Large for-profit nursery groups are becoming more common – with negative consequences for parents and the sector [1]

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High-quality early education and childcare can have a positive impact on children's wellbeing and life chances. The ability to combine work and care can benefit the whole family. But, for many parents, childcare costs are a significant drain on household income, and COVID-19 made childcare problems for families worse.

Between April 1 2020 and July 31 2021, 5% of all registered providers in England closed permanently.

In this difficult atmosphere, many day nurseries changed hands. The COVID-19 crisis encouraged rather than deterred the buying and selling of nurseries. According to property specialist Christie & Co, transactions increased by 21% between 2020 and 2021. Our research shows that, in many cases, nurseries have been bought up by large private for-profit groups.

Our research has investigated the consequences of these private for-profit groups moving into the childcare sector. They include increased financial risk for day nursery groups, threatening childcare availability for parents and children.

Financial risk

This pattern of large private-for-profit groups acquiring nurseries is relatively new. However, in the care home market it is a well-established trend known as "financialisation".

The precarity of the care home market has been demonstrated in recent years by the collapse of several chains, such as Four Seasons and Southern Cross. These groups were unable to repay the debts they owed to the private equity companies whose investments had enabled them to expand their business.

Together with colleagues, we conducted research funded by the Nuffield Foundation on the growing volatility of the English private childcare market over the past two decades. We found that the market reach of for-profit group-based provision in England is considerable. In 2021 70% of all group-based day nursery places were in the for-profit sector.

Using forensic accounting methods, we found evidence that smaller nursery chains and single nurseries are increasingly being bought up by large companies seeking to make profits with the help of private equity funding.

This enables such companies to continually expand their provision, while seriously in debt to their investors and needing to pay their shareholders dividends. As a result they have low to no financial reserves, placing them at risk of collapse.

Shortly after we completed the analysis of the accounts of one of our report's five medium to large for-profit case study companies, it was bought out by a Dutch childcare chain. We found that complex financial structures involving foreign investors and shareholders, alongside public funding, enable these companies to increase their share of the childcare market.

The borrowing of money to enable for-profit childcare companies to buy additional nurseries has so far not led to a substantial increase in childcare places, as our analysis of Ofsted data showed.

We found that private for-profit companies in England were charging high fees relative to other Organisation for Economic Co-operation and Development (OECD) member states.

While for-profit childcare companies market themselves as providing quality care and child-centred practice, the research uncovered a lack of explicit reference to care for vulnerable or disadvantaged children.

For-profit is only one way that childcare provision is delivered in England. Alternative not-for-profit models include charitable and social enterprises.

Keeping childcare sustainable

Our team also carried out financial analysis on a sample of six not-for-profit childcare groups. The latter, where registered as charities, must submit highly transparent accounts to the Charity Commission. They also need to have operating reserves, are limited as to the amount of debt they can carry and must reinvest any surplus into the childcare business. Other not-for-profit organisations have shared ownership structures which safeguard a sale of a company until all trustees agree to it.

The governance of social enterprises, cooperatives and employee – rather than investor-owned organisations – makes them accountable to trustees, staff, and parents, who may also be members of trustee boards. Their operations must make clear how they pursue their social aims.

These features put them at much lower risk of financial collapse than for-profit companies.

The scale of public funding invested in the sector in England, through funded early education hours and parental childcare subsidies amounted to some £5.6 billion in 2019. This money is meant to support a childcare system that is of high quality and equally accessible and affordable for all families with young children.

Instead, we have a dysfunctional market characterised by deep structural problems.

These include the increasingly dominant role of highly indebted childcare companies, putting the system's sustainability at risk and placing childcare out of reach of low-income families.

Region: Europe [3]

Tags: for-profit child care [4]
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Links

[1] https://childcarecanada.org/documents/research-policy-practice/22/02/large-profit-nursery-groups-are-becoming-more-common-%E2%80%93 [2] https://theconversation.com/large-for-profit-nursery-groups-are-becoming-more-common-with-negative-consequences-for-parents-and-the-sector-175759?utm_source=twitter&utm_medium=bylinetwitterbutton [3] https://childcarecanada.org/category/region/europe [4] https://childcarecanada.org/taxonomy/term/9130 [5] https://childcarecanada.org/category/tags/quality [6] https://childcarecanada.org/taxonomy/term/9228