

# Clearview

Autumn 2020

## Children's services market

Both corporate and private equity acquirers continue to be attracted to children's services as a result of positive demographics, defensible funding and significant consolidation opportunities

Inside:

- Market overview
- Private equity interest
- Notable M&A activity





# Market overview

**The UK children's services market was valued at £15.4bn in FY19<sup>1</sup> and is primarily focused on three areas: special education, residential care and fostering.**

A highly fragmented market with a small number of large-scale players makes the market compelling for a buy-and-build strategy. Private providers support c.63% of the market<sup>2</sup> and this value is increasing.

- **Residential care** consists of c.600 children's homes providers in England, of which the top 10 providers only supply c.19% of the national capacity.
- **Special education** in England is operated by the independent sector and has over 500 special schools and over 100 special colleges.
- **Fostering** is a £2.2bn market, with c. 56,268 children under care. One-third are managed by private providers and two-thirds by local authorities<sup>3</sup>. The sector is highly fragmented with 152 local authorities and 295 fostering agencies<sup>2</sup>.

The consolidation drive has gathered pace in recent years as investors capitalise on the benefits of scale in the market, including:

- Sharing best practices and know-how
- Building broader, long-standing trust-based relationships with local authorities and children's commissioners
- Accessing operational synergies – functional headcount, office consolidation, back office etc.
- Ability to provide a “one-stop care pathway solution”
- Access to UK public sector subsidised programmes
- Balance private sector or lower/higher acuity service exposure
- Access to higher-margin residential high acuity specialist services
- Potential to expand geographically at a national level or via a strategic entry into the UK market

<sup>1</sup> Laing-Buisson

<sup>2</sup> UK Gov

<sup>3</sup> Financial Times

## Favourable demographics

The UK children's services market is experiencing favourable market dynamics underpinned by a growing population of under 16-year-olds which is being outpaced by the number of children requiring residential care, fostering, and special education. As of 31 March 2018, 95,855 children in the UK were being looked after in care, representing 9% growth in the past five years, and 28% in the past 10 years<sup>1</sup>.

The number of children cared for in residential settings has risen by c.17% in the past five years, providing significant opportunities for reputable providers. Recent Ofsted intervention (closing unregistered care homes) will further improve these opportunities.

The number of residential schools in England is also growing with 20-25 new school developments registered in 2017 and 2018, driven by the prevalence of children with care plans. In March 2019, there were 499 special schools and 106 special colleges operated by the independent sector in England.

The number of children in foster care has risen by 8% in the past five years with one-third placed by independent fostering agencies. The Government is rolling out plans to ensure local authorities and the independent sector work collaboratively to ensure sufficient high-quality fostering placements, for example by providing seed funding for joint recruitment drives.





# Market overview

## Funding

Children's services are funded and delivered by 152 top-tier local authorities in England through demanded services which they have a legal duty to provide, such as protecting children from harm and taking responsibility for looked-after children.

In 2019, the Ministry of Housing, Communities and Local Government noted that total revenue expenditure by all local authorities is budgeted to be circa €106.1bn (£95.9bn) in 2019, 1.6% higher than the budget for 2018. Of this, children's social care received the biggest percentage and actual increase, bringing its total to circa €9.5bn (£8.6bn).

Although children's services cater to less than 10% of the child population, they account for a growing majority of local authorities' spend on children. The wider local authority provision for children also includes Sure Start, a programme targeted at parents of children under the age of four living in the most disadvantaged areas. The aim is to deliver a wide variety of services which are designed to support children's learning skills, health and well-being.

## Government initiatives

The political sensitivity of care for vulnerable children, alongside growing demand and complexity of care needs, means that even against the backdrop of steep cuts to local funding since 2010, spend on children's services has remained protected. Whilst there are concerns over the impact of a further funding reduction for local government, children's services remain the highest priority for local authorities and, due to their very defensible funding, are likely to benefit from the same level of political protection in the coming years.

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## COVID-19

The Government has identified a heightened level of risk to vulnerable children as a result of the societal pressures caused by the Covid-19 pandemic. Therefore, the Government has responded by introducing new funding as well as temporary amendments to the Children Act 1989 with the aim of improving response times and building fostering capacity to support increased demand.

Such amendments include:

- Additional circa €3.5bn (£3.2bn) emergency funding for local authorities to place children
- Enhanced DBS checks and fast-tracked emergency checks, free-of-charge, to allow for accelerated recruitment of care workers
- “Get Help with Technology” scheme to provide laptops / tablets to care workers to help maintain virtual contact with children and families during lockdown
- Ofsted prioritisation of applications for registration of children's homes and requests to increase the approved number of places
- Additional funding provided to three care leaver charities (Become, Drive Forward Foundation, Care Leaver's Association) to provide extra support to help care leavers mitigate loneliness and isolation upon leaving the care environment during COVID-19

In addition, The Care Planning, Placement and Case Review (England) Regulations 2010 has been amended to ensure that children are moved quickly into placements in times of emergency. In cases where it has not been possible to prepare a placement plan before a child is placed, the Government has removed the requirement for a formal placement plan to be prepared within five days of the start of the placement. Approvals for foster carers have also been extended to non-connected persons and placements can now last up to 24 weeks.



## Private equity activity

Private equity has played a significant role in the consolidation of the children's services market to date as owners look for opportunities to consolidate and build economies of scale, particularly in administration, recruitment and training. Four of the dominant groups that are currently private equity backed are Polaris, Outcomes First Group, Keys Group and Compass, to name a few. Investor interest shows no signs of abating and as they continue to search for children's services companies with a strong management team and a platform fine-tuned for growth.

### Notable recent UK deals:

- In **July 2020**, **Bestport Private Equity** sold **Oracle Care and Education** to an undisclosed acquirer. Headquartered in Congleton, Cheshire and Silsoe, Bedfordshire, Oracle provides high-quality bespoke packages of care, education and therapy for young people with extensive, complex and enduring needs who display high risk behaviours. The exit reportedly generated a 3.3x return for Bestport.
- In **November 2019**, **Ardenton Capital** acquired **Pebbles Care**, a provider of residential care and education for young people. Headquartered in Leeds and Dunfermline, Pebbles operates 41 residential care homes and four schools, providing care and education across the North of England and Scotland
- In **October 2019**, **August Equity** acquired **Esland Care**, a provider of residential childcare services based in the Midlands and the South East of England
- In **August 2019**, **Graphite Capital** led the management buy-out of **Horizon Care and Education**, a leading provider of specialist care for children and adolescents from NBGI. Horizon provides care for young people with Social, Emotional and Mental Health (SEMH) needs, managing 47 residential homes, 14 day schools and a range of supported living accommodation across England
- **Sandcastle Care** was acquired by **Waterland Private Equity** in **January 2019**. The business has been operating small care homes since 2004, and now offers long term residential care for vulnerable young people across 18 sites

“Private equity has played a significant role in the consolidation of the children's services market.”





# Private equity activity

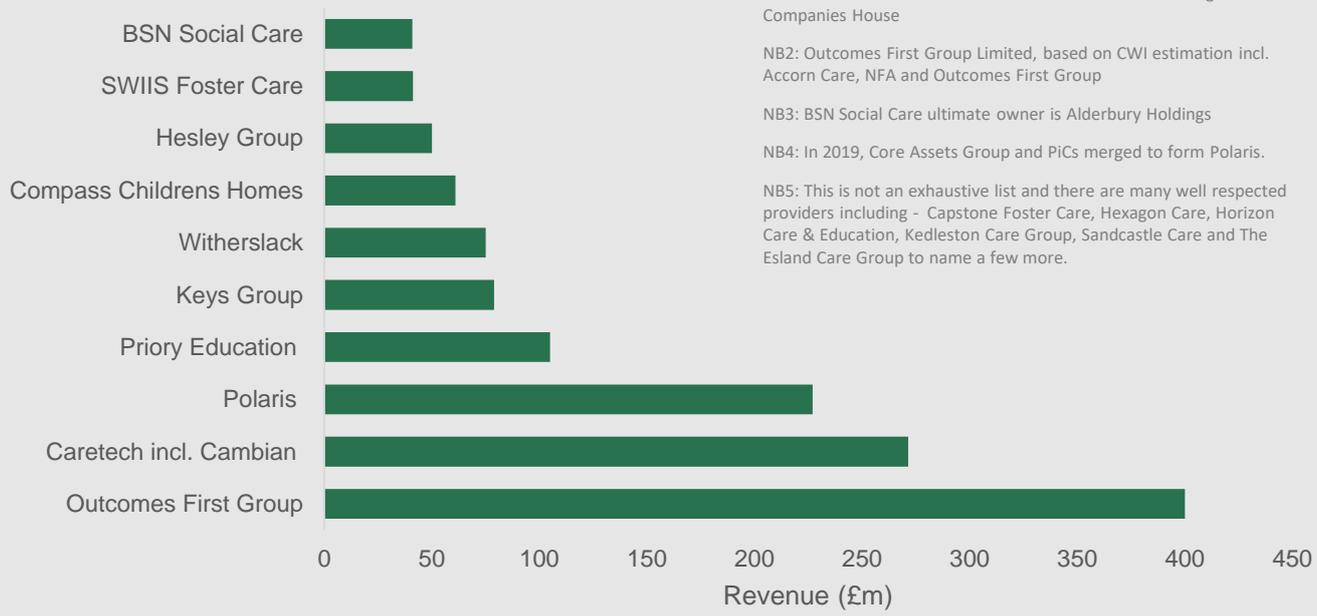
- **Graphite Capital** invested in **Compass Community** in **December 2017**, a provider of fostering services, children’s residential care and schooling
- **August Equity** acquired **Orbis Education & Care** in **June 2017** for a reported circa €31m (£28m). Established in 2005, Orbis operates seven specialist facilities for children and young people with autism and learning difficulties across Wales
- The largest independent fostering agency, **The National Fostering Agency**, which was founded by two social workers, was sold for circa €144m (£130m) in **2012** to **Graphite Capital**. It was sold again in **2015** to **Stirling Square Capital Partners** for an estimated circa €277m (£250m). The group has subsequently undertaken substantial M&A, including and has now been rebranded as the Outcomes First Group:
  - Acquisition of Acorn Group, specialist provider of education and childcare services, from Teachers’ Private Capital (2016)
  - Acquisition of Outcomes First Group, specialist provider of education and therapeutic care for children, for an undisclosed amount (2019)

**Outcomes First Group** continue to diversify its offering providing a full 'children’s care pathway' from foster care, residential care and specialist school and education services.

We see this type of diversification continue to develop in the short to medium term, as a way for independent children’s services providers to access more of the looked after children services/education budget.

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## Key players in Children's Services market



NB1: the source of the data is from the latest account filings on Companies House  
 NB2: Outcomes First Group Limited, based on CWI estimation incl. Accorn Care, NFA and Outcomes First Group  
 NB3: BSN Social Care ultimate owner is Alderbury Holdings  
 NB4: In 2019, Core Assets Group and PiCs merged to form Polaris.  
 NB5: This is not an exhaustive list and there are many well respected providers including - Capstone Foster Care, Hexagon Care, Horizon Care & Education, Kedleston Care Group, Sandcastle Care and The Esland Care Group to name a few more.

# M&A trade activity



## Notable recent deals:

**Outcomes First Group** acquired the following two companies:

- **Bryn Melyn Care (BMC)**, a leading provider of therapeutic residential care, independent education, and integrated clinical services for children and young people with multiple and complex needs, in October
- **Next Steps Fostering** services from the Ward family, including sister companies **Ryancare** in London and **Safehouses** in Norfolk, in September
- **Partnerships in Children's Services (PICS)**, which cares for about 1,100 children, was acquired by **Core Assets Group (CAG)** in **January 2019** for circa €111m (£100m). Core Assets, which provides a range of fostering and adoption care services, will acquire about 4-5% of the market, supporting c.3,000 children a year. The new network created as part of this deal brings together a number of the UK's leading fostering and children's services agencies including CAG's Core Assets Children's Services, Foster Care Associates, Fostering People, Active Care Solutions, Adopters for Adoption and LCS (Leaving Care Solutions), alongside PICS' Clifford House, FosterPlus, ISP and Orange Grove. The newly merged Group has subsequently rebranded as **Polaris**
- In **January 2019**, **Swanton Care** (backed by **Apposite Capital**), a diversified provider of care and educational services, acquired **Courtyard Care**, a group of four specialist residential care homes for children and adults up to 18 years old with complex mental health needs
- **CareTech Holdings PLC** completed the circa €412m (£372m) acquisition of **Cambian Group PLC** in **October 2018**. CareTech provides social care and support services for children, young people and adults in the U.K., while Cambian is engaged in providing specialist educational and behavioural health services for children
- **Keys Group Limited**, the UK-based care and education provider for children and young people, acquired **Kingdom Care Childrens Homes Ltd**, the UK-based company that operates children's care homes, from private investors for an undisclosed consideration. The acquisition enabled

Keys Group to enhance its position as a leading, independent provider of specialist residential care for young females with complex needs. It also extended Keys Group's service offer to local authorities in the South East and the London borough. The deal completed in **February 2018**

## Looking ahead

The fragmented UK children's services market will generate significant opportunities for investors with increasingly positive market drivers. These include a highly defensible market, favourable demographics, a growing UK population exposed to risk factors and a greater awareness of domestic abuse through high-profile cases. Demand for children's services has spiked as a consequence of the COVID-19 pandemic, with the lock down causing an increased demand for essential services for looked after children. The fallout from the COVID-19 pandemic will continue to unravel, relocating emergency/short-term child placements to more suitable accommodation for the medium-to-long term, making it a very active sector.

The children's services market will continue to be desirable with providers looking to consolidate, build economies of scale, and diversify into adjacent services including schools, foster care and residential care, providing a one stop solution to commissioners. PE and trade buyers will remain attracted to the sector, given the opportunity to grow rapidly through rollout and consolidation.



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## Recent Transactions



acquired



Buy-side  
Undisclosed



acquired



Buy-side  
Undisclosed



joined forces with



Sell-side  
Undisclosed



strategic alliance with



Sell-side  
Undisclosed

## UK Team



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