

Day nurseries

An opportunity for
institutional investors
to achieve real returns
and real impact

April 2023



The UK Government recently announced that affordable childcare would be prioritised in budget allocations.

Consequently, AlphaReal expects demand for social infrastructure assets in the childcare sector to increase in the foreseeable future.

This insight looks at

- The key points of the recent budget speech in relation to childcare.
- How this could enhance the investment opportunity in the nursery sector.
- Investment in the nursery sector as part of a wider social impact infrastructure allocation that can provide real returns and real impact.



What was said

The Government budget outlined



30 hours of funded childcare for parents of nine-month-olds to two-year-olds

- This will be rolled out in phases starting in April 2024 with 15hrs for working parents of two-year olds, extending in September 2024 to the parents of nine-month-olds to two-year-olds and then finally offering 30 hours to working parents in this younger age group, so long as neither parent earns more than £100,000 p/a.
- At face value this appears a welcome announcement. The move is expected to raise employment as families find it more affordable to use day nurseries allowing the main carer to return to work and/or increase their working hours.



The Department for Work and Pensions would provide up-front support with childcare expenses

- Low-income families starting or returning to employment will no longer have to pay for their first month of childcare out of pocket. This is very welcome.



Change to the minimum allowed staff ratio for two-year-olds from 1:4 to 1:5

- This means that the cost to providers of delivering care to two-year-olds will reduce. The sector remains regulated by OFSTED and providers are not obliged to change their staffing ratio.

Overall, we expect demand for childcare places to increase.

We also expect that the cost of provision to day nursery providers could fall for those moving to the newly allowed staffing ratio for two-year-olds.

Chris McCandless, European CEO of Busy Bees Nurseries, which has more than 930 centres across 10 different countries commented: "... At Busy Bees, our focus is on giving all children the best start in life. The current funding model has put huge strain on operators already challenged by rising costs and a recruitment crisis. We welcome the change in ratios for two-year-olds and the flexibility that offers."

The enhanced investment opportunity in the nursery sector

Where we are yet to have clarity is the rate of funding and the resultant impact on day nursery places (supply).

The Institute of Fiscal Studies has said this will effectively mean the government will control the price of 80% of all pre-school hours in England. What is imperative is for the

level of funding to support the true cost of the provision.

Neil Leitch, chief executive of the Early Years Alliance (EYA), which represents around 14,000 childcare providers, said: "...unless the proper infrastructure is put in place by the time the extended offers are rolled out, many parents of younger children expecting funded places to be readily available to them are likely to be left sorely disappointed."

To gauge interest in the sector, earlier this year AlphaReal surveyed 100 Local Government Pension Scheme (LGPS) fund professionals to assess views and perceptions of social impact infrastructure allocations. 88% were wanting to increase their allocation to the sector which is reassuring.

Investment in the education sector as part of a social impact infrastructure allocation

An allocation to the education sector, as part of a wider social impact infrastructure allocation with exposure to health and housing assets, can provide investors with real returns and real impact.

This is a scale opportunity, with AlphaReal estimating £50 billion+ of required investment across these three sectors.

Social infrastructure provides long-term, inflation-linked income streams which have proven to be resilient in challenging periods. The social benefits of investing in health, housing and education are achieved in addition to financial returns, not at the expense of them, underpinning a strong case for them to be a cornerstone of investor allocations. Indeed 98% of those surveyed focus on social infrastructure funds that can provide a positive impact on society without sacrificing investment returns.





Key takeaways

- We expect demand for day nursery places to increase as the major political parties prioritise making childcare more affordable for families.
- While demand for day nursery places is expected to increase, there is currently inadequate supply, creating opportunity for institutional investors to selectively increase their allocation to the sub-sector.
- Day nurseries, as part of a wider social impact infrastructure allocation, can generate real returns for investors and real impact for society.

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Contact us

Client Solutions
clientsolutions@alphareal.com
www.alphareal.com



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