Revealed: The bumper profits taken by English private nursery chains [1]

With more public money on its way, Joseph Rowntree Foundation calls for commitments on value for money and staff pay

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Excerpts

Campaigners are calling for tougher regulation of the childcare market to safeguard taxpayers' money, as new analysis shows more than £1 in every £5 spent at English nurseries backed by large investment companies ends up as profit.

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With public funding for the sector set to surge, research by the Guardian and the Joseph Rowntree Foundation (JRF) in collaboration with investigative accounting firm Trinava Consulting reveals that private chains are poised to make bumper profits, even as small providers struggle to survive.

The analysis shows nurseries backed by investment companies – including private equity firms, asset managers and international pension funds – reported double the profits of other private providers and seven times those of non-profits.

JRF said the findings underlined the need for stricter controls on the sector. In a new report, the anti-poverty thinktank calls for "social licensing" of childcare providers. This would demand commitments on workers' pay and value for money from nursery chains – potentially including a profits cap. Firms in receipt of public funding would also be expected to be financially transparent.

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Profits are not necessarily paid out to shareholders: they can be used to repay debts or reinvested in the business to improve services.

But Stacey Booth, a national organiser of the GMB union, said: "Too many nurseries are run as a business first and education establishment second. We need more regulation – hopefully an incoming Labour government will deliver this.

"Any profits in education and childcare should be invested back into the sector, lifting the wages of workers and ensuring good career pathways. Happy staff equal happy children."

The analysis shows that the combined debt of England's 43 largest childcare companies, regardless of ownership, rose dramatically in the same five-year period from £0.6bn in 2018 to £1.13bn in 2022, an 85% rise. The increase has mainly been driven by providers backed by investment firms, who are more willing to take on larger debts in order to finance rapid expansion.

The research also found a debt disparity between providers backed by global investors and those in other for-profit providers. While other private providers had an average debt of 1.3 times their income, debt among those providers backed by investment firms was three times the size of their income during the period 2018 to 2022.

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Experts worry that lax financial regulation combined with the financial model of these global investors – profit-focused and with high levels of debt – poses a risk to thousands of nurseries that could be vulnerable to collapse.

Vivek Kotecha, director of Trinava Consulting, said companies "are comfortable taking on more debt with the expectation that their income and profitability will grow over time due to more places and rising fees".

"However, if fees do not rise as expected, places are left unfilled, or cost inflation outstrips fee growth then these larger debts could cause business failure."

These risks were exposed in the adult social care sector with the collapse of Southern Cross and Four Seasons Health Care, operated by administrators after a previous owner, a private equity firm, accumulated huge debts.

The analysis also found that the cost of servicing debts is higher in providers backed by investment companies, with interest payments and other fees associated with having borrowed money representing a quarter of their income. In comparison, debt repayments represent on average 6% in other for-profit nurseries and 2% in non-profits.

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