were required to participate in a new system of accreditation established by the Commonwealth.

In 2000, as part of a package of measures surrounding the introduction of the GST, the Howard government intensified the focus of the Commonwealth on demand-side, market-oriented solutions to the provision of child care through a new subsidy called Child Care Benefit (CCB) designed to reduce the costs to parents of using approved child care[3]. In comparison with the subsidies it replaced, CCB extended eligibility for Commonwealth assistance both vertically (up the income scale) and horizontally (increasing the hours of subsidised care available to the children of parents not in paid employment). Families became eligible for up to fifty hours of CCB if they met a work/study test and up to twenty hours (since extended to twenty-four hours) CCB if they do not. The amount of benefit depends upon family income, the ages of children in care and the number of hours of care required.[4] The CCB, therefore, in shifting funding to the demand side, also stimulated demand for childcare services by extending eligibility for childcare support. In 2004, the Commonwealth introduced a Child Care Tax Rebate (CCTR) to provide additional assistance with the costs of child care through the tax system. Eligible families can claim 30 per cent of their out-of-pocket child care expenses (net of CCB) up to a maximum of approximately $4,200 per year.

With these demand side subsidies, the affordability of child care became a major political issue in Australia, as indicated by its prominence in the recent federal election. In the last five years, the cost of child care has grown much faster then the price of other goods and services. For example, in the 12 months to June 2007, child care costs rose by 12.8 per cent – the fifth successive year that costs had risen 10 per cent or more. Over the past five years, the cumulative increase in the cost of child care was 88 per cent (ABS 2007). To what extent is the problem of affordability of child care related to the role of private, for-profit providers, particularly corporate providers? A particularly sanguine view of this issue is adopted by Michael Keating, former head of the Department of Prime Minister and Cabinet. Acknowledging that there is 'ongoing tension' between the financial viability of services, affordability for parents and the provision of high quality education and care for children, Keating observes that: 'In a market so heavily regulated by government, this tension is unlikely to be affected much one way or another by the privatisation of child care' (2004, 91).

While we do not have sufficient data to explore the question of the relationship between costs and privatisation in depth, there are aspects of the situation in Australia that suggest an assessment contrary to Keating's. Increasing the level of user subsidies has a short-term effect on reducing parents' out of pocket expenses. However, it seems clear that such subsidies are also implicated in a cost spiral where greater government assistance is quickly absorbed into service price rises.

During the recent federal election, Labor committed itself to extending the Child Care Tax Rebate to cover 50 per cent of out of pocket child care expenses up to a

[3] 'Approved care' refers to services approved by the Australian Government to receive CCB on behalf of families. Such services can include long day care, family day care, in homecare, outside school hours care and occasional care services. Families can also claim the minimum rate of CCB if their child is attends 'registered care'. This can be care provided by grandparents, relatives and friends – so long as they have registered with the Family Assistance Office.

[4] In 2007, a family with an income below $35,478 and one child in care for 50 hours may be eligible for the maximum rate of $168.50 per week. The CCB tapers down to a minimum rate of about $28 per week. Users of registered care (i.e. care provided by individuals and services registered with the Family Assistance Office but not approved by the Commonwealth for the purposes of attracting CCB) are eligible for the minimum rate of CCB regardless of income, but the care must be for work-related purposes.

maximum rebate of $7,500 per year. Thus, parents will be able to claim a 50 per cent rebate on up to $15,000 'out of pocket' child care expenses. As Gittins (2008) has observed, in a marketised environment, the supplier is likely to "share" the increased subsidy with the parents, and prices are likely escalate.

THE GROWTH OF FOR-PROFIT CHILDCARE AND THE CASE OF ABC LEARNING

The introduction of the *Child Care Act* in 1972 probably had a detrimental effect on for-profit care, because Commonwealth capital and recurrent subsidies were limited to non-profit organisations. It is clear, however, that a substantial number of commercial child care centres were in operation in the late 1980s, since they exerted considerable pressure on Labor regarding the extension of fee relief to their users. After the extension of fee relief to users of commercial centres took effect in 1991, the number of places grew rapidly. Between 1991 and 1996 they increased from 36,700 to 122,000 (Brennan 1998, 214) while community-based, non-profit provision increased from around 40,000 to 45,000 places. Business analysts noted the extraordinary commercial opportunities that had opened up under Labor:

> Generous federal government funding of child care, a variety of government financial assistance schemes for parents, tax loopholes and even exemption in some areas from fringe benefits tax are underwriting the success of this 1990s phenomenon … For many property owners and developers, including foreign residents, the flood of government money is a lifesaver, and possibly a license [sic] to get rich (Ferguson 1994, 50).

ABC was one beneficiary of this extension of government funding. In 1988, Eddie Groves (then aged 22) and his wife Le Neve purchased a licence to provide child care in the Brisbane suburb of Ashgrove. Le Neve Groves had teaching experience and was working for the Queensland Department of Education. When the Commonwealth extended subsidies to the users of private child care in 1991 Eddie Groves saw an opportunity for expansion, and took options to buy properties in low income areas of Queensland. The Groveses' child care thus began to expand with the support of the government subsidies and they gained a position of 'first mover advantage' (quoted in Tabakoff 2005, 49).

ABC's big transformation came in the wake of the decisive move to supply-side funding announced by the Howard government in July 2000. A few months after this budget announcement, ABC issued its initial prospectus prior to its stock exchange listing, asserting that the level of government support for childcare signalled growth in demand, and that large companies providing childcare for employees' children would outsource those services. Expectations were that the largely 'cottage-based' childcare sector comprising small community-based services and individual owner-operators would struggle to meet this new level of demand (ABC 2000). Further, emphasising that the importance of childcare for 'Australia's social and economic advancement' had prompted regulation from all levels of government, ABC anticipated that the 'increasingly stringent' level of government regulation would drive out smaller operators (ABC, 2000, 3.2). The resulting industry rationalisation would provide 'growth opportunities for ABC through carefully selected acquisitions.' ABC anticipated the childcare sector would 'mature' into a 'structured segment of the services sector in which properly resourced and administrated (sic) companies manage a portfolio of branded centres, have appropriately financed and staff administrations and adopt forward looking corporate programs such as formal off-site staff training and employee equity participation' (ABC, 2000, 3.1).

ABC's initial prospectus (2000) described its growth strategy as increasing the number of childcare centres it operated, either by establishing new centres or by acquiring those established by others. Such expansion required significant funding and ABC planned to obtain at least some of this by selling and leasing back the childcare properties. This sale and leaseback aspect of ABC's strategy seemed to be a variant of another Australian arrangement, the "Macquarie model" under which securitisable "assets that generate continuous cash flow" and, preferably "have a monopoly or nearly so" are sold into separate management units, such as an investment properties fund (Myer and Moncrieff, 2005). From the beginning, delivering child care properties into a securitised property market has been a key aspect of ABC's business strategy.

When ABC listed on the Australian stock exchange in March 2001, it operated 31 childcare centres, 21 in Queensland and 10 in Victoria, and was committed to acquiring another nine in Queensland. ABC described its centralised management model as a franchise operation which it planned to extend throughout Australia. ABC would grant management licenses to regional management companies (RMCs). A management licence agreement 'exclusively licenses the right to operate the childcare centre under the ABC Developmental Learning Centres name using the ABC Developmental Learning Centres system at the specified location. The licensee pays ABC DLC licence fees in consideration for the licence rights' (9.3.3). Obligations imposed by the regional management licences include compliance with non-competition and confidentiality requirements, and prevent the licensee from assigning any right under the agreement without ABC's consent (9.3.3(d)). ABC regarded these licences as franchise agreements (9.3.3(g)).

Since listing in 2001, the number of ABC-branded child care centres has grown from 31 in 2000 to 2,238 by June 2007 (see Table 1). Between 2001 and 2005 the number of child care places provided by ABC in Australia grew from 3,956 to 46,164, an increase of 42,208. There is no way of knowing how many (if any) of these are *new* child care places. However, in some areas of Australia, parents have little choice but to use an ABC-branded childcare centre, regardless of any preference they might have for a different form of child care, such as that provided by a not-for-profit provider. In 2006, ABC's chief executive, Eddy Groves, claimed to own at least 30 per cent of the Australian long day-care market but, given ABC's program of acquisitions and construction in the past couple of years, that figure is likely to be higher today. In recent years, ABC has taken over more and more community-based and individually owned services. In particular areas, such as Victoria and Queensland, ABC is thought to have 50% of the childcare market (Gittins, 2008). Although private child care is now widely accepted in Australia, the dominance of one corporate provider has troubled policy analysts and child development experts (Brennan, 2008).

Evidently, ABC recognised that its market dominance limited scope for further expansion in Australia. As shown in Table 1, from 2005 it began to expand internationally, initially into New Zealand and the United States, and then into the

United Kingdom. Although Table 1 does not show it, ABC has also been expanding into Canada through linked companies based in the United States (Cribb and Brazao, 2007). Just as ABC's expansion in Australia has been controversial, so too has its international expansion. In Canada, for example, although ABC's entry is supported by the commercially-oriented Association of Day Care Operators of Ontario, it has aroused concern in the childcare policy community (Cribb and Brazao, 2007).

TABLE 1: ABC Learning: growth in the number of centres operated

Centres operated at 30 June	Australia	New Zealand	United States	United Kingdom	Total
2000	31				31
2001	43				43
2002	94				94
2003	187				187
2004	327				327
2005	660				660
2006	905	28	324		1257
2007	1084	104	1015	35	2238

This growth in number and size of childcare centres operated by ABC has been accompanied by growth in service revenues reported as shown in Table 2. With the exception of 2003, service revenues have doubled, or more than doubled, annually. Just six years after ABC's listing, its services revenue is 137 times what it was at the time of listing.

TABLE 2: ABC services revenue

Year ended	Services Revenue ($ millions)	% increase over previous year
30 June 2001	11.8	-
30 June 2002	22.8	93%
30 June 2003	39.8	75%
30 June 2004	77.9	96%
30 June 2005	230.6	196%
30 June 2006	592.2	156%
30 June 2006 (change in policy)#	753.3	
30 June 2007	1,615.7	114%

Until 2006, the revenues from franchised centres was reported net, but this policy changed to reporting gross revenues from 2007, with comparatives provided for 2006.

ABC's services revenue is heavily dependent upon government subsidies. This dependence is acknowledged in ABC's 2007 annual report, in which note 23 is headed, 'Economic Dependency' and states:

> The operation of childcare centres and training colleges benefit from the continued support by statutory authorities of the respective Federal Governments in the countries in which the Group operates as well as their policies on the provision of subsidies to the childcare industry and benefits provided to parents of children attending childcare centres.

The financial quantum of this dependence on government is not disclosed in ABC's annual reports. ABC's 2006 prospectus, however, reported that government funding comprised 40 per cent of its revenue in Australia and 25 per cent of its revenue in the United States. ABC's financial reports published in 2006 reported ABC's Australian revenue as $425.7 million and its US revenue as $150.6 million. Applying the percentages disclosed in the prospectus to the figures in the annual report allows an estimation of the government funding component of ABC's 2006 revenue: approximately $170.2 million from the Australian government and $37.6 million from the US government. This amounts to a total of $207.8 million in 2006, which was 35 per cent of ABC's reported services revenue for 2006 ($592.2m as shown in Table 2). The Labor government's 2007 pre-election promise to increase the childcare tax rebate means an increased proportion of ABC's Australian revenue will come from government subsidies. This was a particular selling point in ABC's public presentation to investors about its half year results to 31 December 2007. ABC explained the new government's policy in the following terms:

> The Labor Party's initiatives will have a favourable impact on the affordability of childcare including:
> Lifting the childcare tax rebate from 30% to 50%;
> Rebate to be paid quarterly not yearly; and
> Government assistance will now meet up to 82% of parent's costs.

Rapid expansion and growth in intangible assets

Throughout its life as a listed company, ABC's intangible assets reported have comprised between 71% and 81% of its total reported assets. Table 3 provides a summarised balance sheet highlighting this.

TABLE 3: ABC intangible assets

Y/E 30 June:	Childcare licences $m	Goodwill $m	Other intangible assets $m	Total intangible assets $m	Intangibles % of Total Assets	Total assets $m	Total liabilities $m
2001	20.2	-	-	20.2	71%	28.6	-15.3
2002	41.2	-	-	41.2	74%	55.9	-28.3
2003	119.8	-	3.0	122.8	78%	157.0	-67.9
2004	235.7	-	1.0	236.7	75%	314.0	-111.5
2005	772.7	170.1	.7	943.5	81%	1165.4	-319.9
2006	1,343.4	313.7	31.5	1688.2	73%	2323.2	-485.5
2007	2614.7	269.0	7.4	2,891.1	71%	4,067.1	-2165.5

From the time of listing, acquisition of other childcare providers has been part of ABC's strategic plans. ABC's disclosures about these acquisitions are limited to those involving business combinations, and the information about the purchase prices, and the assets and liabilities obtained are inconsistent over the years. The information provided is summarised in Table 4, which shows, in total, the acquisition of thirteen other large childcare operations, one in 2003, three in 2005, three in 2006, and six in 2007. Table 4 shows the price paid for each acquisition, and analyses the prices into what ABC reported receiving: intangible assets (goodwill and childcare licenses that had not been shown in the acquiree's financial reports) and other, presumably mostly tangible, assets and liabilities. Overall, the amounts paid for goodwill and childcare licences comprise 95% of the total amount paid. It should be noted that ABC also reports acquisition of childcare licences by means not involving business combinations.

TABLE 4: ABC's major acquisitions by business combination 2003-2007

Acquired: date, name and location	Goodwill ($ m)	Childcare licences ($ m)	Other assets & liabilities ($ m)	Price paid ($ m)
2003				
Future One Group: Australia			19.8	**19.8**
2005				
Childcare Centres Australia Ltd		126.5	-12.5	**114.0**
Peppercorn Management Group Ltd: Australia	172.0		70.1	**242.1**
Judius Pty Ltd: Australia	3.0		2.0	**5.0**
2006				
Childcare Development Solutions Pty Ltd & Trust	.5	18.0	-6.0	**12.5**
Learning Care Group Inc: USA	168.3	-.5	46.0	**213.9**
Kids Campus Ltd: USA	25.3	152.1	-49.4	**127.9**
2007				
Hutchison's Child Care Services Ltd: Australia		100.8	-1.4	**99.4**
The Children's Courtyard LLP: USA	3.8	80.3	1.5	**85.6**
Busy Bees Group Ltd UK	166.6		-46.2	**120.4**
La Petite Holdings Inc USA		411.8	64.1	**475.9**
Forward Steps Holdings Ltd NZ		100.0	-14.4	**85.6**
Children's Gardens LLP USA		2.0	.6	**2.6**
Totals	**539.5**	**991.1**	**74.2**	**1,604.8**

Until 2006, ABC's accounting policy for the childcare licences was to record them at cost on acquisition, and revalue them three yearly to "their fair value with reference to an active market." From 2007, ABC dropped the revaluation policy, and now conducts annual impairment tests. In both cases, the approach used to revalue (up to 2006), and test for impairment (from 2007) involves viewing each childcare licence as a "cash-generating unit", and calculating values using "cash flow projections from financial budgets approved by management covering a five year period" (ABC, 2006, Note 11).

In 2007, ABC also disclosed its childcare licences by geographical segment. Table 5 extends this disclosure by including the childcare licences obtained in its 2007 acquisitions through business combinations, and identifying the amounts attributed to childcare licences acquired separately.

TABLE 5: Childcare licences by geographical segment

Region	2006 ($ millions)	Acquired through business combinations	Acquired separately	2007 ($ millions)
Australia	1229.7	100.8	407.6	1738.1
New Zealand	56.7	100.0	28.8	185.5
United States of America	138.6	494.1	58.4	691.1
United Kingdom	-	-	-	-
Total	**1425.0**	**694.9**	**494.8**	**2614.7**

The cost to acquire a childcare licence directly is minimal, a point ABC acknowledges in its accounting policies (see ABC, 2007, Note 1 (s) intangible assets). But ABC clearly regards these licences as very valuable. The number of childcare places seems to provide a key to the values of these childcare licences. Table 6 shows up to 2006, the growing number of childcare places and the reported values of the childcare licences. The final right-hand column of Table 6 is calculated from the two previous columns, in that it is the result of dividing the reported value for the childcare licenses by the number of childcare places available. This gives the dollar amount ABC attributes, on average, to each childcare place. ABC's annual report for 2007 does not disclose the number of childcare places.

TABLE 6: Childcare places and reported value of childcare licenses

Year ended 30 June:	Childcare centres	Childcare places	Childcare licenses $m	Value of licence per childcare place
2001	43	3,956	20.2	$5,115
2002	94	7,626	41.2	$5,406
2003	187	13,607	119.8	$8,806
2004	327	22,969	235.7	$10,264
2005	660	46,164	772.7	$16,738
2006	1,257	112,179	1,343.4	$11,975
2007	2,238		2,406.0	

By 2005, the amount per childcare place was $16,738. At that time, ABC had not expanded into the US so the values relate almost solely to Australia. After its US expansion where competition is greater than in Australia and the proportion of government revenue lower (only 25% of revenues in the US as opposed to 40% in Australia), the value per childcare place fell. Figures are not available to analyse separately the value attributable per childcare place in Australia and in the US.

Relationships between ABC and other parties

Very close links exist between ABC and other entities, mostly through ABC's directors and inter-linked holdings in other entities. These links raise questions about the nature of transactions and arrangements between them, and about their level of dependence on ABC, which is in turn, dependent on government funding. Just one example relates to ABC's strategy to dispose of childcare properties.

At the time of its listing in 2001, ABC anticipated that it would sell its child care properties to the Australian Social Infrastructure Fund (ASIF), with which it had connections, and then lease back those properties.[5] Any new site ABC identified would be referred to ASIF for purchase, development and lease to ABC. This arrangement would allow ABC to channel its financing demands into growth in the number of childcare centres operated by releasing it from any need to own the properties. The agreement between ABC and ASIF required ASIF, before selling any of its property, to offer it to ABC. Such an arrangement would ensure ABC's continued ability to control ownership of those properties. This arrangement ceased in the 2004 financial year.

From 2005, ABC's property sales and leaseback arrangements shifted to the Australian Education Trust (AET). ABC had acquired the Peppercorn Management Group in that financial year. The Peppercorn Investment Fund (PIF) is not mentioned in ABC's reporting of this acquisition but, in late December 2004 shortly after ABC acquired the Peppercorn Group (see Table 3), the PIF underwent a "significant restructure of its operations and management." It was then renamed AET and made a

[5] At the time of its listing, ASIF also issued a prospectus seeking funding from the investing public. ABC's expectations that ASIF would purchase its childcare properties were stated as dependent on ASIF's success in raising funds from the investing public and ABC underwrote ASIF's public issue. ASIF's prospectus reported its reliance on ABC. Both entities were associated with Austock.

"new beginning … with 115 freehold and leasehold childcare centre properties, with standard ten or twenty year leases" to ABC (AET, 2007, p. 16). Instead of ABC purchasing and re-selling childcare properties to AET, an agreement between ABC and AET provided for ABC to receive a fee for finding childcare properties for AET to purchase, and to undertake to lease those properties from AET.

By 30 June 2007, AET's property portfolio consisted of 388 freehold and leasehold childcare properties leased or subleased to ABC, which guarantees payment of the leases. AET acknowledges in its annual reports its "dependence on ABC" for its lease income." One of its investor selling points is the "low risk profile, (almost zero direct exposure to discretionary spending)" and "generally increasing market rental levels" (Austock Property Management, 1 Feb 2008). The market rentals for such properties are determined by an amount for each childcare place. As the market rentals increase, so too must the lease costs paid by ABC, and so too must the childcare fees paid by parents. AET reports an "expanding market with a committed government budget plan for the next 4 years" (Austock Property Management, 1 Feb 2008). In ABC's fiancial reports, these leases for the childcare properties owned by these funds are operating leases, and Table 7 shows ABC's growing off balance sheet commitments to non-cancellable operating leases (Table 7).

TABLE 7: ABC Growth in commitments to non-cancellable leases

Year ended	**Lease commitments $ million**
30 June 2001	33.8
30 June 2002	86.6
30 June 2003	132.1
30 June 2004	187.2
30 June 2005	415.9
30 June 2006	1,209.0
30 June 2007	1,687.7

DISCUSSION

Australia's shift to demand-side policies and the marketisation of ECEC has facilitated the emergence of a major dominant corporate provider (ABC). With ABC now the world's largest listed childcare provider, from an economic and trade perspective, Australia's shift in policies might be regarded as highly successful. As ABC itself says in some of its investor-oriented publications, ABC is indeed, "So much more than childcare!" (ABC, 2008). Two concerns emerge. The first, because these are matters affecting our young children, is whether the corporatised childcare services now emerging are in the interests of our children, and the best we can do.

Press (2008) provides an overview of the sorts of childcare policy issues vexing the childcare policy community. These include concerns about changing conceptions of early childhood care, and the children's personal development, matters that inevitably have long term outcomes. OECD policy specialists, for example, advocate curriculum frameworks that are responsive to local conditions, respectful of teachers' professional judgement, and have "the capacity to incorporate new ideas, perspectives and understandings" (Press, 2008, 14). A corporate approach to services, however, typically brings with it many centralised practices, and ABC has developed and promulgated its own curriculum. If the suitability of this curriculum for the diverse cultures and conditions within Australia arouses questions, so too must it do so if applied internationally. No doubt this will be a matter for childcare policy researchers to pursue further but one point is clear: childcare policy matters. Subordinating childcare to efforts to stimulate economic development and trade policy should not necessarily be assumed beneficial for children or childcare.

The second concern is whether the reliance on demand side policies provides an efficient or effective way to ensure provision of childcare services. One perceived shortcoming of demand-side subsidy funding is that it tends to result in fluctuating enrolments and, therefore, fluctuating funding for childcare centres. The business model adopted by ABC, similar in some ways to a recognised model in the area of public infrastructure (Macquarie model), may be an understandable response to demand-side government policies. Perfect market theories would anticipate the emergence of a range of high quality ECEC services from which parents can choose their preferred childcare provider. But the reality of childcare is that the scope for choice is limited, parents cannot choose so clearly, and anyway, ABC has become dominant in areas leaving little or no effective choice. Research associates demand-side policies with less efficacious external regulation and monitoring of ECEC. With parents unable to see for themselves the services provided, corporate providers focused on increasing returns to shareholders, have incentives to claim high quality services rather than actually to provide high quality (Press, 2008). Views in the childcare policy community are that heavy reliance on demand-side funding policies seems more likely to support the emergence of monopoly-like services, and unable to provide universal access to good ECEC. Concerns apparent in the childcare policy area include the lack of parental choice over the childcare provider for *their* children; and closure of former ABC childcare centres in rural areas, leaving families without childcare at all (Horin, 2007).

The cost of obtaining a childcare licence directly is significantly less than the value ABC attributes to the childcare licences it obtains. The amounts paid for, and reported values of, childcare licences and childcare properties suggests ABC's business model facilitates the ratcheting-up of the fees needed to earn returns on asset values, which are themselves determined by future expectations of increasing cash inflows from continuing increases in government subsidies for childcare fees. The process is circular and the consequences of such heavy reliance on demand-side policies for responding to such a politicised issue as ECEC seems to be spiralling prices (and profits for a few) (Gittins, 2008). Carlton (2008) highlighted the potential for public resentment of this demand-side taxpayer funding approach when in February 2008, ABC's directors were forced to sell some of their assets, including their shares in ABC, following the collapse of ABC's share price in February 2008:

> "Those battling families, grinding away at two and three jobs to pay the bills for kiddy care at their local ABC Learning, the Australian taxpayer who, through the Howard government's unstinting generosity last year pumped a subsidy of about $400 million into the company: we've all done our bit, sweating blood to ensure that cowboy-booted, mullet-tonsured Eddy Groves can swan around the world like a Saudi princeling. What a shame it would be if he had to flog the lot. All our hard work gone for nothing." (Carlton, 2008).

Calls for economy, efficiency and effectiveness underpinned governments' shifts from supply-side to demand-side funding and service development. This shift is reinforced by trade liberalisation commitments and consequences that, once marketisation moves have been made, seem to limit governments' scope for choice among policy options. Increasingly, over reliance on hypothesised competitive markets is proving too crude for effective and appropriate social policy services, and, as this example of corporatised childcare suggests, is not necessarily economic or efficient either. While this paper provides only preliminary information about this research, social policy areas such as this provide considerable scope for cross disciplinary research between accounting and social policy academics to identify and assess appropriate policy responses (effectiveness) as well as economic and efficient means to deliver on those policies.

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