Acquisitions, Mergers and Debt: the new language of childcare

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What is the sector like in England?

Huge costs. The UK is the third-most expensive country for childcare in the world, based on a couple earning the average wage (OECD, 2023).

Huge public investment. > £4 billion to support childcare and education for three- and four-year olds and for some two-year olds in England.

What is the sector like in England?

- Childcare in England comprises four main provision types:
  - State provided (public), e.g. nursery places within schools
  - Private-for-profit
  - Private not-for-profit – some are charities and others are hybrid
  - Informal carers (e.g. grandparents, friends and neighbours, nannies or other home carers).
- Recently, the balance has shifted: smaller, independent settings replaced by larger providers / chains.

Our Study

- To investigate the market reach of the “private” sector.
- Data about childcare mainly held in the public.

  domain: administrative datasets, published reports, articles, nurseries and trade sector websites.
- Data from nurseries (self-selected sample of 80 nurseries).
- Financial case studies: 5 medium to large private-for-profit childcare nursery groups, and a sample of 6 voluntary/charitable nurseries and social enterprise nurseries.

What is the market reach of the private sector in England?

- Estimates of size differ (data are messy and do not distinguish PE) but: approx. 67% of group-based providers are now private, 43% are part of a chain (DfE, 2023). Equates to 73% all cc places (ibid).
- In 2022, 7.5% of all nursery places were fully or partially controlled by investment companies, including private equity and venture capital firms, up from 4% in 2018 (Guardian Newspaper, 2023).

How do the for-profit companies operate?

- Profit companies tend to:
  - Be dominated by highly leverage, carrying large amounts of debt and have opaque financial structures.
  - Have little to no operating reserves.
  - Have shareholders often abroad – e.g. the largest chain’s shareholders include the Canadian Teacher’s pension fund.
  - Staff costs are lower than in not-for-profit.
  - Borrowing for acquisitions has <u>not</u> contributed to a growth of places for children.

The ‘rise and fall’ of nurseries

25 largest nursery chains in the UK 2024				
POSITION 2024*	2023^	NURSERY	SETTINGS	PLACES
1	(1)	Busy Bees	366	32,964
2	(2)	Bright Horizons	271	22,445
3	(3)	Kids Planet	172	15,841
4	(5)	Bright Stars Nurseries	92	7,338
5	(4)	Family First	99	7,069
6	(6)	Grandir UK	83	6,719
7	NEW	Partou (formerly Just Childcare and All About Children)	104	6,176
8	(7)	Monkey Puzzle	73	5,769
9	(13)	The Old Station Nursery	77	5,355
10	(7)	Childbase Partnership	44	4,552
11	(11)	Thrive Childcare and Education	48	4,054
12	(12)	The Co-operative Childcare	46	3,758
13	(9)	YMCA	65	3,678
14	(14)	Banana Moon	47	3,135
15	(19)	N Family Club	31	2,986
16	(17)	Children 1st	24	2,852
17	(23)	Kindred Nurseries	38	2,688
18	(18)	Tops Day Nurseries	33	2,470
19	(21)	Storal	29	2,360
20	(20)	London Early Years Foundation (LEYF)	40	2,338
21	(16)	Early Years Alliance	43	2,024
22	NEW	Ashbourne Day Nurseries	29	1,949
23	(24)	Fennies Nurseries	20	1,922
24	NEW	Happy Days	23	1,834
25	(22)	Spring	29	1,803

Concerning picture

- Bumper Profits.
- Using property as a collateral for business growth and acquisition.
- If a nursery becomes loss-making, closure at short notice:
  - e.g. one of Australia's largest childcare providers, ABC Learning in Australia, collapsed at short notice during the global financial crisis in 2008.
  - In the adult care sector, Southern Cross Healthcare (was the UK's largest provider of adult home care with over 750 homes in 2011), collapsed suddenly resulting in 31,000 residents losing their accommodation.
  - 2024: Alpha Nurseries, a group of more than 21 nurseries and out-of-school clubs in England, collapsed overnight.

How do the not-for-profits compare?

- Not-for-profit companies:
  - If operating as a charity: more stringent financial requirements, e.g., an income of > £5,000 need to register, a reserves policy, and they are legally constrained from distributing profits to managers or directors for personal gain.
  - Operate from a position of trust.
  - Have a board of trustees including staff and parents, e.g. Norway.
  - > expenditure on staff costs.
  - > explicit reference to supporting disadvantaged children.
  - These features = more stability + more representation of needs of families and staff in way they operate.

What now?

- Two potential paths:
  - Things stay the same, no further controls and acquisitions and mergers continue.
  - Alternatively, impose ‘common sense’ controls, e.g. requiring all companies in the sector in receipt of state funding to provide accounting evidence that they have adequate financial reserves and low risk of bankruptcy, and to require these companies to include parents, carers and staff on their boards.

Full report: Simon, A; Penn, H; Shah, A; Owen, C; Lloyd, E; Hollingworth, K; Quy, K; (2022) Acquisitions, Mergers and Debt: the new language of childcare - main report. UCL Social Research Institute: London, UK.

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Further work planned:

understanding nursery closures (comparing PE with NFP)