Why parents should fear childcare going the way of Carillion [1]

The UK hasn't seen the collapse of a major nursery provider yet, but other countries have
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EXCERPTS

Ask any parent of young children about what worries them financially, and childcare will likely be near the top of the list. Costs have risen [3]seven times faster than wages in some parts of the country. Much of the political debate has therefore focused on how to pay for it: how many hours parents should get for free, and the extent to which government should be subsidising the costs.

That's an important question. But it's wrong to focus on that to the exclusion of who is actually providing all this childcare. The collapse of the outsourcing giant Carillion earlier this year shone a fresh light on the extent of privatisation we've seen across some parts of the public sector. Childcare is no different.

Twenty years ago, most state-funded childcare was either provided by local councils, or by the community nurseries that they funded through grants. Since then, the for-profit childcare market has burgeoned. Small community nurseries have struggled to cope with the shift away from government grants, towards giving subsidies directly to parents, which has created new risks for them. And the last Labour government introduced legislation that explicitly discouraged local councils from providing childcare if it could be left to the market.

Today, the private sector accounts for 84% of childcare for children aged three and under, with a growing number of private nursery chains. As demand for childcare has grown, big companies have increasingly been muscling in. One recent market research conference discussed the "hot market" of childcare, and its investment opportunities.

The marketing hype, the investment portfolios, the high expectations of prompt financial return: this is the uneasy business environment in which companies gamble on childcare profits. At the aforementioned conference, one leading portfolio investment company claimed to have a list of buyers from 45 countries seeking to invest in childcare. Private equity and foreign investment is becoming more significant, and the low pound and expanding government subsidies are likely to stoke interest further.

What's happened in the older care market should provide a cautionary tale. There has been a similar shift from the public to the private sector, and private equity has become an increasingly important player. Private equity funds have bought up large chains of care homes, and loaded them up with unsustainable debt. This led to the collapse of Southern Cross back in 2011, and more recently left Four Seasons on the brink of breakdown.

We haven't yet seen the collapse of a major nursery provider here. Other countries have. In Australia, ABC Learning – then one of the world's largest private childcare providers – went into liquidation back in 2008 as a result of burdening itself with debt while chasing aggressive expansion. It was simply too big to fail: the Australian government had to provide a bailout of millions to keep the nurseries running until new buyers took over.

Many of the big nursery chains operating here in the UK have ambitious expansion plans, which involve buying out and refinancing smaller nurseries. For example, Busy Bees has been involved in takeover and consolidation bids in Australia, Singapore and the Netherlands. It is also trying to attract Chinese investors and is launching a chain of nurseries in China.

Nurseries collapsing is not the only risk. Another is the growth of an increasingly two-tier system, with access to the best childcare being limited to the richest families. The poorest-quality nurseries are already disproportionately found in the poorest areas. This may be further amplified by privatisation: the bigger chains have an explicit strategy of targeting "good quality residential areas" for expansion. In contrast, poorer areas tend to be dominated by smaller, short-lived nursery businesses.

There is also an issue around size. The community nurseries of the 1980s and 1990s tended to be small – rarely larger than 60 children. It is not uncommon to find industrial-sized private-sector nurseries catering for more than 200 children, providing considerable economies of scale for their owners. Yet the research on young children in nurseries emphasises the importance of continuity, familiarity and consistency of care for very young children, and parents' preferences for very local, stable provision.

Ultimately, the government today sees childcare as a consumer market rather than a social good or a collective public service, with parents regarded as individual consumers buying childcare for themselves. Many nurseries are now owned by companies that manage them at considerable remove. There is often no expectation that parents will be able to influence the way nurseries are run or financed, or make suggestions about their daily routines, other than to voice concerns or complaints relating to their own individual child.

It's right we invest significant amounts of taxpayers' money into childcare. But the reason for doing so is not just that parents can go back to work, but that through high-quality childcare and early education, children from disadvantaged backgrounds get a boost to their learning before they start school.

Back when local councils directly funded nurseries, there was at least some democratic accountability for how public money was being spent. But now that subsidies are channelled via individual parents, there is too little oversight for how £6bn of taxpayer money is being used to help give children the best possible start in life. Instead, the care of young children has increasingly become a commodity to be bought and sold.

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