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UNITED WORKERS UNION

"Spitting off Cash"

Where does all the money go in Australia's early learning sector?

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Anchorage Capital proved there's plenty of money to be made in Australia's childcare sector. Yesterday it signed a $650 million deal to sell Affinity Education to Quadrant Private Equity.... Anchorage paid $213 million for then ASX-listed Affinity in 2015. While it ramped up Affinity's presence, the business was spitting off cash. [1]

(Australian Financial Review, 18/6/2021)

Introduction

Early childhood education and care (ECEC) is big business. The sector turns over $14 billion annually across 16,000 centres providing long day care (LDC), preschool and out of school care.

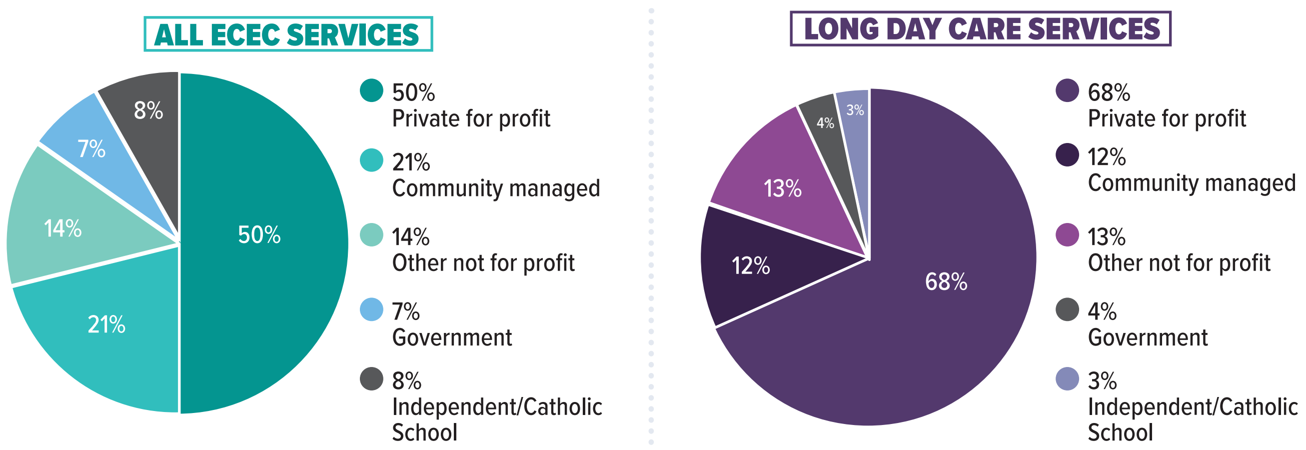
The importance of giving young Australians the best start in life and encouraging workforce participation is recognised in the public funding that sustains the sector, currently around $11 billion per annum. This is distributed to providers ranging from council-run kindergartens to stock market-listed early learning chains.

Among LDC provision, where the bulk of government subsidies flow, private for-profit (PFP) providers dominate (see Figure 1). Nearly all growth in the sector is to be found among PFP providers: in the financial year 2020-21 the number of PFP provided services grew 4%. By comparison, the number of not-for-profit services remained almost stagnant while the number of government-provided services actually shrank. [2]

Traditionally, private ownership in the sector was characterised by family and small to medium-sized businesses. Increasingly however, large financial interests are being lured to the sector by strong growth prospects underpinned by generous government subsidies. 20 per cent of revenue through Australia's 8,300 long day centres -$1.7 billion per year - is collected by five large companies, three of which are based offshore. Parents may be surprised to learn that their local early learning centre is controlled by Swiss bankers or an American private equity behemoth.

Stock market investors and foreign investment funds are now key players in Australian ECEC. Stories of floats, mergers and acquisitions in the sector permeate the financial press. CEOs pocket eyewatering salaries and owners enjoy windfall profits as companies change hands regularly. Amid the murky dealings of private equity funds, multimillion dollar transfer payments to overseas headquarters can be identified while no tax is paid in Australia.

Figure 1. *All ECEC services and long day care centre services by management type, June 2021. (Source: Australian Children's Education & Care Quality Authority).*



"Spitting off cash": Where does all the money go in Australia's early learning sector?

Revelations in this report of how their ECEC sector is being gamed by big business will alarm Australians. Parents would be horrified to learn that this creeping commercialisation comes at the cost of quality care and education for their children and an underpaid and undervalued workforce of educators.

Two recent UWU research reports have driven this point home. A July survey of 4000 early childhood educators found those working in profit-driven centres were more likely to be affected by understaffing and many reported having insufficient time to provide quality care. More than half of educators working in these services also said they thought about leaving 'all' or 'most' of the time. [3]

Our most recent report analysed data on quality ratings maintained by the industry regulator, as well as state government statistics on non-compliance. Overall quality ratings among for-profit centres were 12 per cent below those for the rest of the industry and over 1,200 for-profit centres failed to meet the National Quality Standards. Private for-profit ECEC centres were also responsible for almost three-quarters of the 12,000+ enforcement actions for quality and safety breaches taken since 2015. [4]

The time for a transparent and honest examination of the issues at the heart of the crisis in ECEC is well past. Low staff morale, poor wages, understaffing, poor quality care and safety breaches are concentrated in the for-profit sector. These issues are not the fault of individual educators, they are the product of a broken system which puts profit at its heart. UWU research has already made a strong case for reversing the commercialisation that is driving these poorer outcomes. This report demonstrates, in eye-opening detail, the profits being made from Australia's ECEC system and who is benefiting.

This report shows that money which should be invested in children is being siphoned off to fund lavish lifestyles and transferred out of the country. The losers in all this are Australian children, families and the educators working in for-profit services desperately trying to deliver quality care and education without the resources to do so.

KEY POINTS

- Early childhood education and care (ECEC) are big business in Australia, turning over $14 billion annually.
- ECEC is recognised as an essential service and around 80% of sector revenue flows from Government.
- The guaranteed flow of 'child-care' subsidies has made the sector attractive to large financial interests, which are taking control of long day care, the most lucrative part of the sector.
- Parents would be surprised to learn that many local early learning centres are bought and sold on the stock market or owned by Swiss bankers not run by local 'mum and dad' operators.
- There is a race on to buy up big, with five big and growing companies – G8, Affinity, Guardian, Busy Bees and Only About Children - already accounting for 20 per cent of long day care centre revenue.
- Private ECEC provision is highly profitable, with these big five companies reporting combined earnings of $292 million in 2020.
- Hundreds of millions of dollars are distributed annually to shareholders and CEO salaries can top $1 million.
- An economic model characterised by secure government subsidies and low wages for educators has created an elite of super rich ECEC owners, financiers and executives.
- Financialisation of ECEC has seen the worst excesses of Australian corporate culture including wage theft, aggressive tax avoidance and other misconduct creep into the sector.
- Despite receiving generous COVID relief payments and availing themselves of JobKeeper, four of the six largest for-profit ECEC providers paid no tax in 2020.

Australian taxpayers are underwriting huge profits

As an essential service, Australia's early learning sector is underpinned by government funding. Total combined government spending on ECEC in 2019-20 was $10.6 billion.[5] Most of this money flows direct to providers to reduce parent fees for early learning through the 'childcare' subsidy (CCS).[6]

The Commonwealth will distribute $9.5 billion in the CCS this financial year, rising to $12 billion by 2024 as the subsidy increases and caps on annual payments are lifted.[7] Total ECEC revenue is estimated to be $13.8 billion to $15.4 billion over this period of the forward estimates.[8] This means 70 to 80 per cent of revenue in a sector attracting investors from Australian and global finance houses is funded by the Australian taxpayer.

The level of subsidies and the firm expectation they will only ever be increased by Australian governments are commonly cited in ECEC prospectuses as guarantees of future growth.[9]

The essential role the ECEC sector plays was underlined by financial assistance provided in response to COVID-19. Providers have received emergency funding totalling $2.6 billion through the crisis.[10] Initially this massive boost allowed them to waive all fees from March to June of 2020. ECEC employers also received the JobKeeper wage subsidy. In 2021 the Federal Government is further propping up the sector with additional support for providers in regions affected by extended lockdowns. In the middle of a global pandemic, Australian taxpayers should be even more concerned when money in this essential service is flowing overseas and to shareholders and profits instead of the educators who are risking their safety going into work every day.

Who are the main players and why does private equity want to be involved?

This report focuses on the five biggest for-profit providers in the sector. Between them they control over 18% of for-profit long day care services. Their combined revenue is $1.7 billion, over 12% of total sector revenue and 20% of long day care centre revenue.[11]

Consolidation and acquisition have long been features of the sector. The most significant ownership developments at the top of the industry in the past 12 months have been Anchorage Capital Partner's sale of Affinity Education to Quadrant Private Equity and the acquisition of Think Childcare by Busy Bees Australia, actually owned by the Ontario Teachers' Pension Plan (OTPP). This latter takeover created Australia's third largest for-profit early learning provider and raised particular concern as UWU analysis of official quality data reveals Busy Bees, G8, and Affinity, to be rated 13 per cent lower, collectively, than not-for-profit services on overall quality and particularly poor on children's health and safety.[12]

Previous waves of acquisition in the sector have ended badly, notably the collapse of ABC Learning in 2008. At that time the world's largest ECEC company with 1,000 centres in Australia, ABC crashed under the weight of unserviceable debts incurred by CEO 'Fast' Eddy Groves, whose name became synonymous with ostentatious displays of wealth, including owning a private jet and the Brisbane Bullets NBL team. Ultimately, ABC was wound up owing workers, creditors and investors $1.6 billion.[13]

Ownership models

Among the large players at the top of the ECEC market, two types of ownership structures apply (see Figure 2). G8 Education, the largest provider group, is listed publicly on the Australian Stock Exchange (ASX). Think Childcare was also listed on the ASX until June 2021, when it was acquired by Busy Bees in a friendly takeover. In public companies the board and key management personnel are usually incentivised, through share ownership and bonus arrangements, to maximise the company's share price, dividends and profits.

Four of the five largest ECEC provider groups in Australia are now privately owned. Affinity, Guardian and Only About Children are owned by what are labelled private equity (PE) firms. PE firms manage investment capital obtained from institutional investors or high net worth individuals to buy out existing companies. After obtaining an equity interest in a company, the PE firm looks to eventually profit through either selling the company outright or through an initial public offering (IPO), usually after several years of restructuring and cost cutting. For example, Quadrant Private Equity's purchase of Affinity Education Group for $650 million in June this year represented a tripling in the company's value, six years after Anchorage paid $213 million to take the company off the ASX.

ECEC companies are attractive to PE buyers due to guaranteed government subsidies and stable long-term demand. The modus operandi of these wheelers and dealers means that, in addition to a focus on cost-cutting, they have only short-term interests in mind – not longevity or sustainability – and will inevitably cause disruption once they seek to exit their investment. Private equity firms do well out of this model – for example, Partners Group, which owns Guardian, made AUD$1.2 billion in profit in 2020.[14]

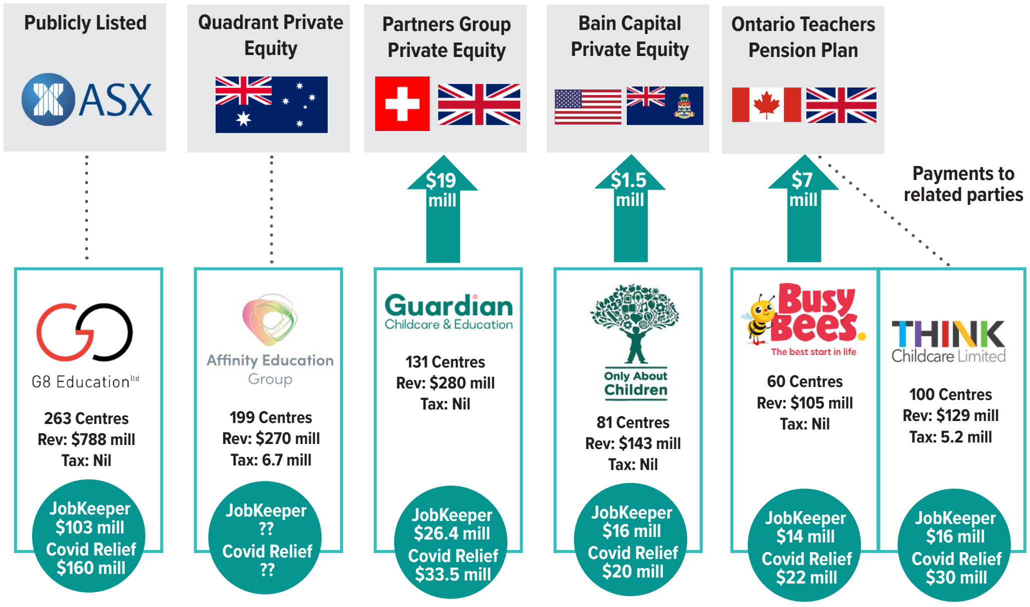


Figure 2. *Ownership structure of largest Australian for-profit ECEC providers and 2020 revenue, tax and government assistance*

A common critique of the private equity model is that it prioritises making acquired businesses attractive to potential buyers at the expense of other stakeholders, particularly employees.[15] Tax avoidance is practiced through transfer pricing and related party transactions, in which cash generated within a business is remitted to the PE firm or another company within the group. This is often facilitated through use of tax havens. PE buyouts are often highly leveraged – debt incurred to fund an acquisition is transferred to the target company after purchase – meaning companies are unlikely to report a profit, even if they are profitable.[16] Specific to private equity is also the before-tax 'expense' created for their management fees. For example, Bain Capital is paid $1.5m annually pre-tax from Only About Children.[17] The impact on workers and the quality of services delivered under PE ownership have been and continue to be raised around the world.[18]

Busy Bees/Think is owned by the OTPP, which manages the retirement savings of 300,000 Canadian workers. Pension funds have more stable, long-term objectives than PE firms and have traditionally invested in government bonds and equities. Increasingly however, they are more active in private markets, and this is certainly the case with OTPP, which plans to invest $70 billion in private assets in the next five years. This will see it act more like a private equity firm.[19]

The ability to distribute surplus profits as they see fit sets for-profit ECEC companies apart from other education providers in Australia. Private schools also receive substantial government funding, but any operating surpluses must be reinvested into capital spending, running costs and investments. No such requirement attaches to ECEC funding, attracting finance capital keen to plug itself into the government subsidies that sustain the sector.

Financial performance and tax: where is all the money going?

The top five for-profit ECEC companies had combined revenue of $1.7 billion in the past financial year. Table 1 contains key financial data from most recent annual reports, with Think and Busy Bees separate, given they only merged in June 2021.

Companies received substantial JobKeeper and Covid relief package payments, contributing to positive earnings before interest, tax, depreciation and amortisation (EBITDA). EBIDTA is frequently used by investors and analysts as a more accurate measure of financial performance than reported profits. What is particularly notable is how three of the privately-owned providers then reported a loss and paid not a cent of tax, despite hundreds of millions of dollars in revenue. This is achieved through common private equity strategies, such as payments to related entities, and other artificial accounting manoeuvres.

Figure 2 above illustrates ownership relations among these companies and the transfers to related parties that are part of tax minimisation strategies. More details of the transfers and tax avoidance strategies employed are included in the company profiles below.

In 2020, these top five private for-profit providers collectively generated:

$1.7 billion in revenue and

$292 million in earnings, yet somehow managed to declare a collective loss of,

$303 million and contribute a meagre

$12 million in tax between them back to the Australian Commonwealth that subsidises around 80% of their revenue streams.

Table 1. *Financial data, top for-profit ECEC providers, 2020.* [20]

For Profit Provider	Ownership	Revenue	Earnings*	Profit declared	Tax paid
G8	Listed	$788 million	$105million [21]	(187 million loss)	Nil
Affinity	Private Equity (Quadrant)	$270 million	$57 million	$24 million	$7 million
Think	Owned by Busy Bees	$129 million	$46 million	$16 million	$5 million
Busy Bees	Ontario Teachers Pension Plan	$105 million	$13 million	($4 million loss)	Nil
Guardian	Private Equity (Partners Group)	$280 million	$50 million [22]	($36 million loss)	Nil
Only About Children	Private equity (Bain Capital)	$143 million	$22 million [23]	($116 million loss)	Nil
Total		$1.7billion	$292 million	($303 million loss)	$12 million

**EBITDA figure contained in annual report unless otherwise noted.*

Tax avoidance

Despite being 80 per cent reliant on public subsidies, for-profit ECEC companies are not so keen on contributing to public coffers. The total tax contribution by these largest providers of $12 million in 2020 on turnover of $1.7 billion seems implausibly low. As a percentage of earnings, it amounts to just 3.9 per cent.

The revenues of the publicly listed G8 Education were affected by COVID restrictions. However, it received $260 million in government relief and JobKeeper, enabling it to record earnings before tax of $105 million. Normally a company posting this sort of earnings might be expected to end up paying around $15 million in tax. Not G8. After considering the "impacts of the COVID-19 operating environment" on future cash flow, it declared a "non-cash" "impairment charge" of $238 million on its accounts. This accounting measure turned an operating profit into a paper loss with no tax liability.[24]

Although the company operated at a considerable profit, its internal analysis of possible future revenues conveniently enabled it to declare a loss and pay no tax. This is despite attendance at centres being back to 100 per cent of pre COVID levels by July 2020.[25] For the first six months of 2021, G8 reported a revenue increase of 37 per cent year-on year, and an operating profit of $102 million.[26] Some impairment!

Tax avoidance among the privately-owned ECEC companies involves the time honoured tactic of transfer (mis)pricing through extensive payments to related parties. The $19.1 million in "shareholder interest and fees" that Guardian Education incurred in 2020 helped turn a $49 million operating profit into a $36 million paper loss.[27] The sole shareholder of Guardian Australia is British based Zeuss Childcare, owned by Swiss private equity fund Partners Group. With "interest and fees" transferred from its Australian subsidiary, Zeuss UK banked a profit of $10.9 million for 2020.[28]

Busy Bees Childcare also used internal accounting measures to convert $13 million EBITDA into a $4 million loss. The major contributor to this was $6.5 million interest on "related party borrowings" i.e. payments to Busy Bees' UK parent or the Ontario Teachers Pension Plan.[29]

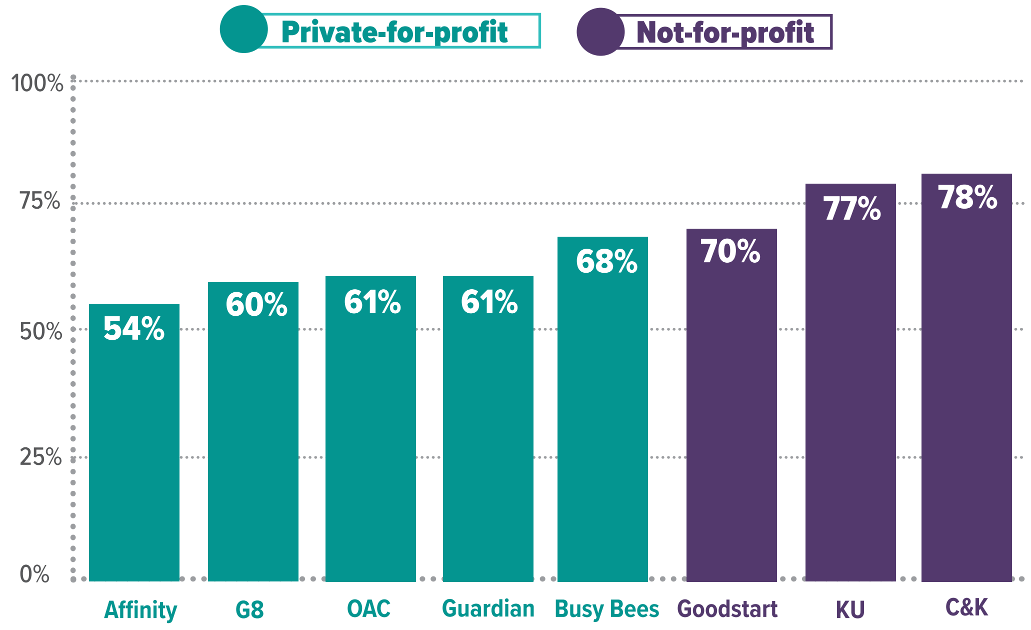
The already paltry tax payments of the largest for-profit ECEC companies are likely to further decline with Busy Bees recent acquisition of Think. The $5 million in corporate income tax paid by Think in 2020 was one of only two tax payments from the largest for-profit ECEC companies.

For-profit services = lower pay

Despite providing an essential service, and working in a sector requiring minimum qualifications and underwritten by government subsidies, ECEC employees cannot expect to earn a decent wage. Most are stuck on low rates contained in the Child Services Award of as little as $23 per hour, although some companies fail to pay even these minimum entitlements (see G8 case study below).

Above-award rates of pay that value the work of educators are more common in the not-for-profit sector. Generous executive salaries and dividends are doled out by the large for-profit providers, whilst educators are paid the bare minimum. This wages gap is evident in the comparison of revenue share expended on employees contained in Figure 3 for 2019, the last year before COVID disruptions. The not-for-profit providers devote 70-80 per cent of revenue to employees, while the share in the commercial sector is as low as 54 per cent.

Figure 3. ***Employee expenses as a proportion of 2019 revenue, largest ECEC providers*** [30]



JobKeeper and Covid relief payments

In March 2020, the Australian Government announced the JobKeeper wage subsidy to enable employers to pay workers' wages through COVID-related lockdowns. To qualify, companies had to declare that they expected their revenues to decline by 30 per cent or more. No proof was required.

In April 2020, a further relief package specific to the ECEC sector was announced. This guaranteed providers a further 50 per cent of the total fee income they received pre-COVID and was paid on top of JobKeeper. Fees were waived for parents under this arrangement which lasted until July, after which providers received 25 per cent of prior income, even as attendance rates returned to normal in much of the country and parents resumed paying. This arrangement actually made long day care centres more profitable than before, once occupancy reached 60 per cent. [31]

JobKeeper and ECEC relief payments received by the largest for-profit providers are contained in Table 2, which also demonstrates how important these amounts were to the companies' 2020 earnings. Mayfield, a medium sized private ECEC provider listed on the ASX and discussed in the company profiles below, is included. When the dust settled, none of the companies experienced a revenue drop of 30 per cent and none has repaid a cent of JobKeeper, preferring to pay dividends to shareholders or make transfers to related parties overseas in the case of the privately-owned Busy Bees and Guardian. In fact, the transfer payments made by these Australian-based companies to the offshore finance interests that control them were only possible due to the support of the Australian taxpayer.

Table 2. *Jobkeeper, ECEC Covid relief received by largest for-profit ECEC companies* [32]

For Profit Provider	JobKeeper	ECEC Covid relief	Revenue loss/gain % 2019-20	2020 earnings
G8	$103 million	$160 million	-14.5%	$105 million
Affinity	not disclosed	not disclosed	+1.4%	$57 million
Guardian	$26.4 million	$33.5 million	-0.7%	$50 million
Think	$16 million	$30 million	+5.9%	$46 million
OAC	$16 million	$20 million	-19%	$22 million
Busy Bees	$14 million	$22 million	+14%	$13 million
Mayfield	$4.3 million	not disclosed	-7.4%	$11 million

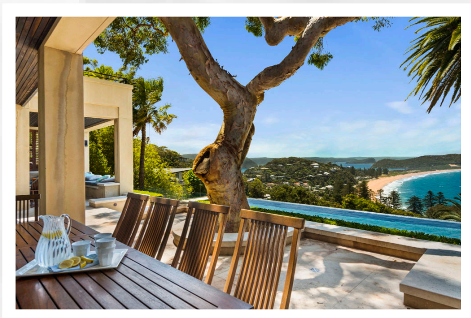
Case studies on the biggest five for-profit LDC providers

Affinity

Affinity Education Group is owned by Quadrant, one of Australia's largest private equity firms, which paid $650 million to acquire the business from Anchorage Capital Partners in June 2021. This represented a tripling in value, six years after Anchorage paid $213 million to take the company off the ASX. During this period Affinity posted some of the lowest quality ratings in the sector and allocated one of the lowest shares of revenue to wages (54% in 2019). No doubt this focus on earnings at the expense of children's education and care and employees' wellbeing made the company an attractive acquisition to Quadrant.

The group runs 199 centres under brands including Papilio, Milestones and Kids Academy, making it the second-largest private-for-profit provider of ECEC in Australia. Under Anchorage's ownership, two of Affinity's three directors were Managing Directors of the parent company with the third, Tim Hickey, Affinity's CEO. In 2020 it grew its revenue to $268 million. It did not report amounts of JobKeeper or ECEC relief payments it received in its 2020 financial report lodged with ASIC.

Quadrant Private Equity has over $4.5 billion invested, mostly in retail and other publicly-subsidised businesses including healthcare. It owns Junior Adventures Group, a large-scale provider of out-of-school-hours-care (OSHC), a service also supported by the Child Care Subsidy. It is focused on buying existing companies and preparing them for resale at a profit. Details on remuneration of Quadrant executives is scarce but in 2020 its Chairman Chris Hadley sold his three-storey house in Mosman on Sydney's lower north shore, to the company's Managing Partner Marcus Darville for $10.9 million. [33]



The three storey Mosman mansion with pool and wine cellar traded between Quadrant executives for $10.9 million in 2020.

Guardian Childcare and Education

Guardian was bought by Swiss-based global private equity investors Partners Group for $440 million in 2016 from Malaysia-based Navis Capital. Partners, which has US$119 billion of assets under management, also owns KinderCare, the largest for-profit ECEC provider in the United States. Guardian's six-member board is appointed by Partners Group and comprises a combination of overseas-based Partners executives, American ECEC entrepreneurs, and two Australian corporate executives.

Reporting under the name Zeuss Childcare, Guardian declared revenue of $280 million for the financial year ending June 30 2020. It also received $26.4 million in JobKeeper payments. Its earnings before interest, tax, depreciation and amortisation were $49 million but after accounting for finance costs this translated into a $36 million loss and no tax liability. These costs included $19.1 million in "shareholder interest and fees."

Guardian/Zeuss in Australia is controlled by a Zeuss Childcare registered in London as part of a group structure involving Scottish limited partnerships, a form of ownership criticised for lack of transparency and facilitation of tax avoidance and money laundering.[34] In 2020 this British-based Zeuss declared a profit of $10.9 million based on a $13.6 million upward re-evaluation of its Australian investment.[35] In the past, Partners Group was criticised for controlling Guardian/Zeuss through entities in the notorious tax haven of Guernsey, a UK protectorate in the Channel Islands.[36] This may have prompted a restructuring through the less well-known use of Scottish limited partnerships.

Luxury 44 metre superyacht bought by former owner of Only About Children Brendan McAssey with proceeds of sale to Bain private equity in 2016.

Only About Children

OAC is owned by American PE giant Bain Capital. Bain bought OAC in 2016 for what is thought to be about $400 million from the company's founder Brendan McAssey. The deal made McAssey a very rich man, allowing him to set up his companies Beluga Capital and Beluga Luxury. The latter manages leasing of McAssey's 44 metre superyacht, helicopter, private jet and $17 million mansion at Balmoral Beach on Sydney Harbour. [37] The structuring of Bain's ownership, it is reported, has left OAC highly leveraged with $220 million in debt, ten times its earnings.[38]

OAC has only two board members, both of whom are also Managing Directors of Bain Capital, one based in Sydney and one in Mumbai. For the financial year ending June 30, 2020 OAC reported – under the name Nemo (BC) Midco - revenue of $143 million and EBITDA of $22 million. Nemo Midco Australia is fully owned by a parent company based in the Cayman Islands, another UK protectorate that was recently ranked as the world's top tax haven.[39] Despite operating at a profit, OAC ultimately declared a loss of $116 million and paid no tax in Australia. This was possible because the company claimed a remarkable impairment of non-current assets totalling $97 million. $87 million of this involved impairment to "goodwill and intangible assets" that is not explained in the company's financial report lodged with ASIC. OAC also paid no tax for FY 2019.[40]

Bain Capital also owns Camp Australia (CA) one of the country's largest providers of OSHC. In 2017, shortly after buying CA, Bain attempted to corner the OSHC market by also seizing control of Junior Adventures Group. The planned megamerger was thwarted by the Australian Competition and Consumer Commission (ACCC), whose Chairman Rod Sims said the loss of competition arising from the deal could "result in higher prices for parents and lower quality care for students." [41] OSHC services also attract the childcare subsidy, making them attractive to financial interests looking to take advantage of stable revenue flows.

Busy Bees (now including Think Childcare)

Busy Bees is a British-based international ECEC company, that has been majority owned by the Ontario Teachers Pension Plan since 2013. It entered the Australian market in 2018 through the purchase of Foundation Early Learning. Since then, Busy Bees has sought expansion, buying up Maragon Early Learning and Go Kindy before setting its sights on Think Childcare (see below). It is in talks to acquire 11 centres owned by WA provider Little People's Place. (Little People's Place is owned by Vijay and Phyllis Narula and estimated to be worth $40 million. Last year Vijay bought Phyllis a $400,000 Lamborghini Urus and the couple enjoy flaunting their wealth around Perth).[42]

Busy Bees Australia has two directors: Robert Hughes, local CEO, and Simon Irons, Group CEO of Busy Bees International based in the UK. For the year ending December 31 2020, Busy Bees Australia reported revenue of $105 million and EBITDA of $13 million. However, after accounting for financing costs, this resulted in a $4 million loss. A major contributor to this was the payment of $6.5 million interest on "related party borrowings." [43] i.e. to Busy Bees UK/OTPP.

Busy Bees Australia is owned by British company Eagle Superco, which controls all of Busy Bees' international operations. In 2019 Eagle Superco declared a £58 million (AUD$109 mill) loss, however this came after £73 million (AUD$137 mill) in interest payments, a proportion of which resulted from a "deficit attributable to equity holders of the parent,"[44] i.e., a related party transfer payment to OTPP.

OTPP has 330,000 members and net assets of $220 billion worldwide. Traditionally, pension funds have different aims and strategies to private equity. They are focused on longer term investments that provide reliable income to the fund, including equities, infrastructure and interest-bearing bonds. The Financial Times reports that with interest rates at historic lows around the world, OTPP is looking to acquire more private companies and has allocated $70 billion for this purpose.[45] Despite being part controlled by the Ontario Teachers Federation (and part by the Government of Ontario) OTPP ownership is no guarantee of enlightened industrial relations practices. In June 2021, workers at the Canadian liquor retailer WineRack, members of the Service Employees International Union (SEIU), waged a bitter dispute with their OTPP-owned employer over wage rises and rostering issues. WineRack initially refused to negotiate and employed scab labour in an attempt to break the strike. An agreement was reached after the SEIU gained support of members of teacher unions involved with OTPP.

Vijay and Phyllis Narula, who are in talks to sell their Little Peoples Place ECEC provider to Busy Bees for around $40 million, enjoy flaunting their wealth in the society pages of the West Australian newspaper.

Think Childcare

Busy Bees' successful takeover of the stockmarket-listed Think Childcare in June 2021 created Australia's third largest for-profit ECEC group. The acquisition was achieved after Think's Directors recommended shareholders accept Busy Bees offer of $3.28 per share. Think was floated on the stock market in 2014 and was valued at around $40 million at that time. Busy Bees' purchase valued the company at $195 million. [46]

In 2020 Think reported annual revenue of $129 million and EBITDA of $46 million translating to a profit of $16 million on which it paid $5 million in tax. Key management personnel were well remunerated, with CEO Matthew Edwards receiving an annual package worth $772,000, over 15 times the annual pay packet of a Think educator. Chief Financial Officer Jennifer Saliba and Chief Operating Officer Georgina Gaussen received $535,000 and $516,000 respectively. Future tax payments may decline or disappear under OTPP's ownership and as a foreign-owned private company.

As an owner of Think Childcare prior to its stock market listing, Matthew Edwards received shares worth about $10 million in 2014. [47] His stake in the company prior to the recent sale consisted of 13,634,452 shares which, at $3.28 per share, saw him pocket $44,721,000 from the sale to Busy Bees.[48]

Think CEO Matthew Edwards made $44 million selling his shares to Busy Bees.

G8 Education

G8 education is Australia's largest for-profit LDC provider with 472 centres enrolling over 53,000 children. G8 is listed on the ASX and has turnover of close to a billion dollars. It distributes tens of millions of dollars to shareholders annually. Despite being far from the top ranking in terms of total revenue, G8 was, remarkably ,the country's sixth largest beneficiary of JobKeeper payments in 2020 - $103 million - and also received $160 million in ECEC relief payments from the public purse.[49]

Large profits

Through an aggressive acquisition strategy, G8 has grown from 17 centres in 2007 to become a top 400 company on the Australian share market. It is a big business and embodies some of the worst excesses of contemporary corporate culture, including wage theft and exorbitant CEO pay.

G8's financial performance in recent years is detailed in Table 3. The reporting of a paper loss for 2020 was wholly due to a decision to declare an impairment in its accounts. This did not affect cash flow and the company actually operated profitably, recording an underlying profit of $60 million.

Table 3. *G8 Education revenue, profits and dividends 2018-20*

	2018	2019	2020
Revenue	$858 million	$922 million	$788 million (+ $102 million JobKeeper) - $890 million
Profit *	$79 million	$76 million	$60 million
Payments to shareholders	$66 million	$58million	$50 million

**Underlying net profit after tax. All figures G8 Education Annual Reports 2019-20.*

G8 also benefitted in 2020 from negotiated rent waivers and reductions to a total of $4.1 million.[50] The media reported that some landlords felt they were misled by G8 and would not have agreed if they were aware of the company's finances. "They're just playing bastardry", one landlord put on the record to the Australian Financial Review.[51]

In September 2021 G8 acquired Leor, a niche provider of in-home child care. Leor's offerings include care packages designed to replace the use of nannies. The purchase, which cost $2 million upfront potentially rising to $9.5 million, was made with the intention of extending Leor's services to capitalise on revenue available through the NDIS, another growing stream of public subsidies.[52]

Executives and shareholders richly rewarded

G8 has 847 million shares on issue. In recent years it has paid dividends worth up to 24 cents per share annually, distributing $90 million in some years. The beneficiaries of this pipeline of payments are not really Aussie 'mum and dad' investors. G8's ownership is concentrated among international high finance, with HSBC, Citicorp and JP Morgan its largest shareholders along with US investment fund Vanguard.[53]

In stark contrast to the low wages it pays hardworking staff, G8 executives are showered with exorbitant salaries and benefits (see Table 4). CEO Gary Carroll has come close to earning a million dollars in recent years. His 2018 package was 22 times the pay of workers commencing in a G8 centre on award wages and 14 times the award rate of a director of one of G8's centres, although some workers don't even receive the legal minimum wage (see below).

Table 4. *G8 executive remuneration including share-based payments and short term incentives, 2018-20* [54]

	2018	2019	2020
CEO Gary Carroll	$905, 290	$877,996	$830, 809
CFO Sharyn Williams	$499, 957	$480,531	$441, 433
GM Jason Ball	$425, 290	$468,281	$431, 316

Wage theft

Last December it was revealed G8 had systematically underpaid the majority of its educators over the previous six years. The theft, affecting 27,000 current and former employees, is estimated to total $80 million. For unexplained reasons, although the theft was discovered last year and reported to the Fair Work Ombudsman by G8, workers had to wait eight months, until the end of July 2021 to receive full payments. Educators who no longer work for G8 still haven't received their back-pay. [55]

Opportunistically, G8 used its transgression to try to move all staff on to new fulltime contracts. These contracts included clauses concerning compulsory medical assessments, disconnection of contracts to the children's services award, use of security cameras and more.

G8 attributes some of its 2020 performance to "Optimised rostering to take account of changing attendance levels and JobKeeper".[56] At the same time G8 used the new pandemic legislation that allowed them to force staff to use up all annual leave above two weeks. Whilst currently, G8 may be attempting to soften its reputation as an aggressive market player that gobbles up competitors, UWU members believe this is largely a PR exercise and the company's priority remains maximising returns to shareholders regardless of the wellbeing and wages of staff.

Alleged corporate misconduct – former G8 chair facing jail

Legal fallout continues from G8's failed hostile takeover bid for Affinity Education in 2015. Then chair of G8, Jenny Hutson, will face trial this year for her alleged conduct in support of the company's aggressive expansion plans.

The charges relate to Ms Hutson's involvement in the efforts of a third-party company, West Bridge, to acquire Affinity shares, including her giving false information to (and attempting to mislead) the Australian Securities and Investments Commission (ASIC) as part of its investigation. Charges also include Ms Hutson's use of G8 Education funds, totalling $928,500, to acquire shares in ANZ Bank for Crossborder Investments Pty Ltd, a company of which Ms Hutson is a director. Hutson faces up to 10 years jail if convicted on charges of dishonestly failing to exercise her duties as a director, giving false information to the market and attempting to pervert the course of justice.[57]

Mayfield

Mayfield Childcare is an ASX-listed operator of 20 long day care centres in the Melbourne area. The company was founded by Michelle Clarke in 2005 and floated on the ASX in 2016. Clarke remains the company's executive director and with her husband David, also CEO, maintains a large stake in Mayfield through their own holding of 9 per cent and via the Riversdale Road Shareholding that owns another 25 per cent of company shares. [58]

Its financial reports illustrate the substantial amounts of money that can be generated off a moderate number of day care centres. In the years prior to the COVID disruption, Mayfield paid dividends of eight to nine cents to holders of its 31 million shares. This represented distributions of up to 2.8 million dollars per year.

Mayfield received $4.3 million in JobKeeper subsidies in 2020 despite remaining profitable throughout, recording a 7.4 per cent loss in revenue (not the 30 per cent loss supposedly required to qualify) and paying out $2.5 million to shareholders.[59]

Childcare real estate is big business too

Some financial analysts insist the real money in the ECEC sector is made leasing out bricks and mortar. Profit figures for real estate investment trusts (REITs) specialising in 'childcare' listed on the Australian Stock Exchange back this view up. Table 5 contains recent revenue and profits for the dominant industry players.

Table 5. *Profit figures (total and distributed to shareholders) top Australian REITs specialising in ECEC properties 2019-2021* [60]

	2019		2020		2021	
	Total	Paid out	Total	Paid out	Total	Paid out
Charter Hall	$69 million	$43 million	$86 million	$50 million	$174 million	$71 million
Arena	$59 million	$38 million	$77 million	$44 million	$165 million	$51 million

Charter Hall's Social Infrastructure REIT rents out almost 400 ECEC properties valued at $1.3 billion.[61] Arena REIT has 238 childcare centres. Arena CEO Rob De Vos collected a salary package worth $1.1 million in 2020.[62] Banking the profits spun off by these funds are the usual global finance giants: BNP Paribas, Citicorp, JP Morgan, Vanguard and others.

These trusts cite the CCS and additional support measures in response to COVID-19 as evidence of Government commitment to the sector that will underpin future profit growth.[63] Ultimately, the megaprofits and salaries being made through these REITs flow from Australian taxpayers through the CCS.

Conclusion

The importance the current Federal Government places on the early childhood education and care sector to maintain workforce participation was emphasised when COVID-19 struck. Generous emergency payments flowed to service providers, which were also able to claim the JobKeeper wage subsidy.

Australians are in favour of strong, universal ECEC provision and the sector receives extensive public support. Around $11 billion per year flows from state and federal governments, the bulk in the form of the Child Care Subsidy, which comprises around 80 per cent of sector revenue.

This funding pipeline has not escaped the attention of the finance world. Almost all growth in the sector is among for-profit services, and mergers and buyouts continue apace. The five largest corporate ECEC groups profiled in this report control 20 per cent of industry revenue.

This problem is at the heart of the crisis in quality and safety in ECEC. As recent UWU reports have established, quality of care and staff morale are significantly lower in private for-profit services. Three quarters of enforcement actions for breaches of the Education and Care Services Law are issued against commercial ECEC providers, despite them making up only half of the sector. Employees of private providers are paid less, with most stuck on the bare legal minimum, and many the victims of wage theft.

No royal commission is needed to uncover why these problems are concentrated in the for-profit sector. Private ECEC companies are enriching their owners and executives at the expense of the care provided to children and wages and wellbeing of employees.

While Australian taxpayers support a healthy, well-funded ECEC sector, they never signed off on million-dollar salaries, Lamborghinis and transfer payments to tax havens. The cash being spun off the taxpayer-supported ECEC system and the details of where it ends up, contained in this report, will alarm Australians.

In 2018, when thousands of UWU members stopped work to demand a living wage, then Education Minister Simon Birmingham retorted that he “expected all early learning and childcare centres to value their employees and pay them as much as they can afford.”[64] This report clearly demonstrates what educators themselves have known for a long time: there is plenty of money sloshing around the sector, but not much makes it into the pay packets of those who look after our youngest Australians.

In washing their hands of responsibility for how ECEC subsidies are used, the Federal Government is endorsing the current model. This sees great riches amassed by owners and executives, while children and workers suffer. The UWU does not believe this is a vision of early childhood care and education shared by the Australian public.

What then, is the future for this essential sector? A continuing take over by corporate providers, dragging down quality and diverting Australian public funds into exorbitant salaries and tax havens? Or world-class education and care that puts children before profits and properly values the vital professional work of early educators?

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