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Why those profiting from childcare in England need to be kept in check [1]

An expansion of state funding makes the market even more attractive for investors but rigorous oversight is needed

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Excerpts

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Private equity invests in all sorts of sectors but childcare, and social care more widely, is among the most attractive. It isn't a luxury, like fashion or cars, that consumers can dispense with in straitened times.

Rather, it is increasingly the backbone of a functioning economy, so vital that it requires funding from that most reliable of customers, the state.

Back in 2021, pan-European investment firm Fremman Capital summarised childcare in terms that few stressed parents or harassed nursery carers would choose, when it bought the north--west-focused nursery chain Kids Planet.

"The market is highly resilient and is expected to see a continued increase in demand for nursery provision," it proclaimed.

"Market leaders, like Kids Planet, are best placed to capture a larger share of this growth, as well as capitalise on the consolidation opportunities in this highly fragmented market."

That was before the government's welcome expansion of state-funded childcare, further extended in Jeremy Hunt's spring budget last week.

The market now looks even more resilient (translation: reliably lucrative even in a recession) for the firms at the top of the tree.

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First, private enterprise has an incentive to prioritise investment in well-to-do areas, where parents can afford the extras that boost profit margins – longer opening hours, for instance, or day trips. Poorer neighbourhoods are less likely to yield this higher margin spending and risk being shunned.

Second, the profit motive means that when a decision is to be made about improving care, or raising the earnings of the hard-working staff who make nurseries a safe and welcoming place for our children, there is always the danger that keeping costs down will be the priority.

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What's more, chains owned by private equity aren't necessarily stronger just because their owners make bigger profits. Such buyout firms often borrow heavily to fund acquisition, which typically means substantial interest payments, often paid upwards to an overseas parent company or external lender.

This is a model that works well in stable times but can unravel quickly and dramatically, resulting in the kind of failures that have been seen in the elderly care sector, with cautionary tales such as Southern Cross and Four Seasons Healthcare.

If private companies are to be allowed to make bumper profits from childcare, they must be rigorously scrutinised to ensure they are not profiteering, cutting corners or running unsustainable financial models.

That will require alert oversight from agile government, at both local and national level. It is far from clear that such a safety net is in place.

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