



# Acquisitions, Mergers and Debt: the new language of childcare

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MAIN REPORT



Antonia Simon, Helen Penn, Atul Shah, Charlie Owen  
Eva Lloyd, Katie Hollingworth & Katie Quy  
January 2022

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## **About the Thomas Coram Research Unit**

This work was hosted by Thomas Coram Research Unit (TCRU), at UCL Social Research Institute. TCRU has been leading research into children, parenting and families since 1973. The Thomas Coram Research Unit (TCRU) is highly regarded for its policy impact. Our research projects utilise a variety of innovative social research methods, ranging from ethnographic studies of children's everyday lives to international comparisons of parental leave policies and impact studies of services for children and families.

## **Conflicts of interest**

There were no conflicts of interest in the writing of this report.

## **Contributions**

The opinions expressed in this publication are not necessarily those of the UCL Social Research Institute or the funders. Responsibility for the views expressed remains solely with the authors.

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## Executive Summary

### CONTEXT

The Government contributes an estimated £3.9 billion to support childcare and education for three- and four-year olds and for some two-year olds in England. This funding is used to pay for childcare and education places in the private and voluntary sector via a provider subsidy, and for nursery education in the state sector. Additionally, the Government subsidises parents/carers' childcare costs directly through the tax and benefits system across the UK. In England in 2019 this contribution amounted to almost two billion pounds.

There have been many changes in government Early Childhood Education and Care (ECEC) policy in the last 20 years within England. Each successive Government has emphasised different aspects of provision and funding, but with one overall aim – to promote and support (through significant levels of public investment), 'high quality' childcare, especially for disadvantaged families. This provision has been delivered since the second world war, through a mixed economy of care (of private-for-profit and not-for-profit providers).

Market-based ECEC systems are argued to have several possible advantages, including the ability to quickly expand supply in line with (profitable) demand. However, others have argued that the private sector has been accepted as a way to provide ECEC 'almost without debate', and without evidence it is delivering on government aims, especially for disadvantaged children. There are also questions over whether the ethos of the market is compatible with the various policy requirements. For example, there is evidence in the UK which suggests that market dynamics can lead to insufficient coverage in poorer, less profitable areas. There are also concerns, supported by evidence in and outside the field, of organisations which are subject to market forces being vulnerable to collapse.

A review of research addressing the quality, effectiveness and sustainability of early childhood education and care provision since 2010 revealed a 'dysfunctional market failing those that need it most', with recruitment a problem, staff turnover increasing and pay very low (Oppenheim and Archer 2021, p3). Moreover, problems of recruitment and retention are being exacerbated by the Covid-19 pandemic, which is reported to be having far-reaching impacts on the sector (ibid), not least concerns about lower demand for childcare places which could threaten the viability of childcare companies, especially small nurseries (Blanden et al., 2020) – children currently attending early years settings is approximately 76% of the usual daily level (DfE 2021). The pandemic is causing some settings to permanently close their doors (Early Years Alliance 2020) – recent analysis showed that Covid isolation resulted in closures for four in every ten early years settings across England, Wales and Scotland during the spring of 2021 (EPI and NDNA 2021). The pandemic has also highlighted the importance of childcare to the wider economy, especially given the effects on parents/carers having to look after their children at home (Coram Family and Childcare 2020).



Prior to this report, little was known about how public funding given to this private sector is used. This report charts changes in childcare provision in order to understand the differences between the public and private sector. Particular interest was placed on the balance of public and private provision, and the location of this provision in relation to deprivation.

## **OUR STUDY**

This study charts changes in childcare provision over the past 20 years. In particular, the:

- Market reach of the private sector – estimates about its size, number of places and any market changes in private provision;
- Extent to which the sector recognises questions of social impact and accountability;
- Financial structure and practices of medium to large childcare companies (these were selected case studies – the for-profits were selected to get a cross-section of size and profitability, and the not-for-profits were selected to get a range of size and type of operator);
- Location of private and public childcare provision in relation to indices of deprivation;
- Accounts of frontline childcare managers about access of provision to vulnerable families and the involvement of staff and parents in nursery policy making.

We did this by analysing data about childcare mainly held in the public domain. This data included information from administrative datasets, published reports, articles, nurseries and trade sector websites. We supplemented this with some data from nurseries (interviews and surveys with a self-selected sample of 80 nurseries), and an analysis of financial accounts from selected nurseries. We used a case study approach for the financial analysis, selecting five medium to large private-for-profit childcare nursery groups, and a sample of six voluntary/charitable nurseries and social enterprise nurseries, to assess how different types of childcare organisations operate.

## **KEY FINDINGS AND RECOMMENDATIONS**

**RQ1:** What is the market reach of the private sector? What is its size and shape, including number of places?

**Finding 1: Estimates of the size of the private sector vary; trade literature and DfE data suggest it is large.** There is not one definitive estimate. The leading market research organisation for the childcare sector, LaingBuisson estimates that 53 per cent of UK providers/settings are in the private sector but does not cite sources or methods. The DfE provider survey

data of England only, reports the highest estimate of 61 per cent of providers (and also places – 69%). These two sources provide estimates that are higher than those from Ofsted<sup>1</sup> data, which are likely to be underestimates. The differences are due to the various ways these sources define and count the numbers of providers and places. Our technical annex (Simon et al., 2021) explains more about how these numbers were derived and the differences between the sources.

**Finding 2: The private-for-profit childcare company sector is characterised by acquisitions and mergers and indebtedness.** Focusing on medium to large companies, we found clear patterns of acquisitions and mergers and indebtedness. Our study found evidence of borrowings being linked to acquisitions within our private-for-profit case studies. In one of the cases, we found that after acquisitions, the company became loss making. Additionally, we found examples of debt (consistent losses of over £10 million), and heavy borrowing, with leverage ratios of over 50 per cent.

**Recommendation:** To track changes in this mixed economy we recommend Ofsted collect and publish information on type of ownership (private, voluntary, local authority) and whether the nursery is part of a chain. If information on type of ownership were included in Ofsted data, it would provide much needed tracking information about how provision of different types of childcare varies by levels of deprivation, thereby acting as a check that children from deprived areas are not missing out on accessing good quality and affordable childcare. Better data collections which can track acquisitions and mergers, would also provide greater transparency of how public funds are spent by organisations receiving public funding. This information is already included in the DfE Survey of Early Years and Childcare Providers. However, this survey is inconsistent in its definitions and presentation of data by type of ownership, and has a lower response rate (38% in 2019) than census data by Ofsted.

**RQ2:** To what extent does the sector recognise questions of social impact and accountability; specifically: what are the aims of the private-for-profit sector? And do they differ from the aims of the not-for-profit nurseries?

**Finding 3: While the private-for-profit sector cite aims to foster ‘child-centred practice’ and provide ‘quality care’, we found a lack of explicit reference to care for vulnerable or disadvantaged children.** Examination of websites for our case study nurseries, and from trade press and interviews with some senior executives, indicate profitability and expansion as primary concerns of the private-for-profit sector. In contrast, the websites of our case study not-for-profit nurseries are more explicit about providing services for vulnerable and/or disadvantaged children.

**Recommendation:** Given the government’s large investment of public funds with the intention that childcare be accessible to all children, we recommend

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<sup>1</sup> Ofsted is a non-ministerial department of the UK government.

the government should investigate what company policies lead to good access and support for all children, including vulnerable and/or disadvantaged children and their families.

**RQ3:** Do the finances of large childcare companies reflect the financialisation seen across other service sectors?

**Finding 4: The for-profits we examined tend to be dominated by highly leveraged financial models.** Our case study analysis provides evidence of these features of financialisation, which have been seen across other sectors. For example, we found that private-for-profit companies in the ECEC sector are heavily indebted, and they have very complex financial structures involving foreign investors and shareholders. They have necessarily adopted a shareholder model of corporate governance. We also identified that a considerable amount of money is being extracted for debt repayment. For example, for two of the largest private-for-profit chains we examined were heavy borrowers, with leverage ratios of debt to total assets of between 51 per cent and 101 per cent.

**Finding 5: Borrowing for acquisitions has not contributed to a growth of places for children.** Our analysis of the case studies has shown that while the private-for-profit companies are borrowing for acquisitions, this has not contributed to a growth of places for children. This is because large nursery companies are mostly expanding by acquiring other nurseries. Our analysis of Ofsted reports showed that the total number of places has not increased (Ofsted, 2020a).

**Finding 6: Staff costs are low in private-for-profit companies.** In our financial case study analysis, staff costs could be as much as 14 per cent lower than the not-for-profit company sector.

**Recommendation:** As companies using a highly leveraged type of financial model in other sectors (for example, eldercare) have been shown to be at risk of collapse (Williams et al., 2002), we recommend that state funding goes only to childcare companies that can provide accounting evidence that they have financial reserves and low risk of bankruptcy. This would help avoid public funds being used to support higher profits for the large companies while neither creating new places nor leading to increases in staff wages to guarantee a minimum wage level.

**RQ4:** Do charitable and not-for-profit companies offer an alternative, and if so, how?

**Finding 7: Not-for-profit organisations have high levels of trustee participation to ensure accounts are stable.** In contrast to private-for-profit companies, as their name implies, the not-for-profits we examined have no obvious desire to make large surpluses or reward investors with high returns. We found evidence from our case study analysis that organisations have high levels of trustee participation in ensuring the financial accounts are stable.

They are also subject to the stringent requirements of the Charity Commission regarding reporting their accounts and borrowing constraints.

**Recommendation:** It would be worthwhile for government to further explore social enterprise and charity-run nursery models because there are some features about these organisations that make them low risk and committed to social benefit. For example, social enterprises are committed to reinvesting their surpluses into the organisation (as we show below, more income goes into staff wages as compared with private-for-profit childcare companies). Our analysis also shows that not-for-profit organisations also have shared ownership structures which mean for example that the company can only be sold to a third party if the trustees want it to be, which safeguards its long-term viability. Some of these not-for-profit childcare companies are registered as charities, which limits the amount of debt they are allowed to incur and makes them lower risk. They also have aims and objectives with a more explicit social purpose. Some not-for-profit companies are employee-owned organisations rather than investor-owned, which makes their operation more accountable to the staff and parents.

**RQ5:** Is there a fair and even distribution of private-for-profit provision across England?

**Finding 8: Despite the commercial interests, current assessment methods find there is a fair and even distribution of private-for-profit provision across England. However, the measure of 'quality' is criticised.** Our analysis using the Ofsted measure of quality showed that availability of childcare provision was only weakly related to level of deprivation: whilst the most deprived areas have fewer nurseries than the least deprived, the differences are not large. There is a slight tendency for the more deprived areas to have fewer providers rated as outstanding, but the relationship is not strong. Two case studies also indicated a spread of provision across England, and without being concentrated in less deprived areas. However, we used the Ofsted inspection rating for overall quality as an indicator for the quality of nurseries on the Ofsted register, which we acknowledge has been criticised (for example, Mathers, Singler and Karemaker, 2012) because it does not allow enough comparison between settings (most settings are now categorised overall as 'excellent').

**Recommendation:** More research needs to be conducted using better measures of quality than those available to confirm our findings. While we are confident in our analysis, as the Ofsted measure of overall setting quality is the only measure available in public data for all providers, and has been heavily criticised by researchers, we suggest other measures are developed for use in national data. New measures could be used to complement existing quality measures, and to confirm if our findings (and those from other research), using the Ofsted measure of quality, are reliable indicators of the spread of provision by deprivation levels. New measures of quality, collected from Ofsted of all providers, would allow for more nuanced analysis between

settings in terms of provision of services in relation to deprivation than in currently possible.

**RQ6:** To what extent do nursery managers facilitate the access of vulnerable families?

**Finding 9: Nursery managers are concerned to support vulnerable families.** Evidence from our interviews and survey with frontline nursery managers shows that they are working very hard to facilitate the access of vulnerable families. However, they feel frustrated that the funding levels within the sector limit what they are able to do (this is across nurseries in both the private-for-profit and not-for-profit sectors). Lack of investment in staffing could be due to funding insufficiencies in the sector (and respondents to our survey felt strongly that the money for the 30 hour 'free' places was insufficient).

**Finding 10: Not-for-profit organisations use parents and staff on their board of trustees to ensure they represent the needs of families and support their staff.** From our interviews and surveys with nursery managers, we found that the involvement of staff and parents in policy making was, in most cases, only ad-hoc and informal. The variety of terms managers used to describe their nurseries made it difficult to distinguish private-for-profit from not-for-profit in these data sets. However, other evidence from financial analysis of our not-for-profit case studies, show that having staff and parent representation on company boards is worthwhile because it supports policymaking and the social ethos of the company. For example, the management report narrative for St Bede Childcare, show how concerned the trustees are about making social impact and supporting struggling families or children with special needs. Additionally, there are exemplars from other countries, such as Norway (Jacobsen and Vollset, 2012), of how parents/carers and staff can be involved in the way nurseries operate. For example, evidence shows that each nursery in Norway has to submit an annual report about policy, practices and finances for consideration to parents/carers and staff – and even, in an abbreviated form, to children (Jacobsen and Vollset, 2012).

**Recommendation:** We suggest childcare companies consider having representation of parents and staff on the nursery management board so that their interests can be best represented. Government could consider making staff and parental involvement in the management of nurseries a condition of childcare companies receiving public funding.

## 1. Introduction

There have been many changes in government policy in the last 20 years within England. Each successive Government has emphasised different aspects of provision and funding, but with one overall aim – to promote and support (through significant levels of public investment), ‘high quality’ childcare, especially for disadvantaged families (National Audit Office, 2020). This provision has been delivered since the second world war through a mixed economy of care (of private-for-profit and not-for-profit providers), but it was not until the 1990s that parents received state support for this care (Lloyd, 2017).

The Labour government of 1997 to 2010 introduced universal, free part-time early education for three-and four-year-olds, which in England took the form of 15 hours early education each week during term time (Lloyd, 2017). From 2010 onwards disadvantaged two-year olds have also been entitled to 15 hours free early education during term time (Hall and Stephens, 2020). As well as state nursery schools and nursery classes in primary schools, private-for-profit and not-for-profit childcare businesses became eligible for direct public subsidies to deliver this early education entitlement, provided they met certain quality and safeguarding criteria (Lloyd, 2017). In addition, the Childcare Act of 2006<sup>2</sup> urged local authorities to promote the private-for-profit sector as the main resource for providing childcare. These changes led to the rapid development of private-for-profit childcare businesses, including corporate childcare chains (Hall and Stephens, 2020). Stock market listed childcare businesses are now described as a ‘hot market’, offering high short term returns for investors (LaingBuisson, 2019).

Market-based ECEC systems have several possible advantages, including the ability to quickly expand supply in line with (profitable) demand (OECD, 2020). Also, markets have the ability to offer a more flexible way of delivering the free entitlement that may better suit working parents (Greater London Authority, 2012). However, others have argued that the private sector has been accepted as a way to provide ECEC ‘almost without debate’, and without evidence that it is delivering on government aims, especially for disadvantaged children (Penn, 2019). West (2010) questions whether the ethos of the market is compatible with the various policy requirements. For example, there is evidence in the UK which suggests that market dynamics can lead to insufficient coverage in poorer, less profitable areas (Noailly and Visser, 2009). Other criticisms include that governments have less control over fees charged to parents, placing it out of the reach of some families, and exposing service provision to market forces and the volatility related to the way private-for-profit companies operate, which may make them vulnerable to collapse (OECD, 2020). For example, ABC Learning in Australia (which used to be Australia’s largest childcare provider), collapsed during the global financial crisis in 2008 (OECD, 2020). Also, wider afield, within adult social

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<sup>2</sup> <http://www.legislation.gov.uk/ukpga/2006/21>

care, where private-for-profit provision now dominates, there is well-documented evidence of the vulnerabilities of collapse (Williams et al., 2002).

A review of research addressing the quality, effectiveness and sustainability of early childhood education and care provision since 2010 revealed a 'dysfunctional market failing those that need it most', with recruitment a problem, staff turnover increasing and pay very low (Oppenheim and Archer, 2021, p3). Moreover, problems of recruitment and retention are being exacerbated by the Covid-19 pandemic, which is reported to be having far-reaching impacts on the sector (ibid), not least concerns about lower demand for childcare places which could threaten the viability of childcare companies, especially small nurseries (Blanden et al., 2020) –children currently attending early years settings is approximately 76% of the usual daily level (DfE 2021). The pandemic is causing some settings to permanently close their doors (Early Years Alliance, 2020) – recent analysis showed that Covid isolation resulted in closures for four in every ten early years settings across England, Wales and Scotland during the spring of 2021 (EPI and NDNA, 2021). The pandemic has also highlighted the importance of childcare to the wider economy, especially given the effects on parents/carers having to look after their children at home (Coram Family and Childcare, 2020).

These risks appear to be higher than public sector providers, due to the volatility of market forces. However, there are exemplars, such as those from Norway (Jacobsen and Vollset, 2012), of how the risks of private-for-profit providers, can be offset. For example, by having parents/carers and staff involved in the way nurseries operate through being active members of the nursery board of trustees (ibid). In Norway, each nursery submits an annual report for consideration by parents and carers which includes policy, practices and finances (Jacobsen and Vollset, 2012).

This report charts changes in childcare provision in order to understand the differences between the public and private sectors, particularly, the balance of public and private provision, and the location of this provision in relation to deprivation. While our detailed financial and statistical analyses form the basis of our conclusions, given the level of technical detail involved, we have only presented the summaries of our findings in this main report. We have produced a separate technical annex which provides a more detailed account of the methodology and findings (Simon et al., 2021).

## 1.1 Investment in the early years: what is the rationale?

There are two government policy rationales to justify public investment in early childhood education and care. One is a social mobility rationale, aiming for longer-term impact (Department for Education, 2017). It presupposes that early education and care services help close the gap between children growing up with disadvantage and their better-off peers and improves children's life chances. Evidence suggests that universal access to 'high quality pre-primary education' is important for reducing inequalities associated with parents' educational background and socioeconomic status (West, 2010).

The second rationale, which aims for a more short-term impact, argues that such provision enables parents/carers (particularly mothers) to combine work and care and in this way helps prevent or eliminate poverty in families with young children (ibid).

In England and across the UK, these rationales are reflected in a public subsidy for early years' providers, nursery schools and classes, and primary schools. This subsidy is meant to cover the cost of delivering 15 hours of 'free' childcare per week during term time to all three and four year olds and to disadvantaged two year olds. This is the 'universal' entitlement. The economic wellbeing rationale was reflected in a system of parental subsidies through the tax and benefits systems to help employed parents/carers pay for childcare costs over and above the 15 'free' hours of childcare, for younger children or for out-of-school provision (Lloyd, 2017, p. 269).

In addition, childcare subsidies were paid to parents/carers across the UK in the form of tax credits and employer childcare vouchers. They were introduced to stimulate competition and quality within local childcare markets, to offer employed parents/carers more choice, and also to offer parents/carers more financial support for childcare costs. Under the rules governing Universal Credit, employed parents/carers receiving benefits may also qualify for help with childcare costs for their children aged under 18.

Since 2015 the Conservative government has introduced childcare subsidies via 'free hours' for parents. The initial 15 hours of early education/childcare was increased to 30 hours in 2017. This was for three-and four-year old children whose parents/carers meet certain employment criteria.

Parents/carers each need to earn at least £131 a week and no more than £100,000 annually to qualify for this subsidy. The current government's tax-free childcare policy enables dual earner families or employed single parents/carers to claim 20 pence for any 80 pence they spend on childcare costs for any of their children up to the age of twelve (or age 17 for disabled children). This childcare top-up is paid up to a maximum of £2,000 per child per year.

For the implementation of the 30 hours free childcare policy in 2017 (Paull and La Valle 2018), the government used the 'free hours' policy to deliver a targeted service to the children of working parents/carers. This was explicitly to enable parents/carers to take up employment (Department for Education, 2015). This is the extended offer. The aim of the free childcare offer was to 'ensure that parents are able to better combine work and caring responsibilities' (HM Treasury, 2015: 52) and to support parents/carers, and specifically mothers, into employment or to work longer hours:

'We introduced 30 hours free childcare for working families in September 2017. Many parents want to return to work, and 30 hours free childcare supports them to do so. Responses to the Childcare and Early Years Survey of Parents show that in 2019, parents who applied for the 30 hours did so to maintain (39%) or increase (21%) their



working hours. We are clear that the 30 hours offer aims to support eligible working families with the cost of childcare, and to support parents back into work, or to work more hours should they wish to, saving parents up to £5,000 per year in total if they use the full 30 hours. The 2019 Parents Survey backs this, with 78% of parents reporting improved family finances whilst using 30 hours'. (Vicky Ford, The Parliamentary Under-Secretary of State for Education, Written Answer 8 September 2020<sup>3</sup>).

The Department for Education policy paper on the Childcare Bill which extended free places made clear that regulations on the eligibility for them were 'to ensure that parents take up the additional hours of free childcare for the purposes of supporting their employment' (Department for Education, 2015, p.9).

Estimating the total government expenditure on childcare is difficult, as there are several sources of funding, and many different kinds of childcare offers. According to the Institute for Fiscal Studies (IFS) annual report on education spending for 2019, the Government spends an estimated £3.9 billion to support childcare and education for three and four year olds and some two year olds in England (Britton et al., 2020, section 2.5). The funding is used to pay for childcare and education places in the private-for-profit and charity (not-for-profit) sector, and nursery education in the state sector. However, as the report also points out, there was £900 million allocated to support childcare through the benefit system and £860 million on tax relief for childcare. Unlike the support for 'free' places (the term used by the Department for Education, 2018), which is paid to the provider, the benefits and tax relief are received by the parents/carers, but it allows them to buy more childcare. So, in this way, this is also government expenditure on childcare, and brings the total to £5.6 billion per year (Britton et al., 2020).

**In this report we detail our key findings which have explored how the private-for-profit and charity (not-for-profit) sectors use this money, however received, and whether they are transparent and accountable for the money allocated.**

## 1.2 Changes in provision and the growth of large childcare companies

The changes in policy and funding have in turn led to changes in provision itself. The trade press, in particular the trade magazine *Nursery World* and its supplement *Nursery Chains* (which provides an annual analysis of the private sector), suggests that many single or small group private, private-for-profit, voluntary and community nurseries have merged in recent years, leaving a very small residue of public provision. This has led to a situation where the large nursery companies, varying in size from 50 to 300+ nurseries, are

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<sup>3</sup> <https://questions-statements.parliament.uk/written-questions/detail/2020-08-28/82591>

dominant in the UK. For example, Redwoods Dowling Kerr (a leading brokerage firm) describes itself as *'the complete childcare business broker ...we sell more childcare businesses than any other'*. Their recent report said of the market in childcare, *'2019 was a fantastic year for childcare business sales. A year when deals occurred at lightning pace across all regions for all sizes of operations'* (Redwoods Dowling Kerr, 2020, p.2). They continue, *'as we look forward, we expect that there will be further acquisitions by the large corporate operators in 2020 which will increase the market share as a % by operators with greater than 20 settings. This is an exciting development for the sector and one which offers great potential to both acquirers and owners who are seeking to sell their childcare business.'* (ibid, p.3) and *'The industry is witnessing a rapid rate of consolidation by corporate operators (defined 20+ settings)'* (ibid: 4). Even allowing for a degree of overstatement, this is a very clear account of extensive growth by large childcare operators (see also section 3.1, where we present data from *Nursery Chains* charting the growth of the childcare company sector over the past 20 years). However, the growth of the large companies is not matched by a growth in the number of places; the growth has mostly been the result of acquisition and mergers, rather than opening new services (Christie & Co, 2019).

### 1.3 Private-for-profit provision and the financialisation of services – is it a risk?

Privatised provision in childcare is part of a wider landscape of change across all sectors of services, such as elder-care, in which private-for-profit sector provision has been regarded as offering more consumer choice and more efficient distribution of services than state services could provide (Lloyd and Penn 2012). One aspect of this privatisation has been the rapid growth of large companies operating in the service sector and what is called financialisation (Erturk et al., 2008; Shaxson, 2018), which has been defined as *'a process involving the increasing role of financial motives, the financial markets, financial actors and financial institutions in the operation of the domestic and international economies'* (Blakeley and Quilter-Pinner, 2019, p.5). Finance has traditionally been a service industry, but some have argued it has now become a master industry whose motive has changed from investment to extraction (Froud et al., 2006; Kay, 2015). The state has relied on private corporations to provide public services, and the private-for-profit companies have in turn used both global and national private investors to finance their expansion. The interests of global private investment companies have thereby come to shape public services. This process has been tracked in detail for social care of the elderly (Blakeley and Quilter-Pinner, 2019; Burns et al., 2016; Foundational Economy Collective, 2018; Haslam et al., 2016; Kotecha, 2019).

Financialisation effects include using property as a collateral for the business, so that it can be sold or used for other purposes if the nursery is not

sustainable; a significant change in narratives, for example, growth through loss-making in the sector; and what have been called ‘astonishingly complex’ corporate structures (Blakely and Quilter-Pinner, 2019, p.7; Brooks, 2019) which enable companies to minimise the amount of tax they pay.

In addition, experience of the privatisation of other public care services, which use highly leveraged financial models, also raises concern about the future stability of the childcare sector. For example, the National Probation Service was privatised in 2015. However, as a result of persistent failures, the service was renationalised in 2019 (HM Inspectorate of Probation, 2019): ‘*Faced with the risk of multiple provider failures, the Ministry decided to terminate [Community Rehabilitation Companies] CRC contracts 14 months early ... The agreement to terminate the contracts comes at a further cost to the taxpayer of at least £171 million.*’ (National Audit Office, 2019, p.9). This example shows how the financialised model followed by many private-for-profit companies can be unstable.

**Part of our work in this research, through our financial analysis, has been to investigate whether these phenomena (of companies using highly leveraged financial models and vulnerability to collapse/closure) exist also within the childcare sector.**

#### 1.4 Undertaking research into private-for-profit childcare

Our research aimed to explore issues of location, continuity, turnover and sustainability, transparency, and accountability in childcare services.

This process has not been straightforward. We have drawn upon information about private-for-profit nurseries and, in particular, large company nurseries, from a range of sources held mainly in the public domain. Our main source of financial data has been the company returns. These are audited financial statements that, by law, companies are required to submit annually to Companies House in the UK. But other information about company performance and company strategies comes from market research companies and from companies’ own self-promotion as reported in trade literature and company websites. Market research is in turn part of the business landscape and, in childcare as elsewhere, the way in which information is selected, packaged, presented and stored is also a commercial enterprise. Interpreting the range of data available, and comparing sources is problematic. We explore issues of information and data in more detail in the technical annex (Simon et al., 2021) under workstream three.

We have also been beset by problems of definition from the outset. Almost all childcare companies operating in the UK describe themselves as UK based, or even as international, and do not distinguish their operations in terms of the

four nations of the UK<sup>4</sup>. However, Ofsted reports and many national surveys and research reports do distinguish the four nations, so we have some data referring only to England, and other data referring to the UK as a whole.

There are also problems of categorisation and nomenclature concerning types of childcare provision. There is an umbrella category in common use of 'private provision' which is posed against state and voluntary provision, but within the category of 'private' or 'private-for-profit' and within the category of 'charity' or not-for-profit there are various ways of categorising and understanding the comparisons that are being made.

We have tried to make these distinctions clear in our report, but in the absence of widely accepted pre-defined categories, there is likely to be some slippage in our usage. We have attempted to reference the source of any definition we use, where possible. We argue that our confusion is in part due to the very rapid changes in the sector in the last five to ten years (Lloyd, 2017). It is also an indication of the lack of scrutiny that has been given to these changes so far, for example in the lack of adequate definitions of the types of company operating in the field of childcare, a point also noted very recently by Ofsted (2020b, p.29). We explore this further in the main body of the report.

## **2. Methodological Overview**

This project set out to investigate the impact and reach of the private-for-profit sector from four separate angles, reported as four workstreams, in order to build up a comprehensive analysis. A brief description of the four workstreams is provided below and a more detailed methodological description is provided in the separate technical annex (Simon et al., 2021).

In accordance with our funder requirements, we had a project advisory group commenting on all stages of this work and the outputs. This group comprised specialist subject and methodology academics, and sector representatives, including CEOs from one private-for-profit and one not-for-profit childcare organisation. In consultation with this advisory group, our financial analysis (workstream two – see section 2.2.) included case studies of selected medium to large private-for-profit nurseries and chains (see section 2.2 for how the cases were selected) and case study exemplars of not-for-profit childcare nurseries. Our aim was to understand differences in how childcare organisations operate.

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<sup>4</sup> Two companies operate solely in Northern Ireland, and 5 companies operate solely in Scotland (Gaunt, 2019).

## 2.1 Workstream 1: A review of market reach, social impact and accountability

The aim of this workstream was twofold. First, we wanted to understand how the private sector had changed over the past 20 years in terms of its definition, size and 'reach' within the childcare sector – which up until now has not been a topic of research. Second, we were motivated by a recent UN special report on extreme poverty and human rights (Alston 2018) to examine issues of social accountability. This UN report raised the question: 'Are private entities dedicated to maximising their own profits best placed to protect the rights of the community' (ibid, p.4) and argued that concepts of equal access, fairness, accountability and representation are important for protecting human rights within private entities, especially for low-income earners and those living in poverty. These were the resulting research questions for this workstream:

**RQ1: What is the market reach of the private sector; specifically: what is its size and shape, including number of places?**

**RQ2: To what extent does the sector recognise questions of social impact and accountability; specifically: (a) what are the aims of the private-for-profit sector? and (b) do the not-for-profit nurseries have different aims to the private-for-profit nurseries?**

For RQ1, we explored the data and narrative presented by the corporate company sector about itself. We did this by examining publicly available childcare trade literature and market research information, attending marketing events (and scrutinising the accompanying literature), assessing information on selected childcare company websites (these were the websites of the companies we examined for our financial case study analysis), and interviewing some senior company executives.

For RQ2, in addition to examining the sources used for addressing RQ1, we also conducted a content analysis (Mayring, 2000) on two key publications: *Nursery World's 'Chains'* publication and *Nursery Management Today*, and some key websites (for example, National Day Nursery Association, Early Years Alliance, Pacey, and the 25 largest childcare chains as listed in *Nursery World*). We searched these publications and websites for the frequency and use of keywords expressed in the aforementioned UN report, including equal access, fairness, accountability and representation. Further details are provided in our technical annex (Simon et al., 2021).

For the other sources we examined (trade literature, websites etc.), we noted the general content, the intended audience, the economic and other sector predictions and the language used. We looked for items on social impact; access for vulnerable and marginalised groups; concepts of fairness and issues of participation and accountability.

For the interviews with senior executive staff in the childcare sector, we had hoped to undertake interviews with companies whose financial returns we

were investigating in workstream two. We approached large companies directly, using known contacts or those who had been recommended to us through intermediaries. We contacted ten companies, and two senior figures in the industry over a three-month period, contacting each by email at least three times, and leaving phone messages. We used the university ethical protocols in approaching the companies; we guaranteed anonymity and offered to send drafts of all interview material for comment and correction.

As discussed in more detail in our technical annex (Simon et al., 2021), it was very difficult to gain interview access to these senior executives. One large nursery company gave an interview but then retracted it; and the other nursery chains did not answer (it should be noted that the letter/email may not have always reached the right individuals as it was not possible to identify the main office and/or chief executive of the company). One of the senior industry figures we interviewed, after arranging and rearranging the interview more than four times, also retracted their interview.

In the end, on the advice of our advisory group, we conducted two other interviews – one with an ex-senior executive of a very large financialised company in England, and another with a senior executive of a large social enterprise company in England. We have permission to freely use the interview material from these interviewees in our findings below.

## 2.2 Workstream 2: Financial analysis.

The aim of this workstream was to gain an understanding of the financial operation of nurseries and if there are any differences between the large private-for-profit companies and the not-for-profit companies.

While our project as a whole provides information about the wider childcare sector, workstream two takes a much more ‘in-depth’ analysis, focusing on a purposive sample of large private-for-profit childcare companies and a selection of not-for-profit charitable nurseries and social enterprises.

To meet this objective workstream two aimed to address these research questions:

**RQ3: Do the finances of large childcare companies reflect the financialisation across other service sectors?**

**RQ4: Do charitable and not-for-profit companies offer an alternative, and if so, how?**

We used forensic accounting (Chew, 2017) to analyse the company returns for the sample of medium to large private-for-profit accounts submitted to Companies House. The selection of our case studies was purposive; for the private-for-profit companies, we aimed to get a cross-section of size and profitability. For the charity companies (not-for-profit), we aimed to get a range of size and type of operator.

This analysis was conducted to understand in detail how medium to large private- private-for-profit childcare accumulate and spend money. All for-profit nurseries are expected by law to submit accounts to Companies House.

As detailed above, we have made a comparison with the finances of smaller social enterprise, charitable and not-for-profit companies. These companies submit their financial accounts to the Charity Commission as well as to Companies House.

Our approach was to carry out detailed case study analysis of the financial performance of a set of selected nurseries (reported in section 3.2). A case study approach allows a detailed, multidimensional examination of complex structures (Crowe et al., 2011). Looking at a few groups enables us to examine the financial performance of companies in greater depth.

There is a time lag in the submission of accounts to Companies House, and to the Charity Commission and their publication. Given the rapidity of acquisitions and mergers in the sector, and of new entrants to the market from abroad, our summary does not include the most recent developments nor the current market share of childcare company provision.

The case study nurseries were classified under each of two financial models: private-for-profit and not-for-profit. The nursery companies selected for analysis were five medium to large private-for-profit chains (which together cover a large proportion of the market). These were: Busy Bees, Bright Horizons Family Solutions, Just Childcare, All About Children and Les Petits Chaperons Rouges. We also examined six not-for-profit case studies which were social enterprises and charities: the London Early Years Foundation, Child Dynamix, Childcare and Business Consultancy Services, Community Childcare (Growing Places), St Bede's Childcare, and York Childcare (see section 3.2 for further details). The not-for-profit companies were social enterprise and other organisations, all local, and tended to have limited turnover in comparison with the medium to large private-for-profit companies we examined.

We examined profitability and performance over time for each of our case studies. We examined the annual audited accounts over a number of years, their ownership structures, levels of borrowing and debt.

Because of well documented issues within the childcare sector related to staff shortages, low wages, and poor levels of qualification (Christie & Co, 2019; Kanwar, 2019), we examined financial ratios such as a wages relative to sales. This was to understand the proportion of company income spent on staff costs, to understand trends and to examine other specific aspects of performance.

The submitted (public) financial reports also enabled us to ascertain management priorities and strategy. We also looked at trends in ratios and plotted these graphically to help us visualise the financial performance in specific areas like wages, borrowings or profits.

The technical annex (Simon et al., 2021) provides more detail about how we carried out our analysis of public accounts submitted by the private-for-profit case studies to Companies House and our analysis of the other case studies using accounts submitted to the Charity Commission. There, and in the findings which follow in section 3.2, we discuss the limitations of audited accounts we examined.

### 2.3 Workstream 3: Location and deprivation

Motivated by the UN report on extreme poverty and human rights (Alston, 2018), which places importance on equal and fair access to childcare for all groups, and especially low income groups, we wanted to see to what extent the distribution of childcare provision varied by levels of deprivation and by type of provision (private-for-profit versus not-for-profit). In this workstream, we therefore addressed this research question:

**RQ5: Is there a fair and even distribution of private-for-profit provision across England?**

We assessed 'fairness' with respect to the levels of deprivation in the local area: a fair and even distribution would be where the presence of private-for-profit childcare was independent of levels of deprivation<sup>5</sup>. We explored whether the distribution of private-for-profit provision might facilitate equal access, or whether company provision had a skewed distribution. Here (and in workstream 4) we looked for external evidence of impact of financialisation.

This workstream relied primarily on Ofsted data. This is the most comprehensive database available that can be used to monitor overall changes in the sector, although we found some limitations. We mapped the ownership of provision throughout England, and in doing so located company provision. Using the Income Deprivation Affecting Children Index (IDACI) we also assessed whether company providers are equally distributed across areas of high or low deprivation. Additionally, we examined company quality, as defined by Ofsted ratings. We also ran detailed case studies of two nursery chains, each of which shows a different pattern of financialisation. For this case study analysis, we used the companies' own lists of nurseries, from the website [daynurseries.co.uk](http://daynurseries.co.uk), and matched this against the IDACI data. Please refer to the technical annex (Simon et al., 2021) for details about how this analysis was carried out.

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<sup>5</sup> We used the Income Deprivation Affecting Children Index (IDACI) which measures the proportion of all children aged 0 to 15 living in income deprived families. It is a subset of the Income Deprivation Domain which measures the proportion of the population in an area experiencing deprivation relating to low income. The definition of low income used includes both those people that are out-of-work, and those that are in work but who have low earnings (and who satisfy the respective means tests).



## 2.4 Workstream 4: Accounts of frontline managers

For this workstream we were also motivated by the UN report on extreme poverty and human rights (Alston, 2018). We wanted to particularly examine how nurseries may be providing access to vulnerable families (for example, low income and/or families in poverty). Promoting equality and inclusion, particularly for disadvantaged families, for children in the early years sector, is also mentioned in key government publications (DfE, 2018). Given the importance of accountability, emphasised in the UN report, we wanted to examine to what extent childcare nurseries involved staff and parents/carers in the operation of the nurseries. We aimed to address these key questions.

**RQ6: To what extent do nursery managers facilitate the access of vulnerable families?**

**RQ7: To what extent do nurseries promote the participation of staff and parents/carers in nursery policy making?**

We were interested in exploring if nursery managers were receptive to and had policies to deliver equal access and fairness, accountability and representation, and how ideas of participation and accountability were interpreted at a local level by nurseries.

In order to investigate these questions, we set out to conduct in-depth interviews by telephone with a random sample of 100 nurseries across locations of differing levels of deprivation across ten local authorities (Simon et al., 2021) to ask nursery managers questions about the nurseries' procedures and operations.

We developed the questions for these nurseries in close discussion with sector representatives on our advisory group and also piloted the interviews with some nurseries, before commencing our full data collection. However, the returns were very poor, a common finding in the sector. For example, the 2019 Survey of Childcare and Early Years Providers, conducted on behalf of the DfE, achieved a response rate of 38 per cent (Marshall et al., 2019: Table 6).

Given the poor response rates to the interview, we switched approach to collecting information from nursery managers using an online survey. The technical annex (Simon et al., 2021) explains this in more detail.

In total, using both data collection methods, we collected data from 80 nurseries between July 2019 and January 2020. Our sample for this workstream was self-selected, with participants recruited through advertising in various sector websites, newsletters and forums. The 80 nurseries that took part were a mix of type, from individual nurseries through to large chains with 20 or more sites, some private-for-profit and some voluntary not-for-profit (the nurseries were invited to self-identify which type they were). We are grateful to those nurseries that took the time to respond. While this data provides a flavour of 'sector voices', we are obliged to treat the results with caution, since

the numbers are still small and self-selecting, which means we cannot say if they are representative of the wider childcare sector in England.

### 3. Methods and findings

#### 3.1 Workstream 1: A review of market reach, social impact and accountability

Key findings for each research question for this workstream are discussed below.

##### 3.1.1 Methods

The first research question we aimed to address here was: **What is the market reach of the private sector?** We were primarily interested here in finding out the answer to ‘what is its size and shape, of the private-for-profit sector, including number of places?’.

Our information about the shape and size of the company sector necessarily comes from trade sources. As far as possible we have checked this information against official statistics, but there are significant discrepancies. For example, the actual number of places provided, and the categorisation of those providing them remains unclear because different sources use different ways of describing and counting what is available and who provides it. There are also discrepancies between the trade sources themselves since their data has been collected in different ways for different purposes. We explore this further below. We have cited information from the following sources:

- The first is LaingBuisson’s (2019) annual report on the state of the UK childcare market. This is a company which specialises in ‘intelligence for health and care markets’. They publish market reports, including an annual report on childcare in the UK. We made use of the 2019 report, which was the most recent publication, when conducting this research.
- A further important source of information about company settings and number of places offered, is the annual *Nursery Chains* and *Nursery Chains Directory*. This source is essentially a register which has been kept by the trade magazine *Nursery World* for over 20 years, and which is annually updated. Unfortunately, it does not differentiate between different types of ownership, but emphasises the size of the organisation. They define a nursery chain simply as three settings or more. Many of the companies listed in the *Nursery Chains Directory* are not confined to providing childcare places but also offer various semi-specialist services such as training or out of school activities and sports, which makes the issue more unclear as it includes services which are not directly related to childcare. We have principally used the *Nursery Chains* annual company ranking of numbers of settings to give

a measure of expansion and turnover of medium to large company childcare.

- We have also used as a source company or special reports from major brokerage and property companies, including Christie & Co (2019) and Redwoods Dowling Kerr (2020), and independent strategy consulting firms, including Cairneagle (Kanwar, 2019). These sources are important for our purposes because they provide an interpretation of and vocabulary about company provision which helps to explain the aims and direction of the private childcare sector.

In addition, from the various sources we have used, including news reports from trade magazines, and annual reports from property and brokerage firms, it is obvious that there are many hybrid ownership arrangements. For each source analysed we noted the general content, the intended audience, the economic and other sector predictions and the language used. We looked for items on social impact; access for vulnerable and marginalised groups; concepts of fairness and issues of participation and accountability.

The company sector is not uniform, and neither is the voluntary sector. One such arrangement, which we describe below, is an employee buyout private-for-profit company. There are a number of social enterprise companies, one of which, the London Early Years Foundation, consistently appears in the *Nursery Chains* ranking. Social enterprises fall somewhere between a private-for-profit company and a voluntary organisation. They may or may not be registered as charities but might nevertheless be entitled to access special funds from local authorities and charitable or social investment funders because of their social equity aims, which we discuss below. As well as charitable organisations, there are also part-voluntary community groups providing childcare who may also be registered as charities.

For the second research question, **What are the aims of the private sector and to what extent does the sector recognise questions of social impact and accountability?** we particularly wanted to address the aims of the private-for-profit sector, and whether these differ from the not-for-profit nurseries, and to what extent the sector recognised questions of social impact and accountability.

To answer this research question, we did four key things. First, we attended the annual *Childcare Seminar*<sup>6</sup> organised by LaingBuisson<sup>7</sup>, the leading market research company in the field of childcare. This was to see how the sector presented and described itself and, in particular, to obtain a picture of

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<sup>6</sup> It was held on 6.2.2019 at the KPMG London headquarters in Mayfair. The event was sponsored by the accounting organisation KPMG, the Santander Corporate and Commercial (also known as Santander Corporate and Investment Banking and Santander Asset Finance) and the Office for National Statistics.

<sup>7</sup> <https://ccr18.laingbuisson.com/home>

current priorities<sup>8</sup>. The theme of the seminar was investment. We noted the delegates list and the particular topics being discussed to gain a picture of who was involved in the discussions about investment in the sector, and what kinds of issues were being raised. Conference presentations included profitable strategies for investment and acquisition (seminar presentation: *Is it still location, location, location?*); a discussion of profitable nurseries and profitable client groups (seminar presentation: *What are investors looking for?*); and seeking economies of scale, by investing in larger (100-200+ places) nurseries, and scrutinising nursery accounts very carefully for profitability (conference presentation: *Mergers and Acquisitions: valuations, funding and deal flow*).

Second, we analysed the content of trade literature. This was the sector's recent online and published output in the trade press and other trade documentation, and two key publications: *Nursery World*, *Nursery World Chains*, and another sector magazine *Nursery Management Today*, and some key websites (for example, NDNA, Early Years Alliance, Pacey, and the 25 largest childcare chains as listed in *Nursery World*). From these sources, we searched for the frequency and use of key words 'equal access', 'fairness', 'accountability' and 'representation' (Mayring, 2000).

Third, we examined the websites of selected nurseries. We chose the same ones that form the case studies for our financial analysis (see 3.2).

Fourth, we conducted some interviews with senior company executives representing the private-for-profit sector.

### 3.1.2 Findings

#### 3.1.2.1 ESTIMATES ABOUT THE SHAPE AND SIZE OF THE PRIVATE-FOR-PROFIT SECTOR AND NUMBER OF PLACES OFFERED (RQ1)

##### ESTIMATES OF SIZE

We used three main sources for our analysis of size: the LaingBuisson childcare report (2019), the DfE providers survey (2019), and our own analysis of Ofsted data from 2018. We also refer to the CEEDA report (2019) which provided some analysis of Ofsted data for 2019. The estimates from these sources are provided in terms of providers, settings (these terms are often used interchangeably), or places (Table 1).

**Table 1: Estimates of private sector provider size and places**

Data source	Providers/settings	Places	Notes
LaingBuisson, 2019 (UK)	53% (8,265 nurseries) of all childcare settings are now provided by companies.	57% (400,854 places) of all places.	No sources are cited so we do not know where this data comes from. 'Companies' mean

<sup>8</sup> Summaries of papers detailing the key sector priorities were issued to delegates only and were only online for a short period.

			private sector in this report.
DfE providers survey, 2019 (England)	61% (10,366) per cent of all providers were privately owned.	69% of places are given by privately owned providers	Ownership of full day care group-based providers. Based on a survey, which for 2019, had a response rate for group-based providers of 48% (Marshall et al., 2019).
Ofsted, our own analysis from 2018 data (England)	47% (11,537) could be identified as owned by limited companies.	57% (587,666) of all places were in these limited company providers.	Used the word 'limited' in names to pick out private companies; likely to be an underestimate
Ofsted data for 2019 from Ceeda (England)	31% of providers are identified on 'non domestic premises' on the early years register (24,134).	51% (1,064,677) of all places provided by 'non domestic premises' on the early years register	Non-domestic includes: pre-schools, holiday clubs, and other 'private provision' on non-domestic premises registered on the early years register looking after children aged 0-5.

There is no single definitive estimate. In analysing the UK, LaingBuisson reports 53 per cent of providers/settings are in the private sector but does not cite sources of data. The DfE provider survey data reports the highest estimate, of 61% of providers (and also places – 69%) in the private sector, but for England only and with a response rate of 38% (Marshall et al., 2019: Table 6). These two sources are higher than those estimated by Ofsted, which are likely to be underestimates. We provide two estimates that are closely aligned to each other on number of places (57% from our analysis and 51% from Ceeda analysis), but not on number of providers (47% from our analysis and 31% from Ceeda). The differences are due to the various ways these sources define and count the numbers of providers and places. Our technical annex (Simon et al., 2021) explains more about how these numbers were derived and the differences between the sources.

## MARKET CHANGES

Data on changes in the sector can be obtained from trade literature. The company literature (for example, LaingBuisson 2019; Redwoods Dowling Kerr 2020) presents a picture of some rapidly expanding businesses in the private sector, while smaller nursery settings closed leaving the number of places constant. This literature claims, for example, that within the last ten years, the dominant model of childcare provision in the UK, providing the largest number of places, has become medium to large commercial company provision – LaingBuisson (2019) track the split of the UK market by provider size for 2016, 2018 and 2019. They show a decline in the proportion of single site

providers, from 85 per cent in 2016 to 62 per cent in 2019 and a growth in groups of 20+ sites from 3 per cent in 2016 to 9% in 2019. These figures for single and multi-site settings appear to be close to those reported by the DfE providers survey in table 2 below. It appears that it is the single site or small business operations that are partly providing the fuel for the expansion of larger companies; but also, the larger chains are merging or acquiring each other.

**Table 2: Private provider size – single versus groups, 2019**

<b>Data source</b>	<b>Single site</b>	<b>Multiple sites</b>
LaingBuisson, 2019	62%	20+ sites: 9%
Ofsted data for 2019 from Ceeda (2019)	57%	2 sites: 14% 3-4 sites: 10% 5-19 sites: 10% 20+ sites: 9%

The trade magazine *Nursery World*, in its supplement *Nursery Chains*, has also been monitoring the growth of the company sector for 20 years, and produce an annual report on the current state of the market which ranks the 25 largest companies by number of settings, and also gives numbers of places, numbers of staff employed, and size of nurseries. Separately, it ranks the top 25 groups on the basis of their nurseries' performance in Ofsted inspections and lists any new nursery registrations. Each issue of *Nursery Chains* also contains an alphabetical directory *Nursery Chain Directory*, which gives details of all companies over the size of three settings.

For example, *Just Childcare* was one of the companies whose accounts are examined in workstream two. We tracked their position in the *Nursery Chains* league table (Table 3).

**Table 3: Just Childcare Position in *Nursery Chains* league table**

<b>Year</b>	<b>No of Nurseries</b>	<b>No of Places</b>	<b>Ranking (by number of settings) in League Table – out of 25</b>
2015 (first appearance in league table)	20	1, 174	21
2016	34	2,251	10
2017	33	2,332	11
2018	40	2,931	9
2019	60	4, 480	4

Source: *Gaunt, 2015, 2016, 2017, 2018, 2019.*

During this time Just Childcare is recorded as having opened one new nursery, in a converted house, in 2016-7. The rest of its expansion comes from mergers and acquisitions of other smaller nursery chains. Our financial analysis shows that in 2015 the group is recorded as making a profit and paying tax. Subsequently, after its takeover by a private equity firm, the company is in debt and pays no tax, although it continues to expand.

The annual *Nursery Chains* ranking gives the number of settings and the number of places provided by the largest companies, as noted above. Both the number of settings and the number of places owned by these companies has increased significantly over the last five years, as the Just Childcare example illustrates. Overall, the number of companies in the *Nursery Chains Directory* has also increased substantially.

In 2019, the *Nursery Chains: League Tables* report (Gaunt, 2019) ranked the top 25 childcare companies with the largest number of settings. This latest report confirms that the corporate company sector is typified by mergers and acquisitions, with the larger companies buying up smaller chains (ibid).

Table 4 below lists the top five largest nursery groups, comparing 2014 with 2021 (the latest year of data for this listing). Busy Bees and Bright Horizons maintained first and second place respectively for 2014 and 2021. However, lower down the list, there were some changes as a number of companies grew fast through acquisitions while other names disappeared (Gaunt, 2014, 2021). For instance, Asquith, third in the list in 2014, was absorbed by Bright Horizons in 2016 and its name disappeared from this list. Kids Planet was not in the top ten companies in 2014 but was third on the list of nursery groups by 2019, with 53 settings on its books, after it bought Kids Allowed the previous January, just prior to the pandemic (Gaunt, 2021). As we detail in table three,

and noted in Nursery World<sup>9</sup>, Just Childcare nursery group has seen a rapid expansion: from 20 settings in 2015 to 60 settings in 2019 (Table 3). Very recently (June 2021), Just Childcare was sold to a Dutch firm, Partou, by Phoenix Equity Partners<sup>10</sup>. Phoenix Equity Partners (Phoenix), a mid-market private equity firm operating in the UK, was a major investor in Just Childcare alongside the childcare group founders<sup>11</sup>. Not yet in the top 5 nursery groups, but another example of rapid expansion, is Family First nursery group, which in March 2021 was reported to have acquired five settings in the past six months, bringing its total to ten<sup>12</sup>.

**Table 4: List of nursery groups in 2014 and 2019 in rank order by number of places**

Year	Nursery Group	Number of settings & Places	Year	Nursery Group	Number of settings & Places
2014	1. Busy Bees	237, 21,474	2021	1. Busy Bees	359, 32,209
2014	2. Bright Horizons	202, 16, 108	2021	2. Bright Horizons Family Solutions	304, 24,768
2014	3. Asquith Day Nurseries and Pre-Schools	76, 5,855	2021	3. Kids Planet	53, 5,766
2014	4. Pre-School Learning Alliance	119, 4,349	2021	4. Monkey Puzzle Day Nurseries	65, 4,822
2014	5. Childbase Partnership	47, 3,884	2021	5. Just Childcare	60, 4,511

Sources: *Gaunt (2014); Gaunt (2021)*.

These lists illustrate considerable turnover; companies who top the ranking one year, may have disappeared by the next, and the list of companies itself differs each year, as some chains are taken over by others. The largest single

<sup>9</sup> <https://www.nurseryworld.co.uk/news/article/just-childcare-continues-rapid-expansion> (Accessed November 2021).

<sup>10</sup> <https://www.phoenix-equity.com/news/phoenix-announces-sale-of-just-childcare-to-partou> (Accessed November 2021).

<sup>11</sup> <https://www.privateequitywire.co.uk/2014/11/21/213363/phoenix-invests-support-growth-just-childcare> (Accessed November 2021).

<sup>12</sup> <https://www.nurseryworld.co.uk/features/article/nursery-chains-2021-overview-carrying-on> (Accessed November 2021).



company in 2021, Busy Bees, was offering 32,209 places across the UK (Gaunt, 2019).

There is some evidence (Gaunt, 2014; Gaunt, 2021) that it is the smaller nurseries in more vulnerable communities that are closing, partly in response to changes in government funding that make them less viable. For example, the Pre-school Learning Alliance, since 2019 the Early Years Alliance, which represents ex-playgroups that have become registered as nurseries, had lost more than half of its settings. The Ceeda annual report for 2018 also highlights a decline in childcare places in the most deprived areas and an increase in the least-deprived areas (2018, p.48).

While the number of places remained constant, smaller nursery settings closed. The 'growth' in companies being reported by LaingBuisson and others, relates to the size of companies, caused by some companies becoming larger by acquiring and merging with other companies, and many smaller or single companies closing.

**To summarise this section, the shape of the market for the private-for-profit childcare company sector is one of company growth and consolidation, through acquisitions and mergers. This is evidenced by the top 25 companies (ranked by number of settings) showing a significant increase in the last five years in the number of places and a growth in nursery groups with of 20+ sites, from 3 per cent in 2016 to 9 per cent in 2019 (LaingBuisson, 2019), but this 'growth' is caused by mergers and acquisitions, without the creation of new places (Ofsted, 2020a).**

### **3.1.2.2 WHAT ARE THE AIMS OF THE PRIVATE-FOR-PROFIT SECTOR? IS THEIR CONSIDERATION OF SOCIAL IMPACT AND ACCOUNTABILITY? (RQ2, PART A)**

The aims of the private-for-profit sector are apparent from trade press, nursery websites and interviews with senior executives. These sources reveal aims in terms of quality of care.

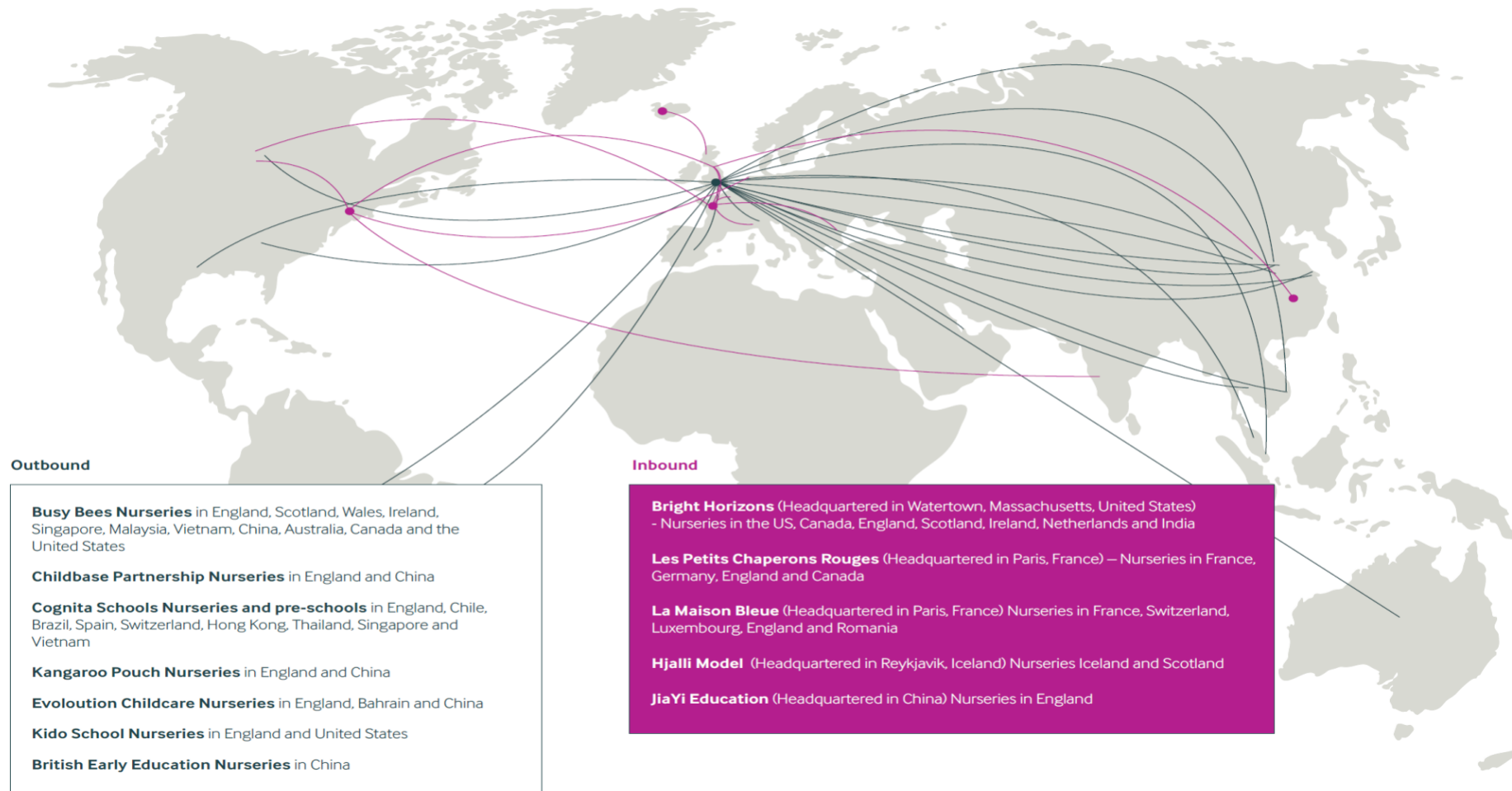
#### **DESCRIPTIONS OF SECTOR AIMS**

Some of the very recent expansion in the company sector has come from inward investment to the UK from foreign owned countries. This is discussed by Christie & Co, the property company, in their recent market report on the early childhood education and care sector (2019). In this market research report, sources are clearly identified. The report provides a global map of investments in childcare companies which illustrates international flows to and from the UK. It is estimated (ibid) that newly invested foreign companies, now have an estimated 13 per cent UK market penetration, which is growing rapidly.

The trend is for large nursery providers to consider themselves as *global companies* (Christie & Co, 2019). The most rapidly expanding chain at the

time of our research was Les Petits Chaperons Rouges, a French company buying into the UK, whose finances we also explore in workstream two. A Chinese company has recently acquired a nursery chain based in and around Portsmouth, and an Icelandic company has been buying into Scotland. These

## GLOBAL OPERATORS CURRENTLY IN THE UK: INBOUND AND OUTBOUND



Source: Christie & Co (2019).

acquisitions and mergers are frequently handled by property brokers specialising in nursery sales, most notably Christie & Co, whose own views about the viability and profitability of the market also shape purchases (Christie & Co, 2019).

In turn, some companies who have a substantial UK presence, such as Busy Bees, are seeking outward investment, and expanding in other countries, for example Singapore, China and Vietnam. Similarly, Bright Horizons, which is a USA-based firm, has an international portfolio of nurseries.

### **TRADE PRESS: DESCRIPTIONS OF SECTOR AIMS**

Evidence of the sector's aims for company expansion through acquisitions and mergers, appear in a brokerage website about Just Childcare (a private-for-profit company), whose finances we also scrutinise in our financial case studies in workstream two (Box 1).

#### **Box 1: A brokerage account of the expansion of Just Childcare<sup>13</sup>.**

*'PwC Debt & Capital Advisory ("DCA") is pleased to announce that it advised Phoenix Equity Partners ("Phoenix") on the refinancing of its portfolio company Just Childcare Limited ("Just Childcare"), an owner and operator of nurseries across England. Since its partnership with Phoenix in 2014, Just Childcare has grown to 59 settings and provides nearly 4,500 nursery places across Yorkshire, the North-West and South-West. The debt financing will be provided by Ares and RBS and will support Just Childcare's buy and build strategy going forward... The firm also provided financial due diligence services in connection with the transaction. "We are delighted to have been able to advise both Phoenix and the management team at Just Childcare on their refinancing. Following an impressive growth journey to date, this transaction provides a flexible credit solution with very competitive terms, which will support the business' future growth ambitions."*  
*Adam Horey, Partner, Debt & Capital Advisory, Price Waterhouse Coopers UK.'*

### **WEBSITES: DESCRIPTIONS OF SECTOR AIMS**

The sector's aims, as described to parents, are apparent from nursery websites. We examined the websites of the same case study companies selected for our financial analysis in workstream two. The data for this is in our technical annex (Simon et al., 2021). Please see the table on pages 22-26.

Briefly, these websites invariably stress the quality of the care they are providing, and the particular advantages the company can offer to children.

The data gathered from company websites show that child welfare is high on the agenda, with a desire to provide 'quality' care within environments that

<sup>13</sup> <https://www.pwc.co.uk/services/deals/publications/just-childcare-limited.html>

cater for children’s development. However, only one of the private-for-profit company websites explicitly mentioned providing services for disadvantaged or vulnerable children who may have special education needs. It is not to say the others do not offer this, but that we could find no evidence of this on their websites.

These views differ from the wider narrative we found about the companies we investigated. For example, the views expressed in the annual reports of the selected companies place greater emphasis on private childcare companies increasing company profitability through acquisitions and mergers in order to attract investment, and to expand company activities, on a national, and on an international basis.

### **INTERVIEWS WITH SENIOR COMPANY EXECUTIVES REPRESENTING THE PRIVATE-FOR-PROFIT SECTOR: DESCRIPTIONS OF SECTOR AIMS**

As explained in the methodological overview (section 2), we aimed to supplement the documentation with interviews with senior executives, but in the end, it was only possible to interview one senior executive from the company sector, and one from a social enterprise company.

The evidence presented here is from a senior executive from a large private-for-profit company (Box 2). This interview supports the findings from our analysis of the sector trade press, that profitability is a main aim for the company sector, and that attracting investors and rewarding shareholders were intrinsic to this aim.

**Box 2: Example of aims from a private-for-profit company: interview with a senior company executive interview, from a large private-for-profit company**

*‘Nurseries are increasingly financed through private equity whose primary aim is to maintain high margins to protect profit levels to ensure successful exits when they sell the company. The starting point for any owner/exec of a nursery/group should be to make sure there is a quality environment for children in their early years and to enable parents to go to work. I felt we should also value the work the (97% female) staff did and reflect that value in their pay rates...*

*But there is a contradiction between service to parents and commercial enterprise, and now the increasing involvement of private equity companies means that the balance has swung and there is much more of an emphasis on profit.’*

From our content analysis of trade literature, we found little evidence that topics of social impact and sustainability were of any sustained interest for medium to large for-profit companies (Simon et al., 2021).

**To summarise this section, the main aims of the private-for-profit sector from the websites of selected companies, speaks of child-centred practice and providing quality care. However, we found a lack of explicit reference to care for vulnerable or disadvantaged children, and other evidence we examined from trade press and interviews with some senior executives, appears to point to profitability and expansion as a primary concern. Analysis of trade press shows that private-for-profit companies are expanding through mergers and acquisitions, and this expansion is heavily reliant on private equity and property companies to push through the expansion.**

### **3.1.2.3 DO NOT-FOR-PROFIT NURSERIES HAVE DIFFERENT AIMS TO PRIVATE-FOR-PROFIT NURSERIES? HOW DO THEY CONSIDER OF SOCIAL IMPACT AND ACCOUNTABILITY? (RQ2, PART B)**

Before we discuss our analysis about the aims of the not-for-profit sector, we need to point out problems with categorising this sector.

There is a much smaller not-for-profit sector, a sample of whose accounts we also scrutinised in workstream two. As mentioned in the introduction, and as considered further in workstream two, the not-for-profit childcare sector includes registered charities, charitable incorporated companies, either registered with the Charity Commission or as companies limited by guarantee with Companies House, and social enterprises registered as charities (not-for-profit companies). Any charity with a turnover of more than £5k is constrained by legislation under the Charities Act of 2011 and 2016 in the way they raise money, how accounts are presented, and in how they justify their activities and demonstrate social impact. Crucially, this refers to the limited amount of debt they are allowed to incur. They must also be explicit about their aims and objectives, which must have a social purpose. Being a registered charity also means that some sources of social investment funding are available to them which are not available to private-for-profits. This is explained further in section 3.2 below.

Social enterprises are a hybrid, which may or may not be registered as a charity, but may have access to social investment lenders, who lend money on more favourable terms to the borrower than do private equity companies, provided there is a clear statement of social aims. Social enterprises are committed to reinvesting their surpluses into the organisation. If not registered as charities, they are limited companies that usually deliver products or services that benefit communities. Their stated aims must be laid down in a community interest statement that is approved by the Office of the Regulator of Community Interest Companies.

## **TRADE PRESS: DESCRIPTIONS OF NOT-FOR-PROFIT SECTOR AIMS**

Not-for-profit companies have a relatively low profile in the trade press, other than to advertise staff vacancies where descriptions of their aims are typically available only by linking to their own websites. A notable exception was the London Early Years Foundation (LEYF), the largest of all social enterprise childcare companies, which was a 'careers partner' for the Nursery World Show.

In 2021, at the Nursery World Show, LEYF's Marketing and Communications Executive was quoted as saying: 'Teaching at all our nurseries is underpinned by our unique pedagogy, where the child is placed at the heart of everything we do... [and]... At LEYF, all profits go to our nurseries located in areas of deprivation, giving our disadvantaged children the best start.'<sup>14</sup>

LEYF consistently ranks in the *Nursery Chains* top 25 list: position 16 in 2018, 18 in 2019 and 20 in 2021 (Gaunt, 2018, 2019, 2021 – there was no league table in 2020) and receives recognition for their social aims. For example, their CEO June O'Sullivan MBE was a Finalist in 2018 for the Veuve Clicquot Social Purpose Business Woman of the Year Award, which honours women running businesses with a social purpose.

LEYF has also engaged in a process of acquisitions and mergers, increasing their provision from nine to 39 nurseries. This has been mainly through takeovers of existing nurseries, many of them community nurseries or ex local authority nurseries and/or in premises rented from local authorities. However, the way LEYF financed this expansion was, in contrast to the private-for-profit companies, through such social investment lenders<sup>15</sup>. This way of expanding, through social investment loans, is another indicator of its social aims. Social investment lenders require organisations to be transparent in their dealings and show how social impact has been achieved. LEYF demonstrates this social aim through its policy to spread the burden of payments between those parents/carers able to pay full fees, and those who are struggling.

We also examine LEYF's financial accounts in workstream two.

## **WEBSITES: DESCRIPTIONS OF NOT-FOR-PROFIT SECTOR AIMS**

The aims of not-for-profit nurseries are readily available on their websites. Please see the table on pages 22-26. We examined the websites of the same case study companies selected for our financial analysis in workstream two. The data for this is in our technical annex (Simon et al., 2021).

Similar to the private-for-profit companies, the aims of the not-for-profits as articulated on their websites, include child welfare, provision of high quality care and catering for children's development. However, unlike most of the company private-for-profit websites, the not-for-profits seem to be more

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<sup>14</sup> <https://www.nurseryworldshow.com/virtual/news-page/articles/leyf>

<sup>15</sup> Social investment is the provision of finance to charities and other social organisations to generate a social return. It is a relatively new form of finance. [https://www.thinknpc.org/wp-content/uploads/2018/07/Best\\_to\\_borrow\\_A\\_charity-guide\\_to\\_social\\_investment.pdf](https://www.thinknpc.org/wp-content/uploads/2018/07/Best_to_borrow_A_charity-guide_to_social_investment.pdf)

explicit about providing services for vulnerable and/or disadvantaged children. For example, on its website, LEYF states that it is committed to giving all children access to high quality childcare and that the highest quality childcare is also needed to mitigate the impact of poverty on children's life chances. They say '*Many of the LEYF nurseries include a mix of children from different socioeconomic backgrounds. This is proven to have a positive effect on the development of all children, but particularly those from poorer backgrounds. Where possible, LEYF employs local staff and recruits apprentices which brings an economic benefit to disadvantaged communities*'. St Bede's Childcare also mentions catering for children with special education needs: '*Each venue has a fully trained Special Educational Needs Co-Ordinator who is responsible for ensuring all practical and emotional support is in place for children and families who require additional support*'.

In addition to our analysis of the websites of the same case study companies selected for our financial analysis in workstream two, we came across one sizeable company, Childbase Partnership (Box 3), which has adopted a different business model from the standard company model described in section 3.1.2.2. We include it here because although it is technically a private-for-profit company, it is an employee-owned organisation as opposed to investor-owned and is an example of a hybrid company between the private-for-profit nurseries and the not-for-profit nurseries.

Childbase Partnership is owned by its employees, they have a say in whether or not it is sold, and each member of staff has an investment in making the business a success. This makes it different to the other private-for-profit organisations we examined in workstream two. Given the concern about staff working conditions and rates of pay and benefits in the sector (Bonetti 2020), a model which prioritises staff is important. This company had chosen an employee buyout. Whilst profitability is still an important concern for the company, and it sees itself as competing in the childcare market, its financialisation follows an unusual pattern. Its owners claim that this approach makes it a competitive company, because of the commitment and investment of staff time and money. As this is an unusual example, we quote from the article describing it at some length below<sup>16</sup>. The company operates 46 nurseries and employs 1600 staff with a turnover of £25 million per annum. A cursory glance at the financial accounts for Childbase Partnership suggests that it has a stable financial structure.

**Box 3: An example of a hybrid company, Childbase Partnership. Information from their company website.**

'Staff at each of the nurseries have been encouraged to acquire shares in the venture, initially on a "buy one, get one free" basis, but most recently on a three-for-one basis. Close to 50% of the shares are now held either by individual employees or by the Employee Benefit Trust, whilst the Thompson

<sup>16</sup> See: <https://employeeownership.co.uk/case-studies/childbase-partnership/>



family holding is down to around 28%. The target for the next decade is to see the employee shareholding increase to 100%’.

There are several reasons why shared ownership is good for everyone at Child Base. Firstly, a spread of ownership secures the company’s long-term future. For instance, the company can only be sold to a third party if the majority of shareholders want it to be. Secondly, shared ownership is a great motivator to everyone to make the company a success – because that success is shared.”

Childbase organises share dealing days twice a year, in May and November, when shares can be bought or sold at the value set by the company’s accountants. The new memorandum and articles of association sets a maximum individual holding eventually of 2.5%. Childbase claims that its rates of pay are some of the highest in the childcare sector, and staff are given extensive training and encouraged to build their career with the company. Childbase’s last AGM saw the company adopt new memoranda and articles of association, which commit the directors to acting in the interests of the firm’s employees, present and future.

## **INTERVIEWS WITH SENIOR EXECUTIVES: DESCRIPTIONS OF SECTOR AIMS**

We interviewed a member of the senior team of LEYF (Box 4). He explained that LEYF has a strong social aim underpinning the company ethos. Although the company is expanding, it does so in order to fulfil its aim to reach more children, especially disadvantaged children, and makes sure to reinvest any surplus into their services for children and paying their staff well.

### **Box 4: Not-for-profit sector aims: interview with a senior executive of a social enterprise company, describing the tensions their organisation experiences**

*‘Whilst LEYF see it as good that such social lenders are willing to lend to organisations, they are still charged an above market rate of interest and are also required to complete significant monitoring reports including social impact indicators, in order to show LEYF is providing a public good, specifically ensuring broad access to childcare and quality provision. LEYF viewed expansion as not only an opportunity to reach more children, but also a necessity to achieve economies of scale and a balanced portfolio where surplus generating nurseries can (a) bear the majority of their centralised overheads, e.g. financial and HR services, and (b) subsidise loss-making ‘free’ places.*

*LEYF aims to provide for disadvantaged children and families, but this is complicated by the variability of local authority subsidies for such children and the increasing difficulty in securing rate relief and affordable leases. The organisation would welcome simplification and consistency across local*

*authorities. LEYF's present count is that around 30% of children are admitted for free places, but ideally, they would like it to be at least 40%. They watch overheads on admin and manage any surplus carefully, in order to make the system work and re-invest in the organisation to make it sustainable.'*

**To summarise this section, the main aims of the not-for-profit sector differ from private-for-profit sector. For example, not-for-profit enterprises all have clear aims which state their social responsibility. For example, LEYF has an explicit aim to include a mix of children from different socioeconomic backgrounds, with an SEN coordinator at each venue. In contrast, the private-for-profit organisations clearly articulate aims of expansion through debt financing and profit making, with very few mentioning social responsibility.**

**Social enterprises, as one exemplar of not-for-profit companies, are committed to reinvesting their surpluses into the organisation. LEYF has expanded through social investment loans, which are only given to companies that provide a clear statement of their social aims.**

**Some not-for-profits are employee-owned organisations, rather than being investor-owned, which requires their operation to be more accountable to staff and parents. Parents and staff sit on the board of trustees to have a say in whether or not the nursery is sold, and each member of staff has an investment in making the business a success. Given the concern about staff working conditions and rates of pay and benefits in the sector (Bonetti, 2020), a model which prioritises staff is important.**

#### **3.1.4 WORKSTREAM 1 SUMMARY**

There are three main conclusions from examining the evidence in workstream one.

First, we found that private-for-profit private providers dominate the ECEC sector, although it is not possible to produce a definitive figure about the size of the private sector in England. This is because of inconsistencies of definition across the different data sources. The figures we found from trade sources did not tally with official data and we could not always track the original data quoted within the trade sources. Part of this discrepancy is due to trade figures usually referring to the UK, while the official figures refer to England only. It is important that official figures, which are collected using rigorous methods, widen their scope to encompass the changes that have taken place in the company sector, including details of ownership. Recording these changes is an important but problematic task, given the lack of clarity about definition, and given the volatility of the sector. For example, Ofsted are proposing to shift their inspection cycle to six yearly, but our data suggests that in a six year period there are likely to be major changes within the sector.

Second, that the shape of the market for the private-for-profit childcare company sector is one of growth and consolidation. However, this growth is not in terms of number of places, rather that the size of companies has changed. This process is due to acquisitions and mergers and small group or single nursery closures. This is evidenced by the top 25 companies (ranked by number of settings), which shows a growth in nursery groups with of 20+ sites, from three per cent in 2016 to nine per cent in 2019 (LaingBuisson, 2019).

Third, in terms of the aims of the private-for-profit sector, the main focus from our analysis of the trade literature, appears to be profitability and expansion through mergers and acquisitions, and it is heavily reliant on private equity and property companies to push through the expansion. The not-for-profit sector and social enterprise sector, on the other hand, appears to have different priorities: our evidence from scrutinising trade literature, company websites and from our interviews, suggests that although they still need to cover their costs, they are concerned with social equity. For example, social enterprises, as one exemplar of a not-for-profit company, are committed to reinvesting their surpluses into the organisation and usually deliver products or services that benefit communities. Some not-for-profits are also employee-owned organisations rather than investor-owned. This makes the nurseries more accountable to the staff, who have a say in whether or not the nursery is sold and how the company operates, which is important, given the concern about staff working conditions in the sector (Bonetti, 2020).

## 3.2 Workstream 2: Financial analysis of major nursery chains and their subsidiaries

### 3.2.1 Methods

We addressed the two key questions for this workstream: **RQ3: Do the finances of large childcare companies reflect the financialisation across other service sectors?** and **RQ4: Do charitable and not-for-profit companies offer an alternative, and if so, how?** through carrying out a forensic financial analysis of a selected sample of company accounts lodged at Companies House and of a selection of charitable and social enterprise organisations, whose accounts are lodged with the Charity Commission (see methodological note in section 2 and our technical annex, Simon et al, 2021).

By UK law, all limited companies have to produce a financial report, and file this with Companies House annually. This information is then publicly available on the Companies House website. Registered charities often have a Company Limited by guarantee – so their accounts have to comply with both company law and charity regulations.

In consultation with our project advisory group, and using company returns

(audited financial accounts submitted to Companies House or The Charity Commission<sup>17</sup>), we compared and contrasted two types of financial model – large private-for-profit chains and those not-for-profit. We examined five private-for-profit nursery chains and also examined six not-for-profit case studies which were social enterprises and charities (see this section in the technical annex for more details, Simon et al., 2021). The selection of our case studies was purposive; for the private-for-profit companies, we aimed to get a cross-section of size and profitability. For the charity companies (not-for-profit), we aimed to get a range of size and type of operator.

A full report of our financial analysis undertaken for this workstream is in the technical annex (Simon et al., 2021).

### 3.2.1 Findings

#### 3.2.1.1 OVERVIEW

The financialised business model adopted by many large private-for-profit companies is one which is driven by value extraction by those owning and investing in the business (Sayer 2016). In the case of private-for-profit childcare operators, we found that for the case studies we examined, that there tends to also be a holding company and operating company structure. The holding-company appears to raise debt finance which is then used to acquire other childcare operators. The operating-company is then used to recover the costs of this debt as interest payments and also other management fees that the holding-company might require. This process of financialising the provision of childcare seems to leave the operating-company with negative equity reserves or negative net worth, after covering day to day operating expenses and capital costs. This results in the operating-company becoming financially fragile as value is extracted. A further complication is that the balance sheets of financialised childcare providers contain ‘goodwill’<sup>18</sup> (the difference between the market and book value of acquired other childcare providers). Goodwill is treated, for accounting purposes, as an intangible asset. If goodwill were to become impaired, many of the financialised childcare providers would become insolvent in a similar way to the collapse of Carillion plc, a British multinational construction and facilities management services company (Ford, 2018).

In contrast, charity, social enterprises and other not-for-profit childcare providers operate on a completely different business model. Charities with an income of more than £5,000 need to register with the Charity Commission. The trustees of a charity need to operate it with a view to maintaining sufficient surplus reserves in the balance sheet to anticipate any financial problems and thereby sustain a going concern. The guidance on charity

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<sup>17</sup> In a financial account, a positive return represents a profit while a negative return marks a loss.

<sup>18</sup> Goodwill is a soft intangible asset, relating to the brand value or reputation of a firm, usually recognised at the time a nursery chain is purchased.

reserves is set by charity commission arrangements (Charity Commission, 2016).

A reserves policy explains to existing and potential funders, donors, beneficiaries and other stakeholders why a charity is holding a particular amount of reserves. A good reserves policy gives confidence to stakeholders that the charity's finances are being properly managed and will also provide an indicator of future funding needs and its overall resilience.

The safeguarding approach to financial resilience in the charitable sector seems to contrast markedly with that of private-for-profit provision where reserves are funds that can be extracted in highly geared holding-company/operating-company structures. The priority of the charitable business model is to safeguard reserves and capital to sustain a going concern, but this does not seem to be the case for the financialised private-for-profit companies where value extraction looks to be the motivating force. While for the not-for-profit sector reserves are meant to be protected and conserved, for the private-for-profit sector does not seem to concern themselves with reserves, even when they become negative.

### **3.2.1.2 PRIVATE-FOR-PROFIT CHILDCARE COMPANIES (RQ3)**

Our analysis of five private-for-profit childcare case studies shows that, for medium to large chains of nurseries, there appears to be heavy reliance on private equity to underwrite company expansion and a contradictory narrative of 'growth through loss-making' (Blakely and Quilter-Pinner 2019, p.7). Private equity is a structure of ownership and financing which is highly leveraged<sup>19</sup> by borrowings and debt, and has a strong focus on short-term financial returns and the creation of improved financial valuation of an investment, such that it can then be sold on to the highest bidder. Private equity approaches focus on reducing taxes, maximising leverage and tolerating sustained losses in the subsidiary companies. For example, Bright Horizons (technical annex, section 1a, Simon et al., 2021) and Busy Bees (technical annex, section 1b, Simon et al., 2021) which are the two largest nursery chains in the UK, showed consistent losses from trading over the five-year period we examined. In 2018, Busy Bees showed losses of £23 million; in 2017 Bright Horizons had losses of £10 million. They are also heavy borrowers, with leverage ratios (Debt to Total Assets) of between 51 per cent and 101 per cent<sup>20</sup>. Bright Horizons looks to have a slightly higher leverage ratio than Busy Bees, but in both cases these ratios seem to indicate financial risk and we would have expected the independent auditors to have commented on this.

In the company accounts, we found evidence of borrowings being linked to acquisitions. As we report in our technical annex, companies use valuable physical assets like freehold property (realised through sale and leaseback

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<sup>19</sup> Also known as gearing, it is the ratio of debt to equity – signifies the relative level of indebtedness of the firm.

<sup>20</sup> High leverage ratios mean a high level of relative indebtedness, increasing the risk of failure if there are cash-flow problems in meeting the regular interest payments.

arrangements), to unlock their borrowing power and, in some cases, to purchase additional companies. In one of the cases, we found that after acquisitions, the company became loss making. This loss making can occur when companies do not have existing properties from which to 'free' existing income to use to purchase other properties.

Les Petits Chaperons Rouges (technical annex, section 1c, Simon et al., 2021) is a relatively new (and overseas) entrant in the market. We found growth and expansion through acquisition (three nursery chains were acquired in the first year), and an accumulation of leverage that seems to indicate it is being used to finance the growth and the use of 'goodwill' to inflate the balance sheet. Goodwill is a soft intangible asset, based on notional property values, and is essentially an accounting construct referring to the potential re-saleability of an asset. It inflates the value of assets, but its actual value is difficult to establish, and often deflates in the event of bankruptcy (Seetharaman, Balachandran, and Saravanan 2004). The holding company of Les Petits Chaperons Rouges, Eurazeo, is based in France and is a private equity business. In 2017, Les Petits Chaperons Rouges looked to have made losses of £4 million and had a leverage ratio<sup>21</sup> of 54 per cent.

We also examined two smaller private-for-profit companies: Just Childcare (technical annex, section 2d, Simon et al., 2021) and All About Children (technical annex, section 2e, Simon et al., 2021). From examining the accounts, we identified that Just Childcare seemed to originally be making profits but became loss-making after acquisition by a private equity firm, with losses increasing every year. It had losses of £4 million in 2017 and negative Net Shareholders Equity of £11.3 million. In 2017, it had a very high risk leverage ratio: 142 per cent. The holding company, Phoenix Equity Partners, kept on making profits despite the original company, Just Childcare, making losses. This suggests to us that the holding company may have been 'extracting' the profits from the subsidiary through high loan interest charges.

All About Children (technical annex, section 1e, Simon et al., 2021), which is a much smaller nursery group with 37 nurseries in total, has been profit-making, with zero debt in 2017, but a new loan was arranged in 2018 of £3 million. This raised its leverage ratio from zero to 47 per cent in 2018. However, it does not have any Private Equity holding companies as principal investors and, unlike the other larger businesses, it shows positive profits every year – it is privately owned and owner-managed.

Alongside accumulating debt, we also saw an increase in the use of 'goodwill' as part of the value of asset holdings. Busy Bees lists 'goodwill' of £336 million as at 2018 and Bright Horizons had 'goodwill' of approximately £200 million.

We would have expected auditors to sound alarm bells at the levels of debt and continuing financial losses. Auditors are independent expert professionals

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<sup>21</sup> The **leverage ratio** is the proportion of debts that a bank has compared to its equity/capital.

whose primary role is to assess whether the reported financial performance by Company Directors provides a *true and fair view* of the actual state of financial affairs – the audit can be seen as an independent assessment of the financial affairs. In particular, where an audit shows that the company is making losses and its future viability is in question, auditors are duty-bound to ‘qualify’ their report and warn shareholders.

Researchers investigating financialisation have cast some doubt on the reliability of audited accounts (Burns et al., 2016; Kotecha, 2019). Research in financial accounting and reporting shows that it is common to manipulate or ‘manage’ the reported numbers (McBarnet and Whelan, 1999), and auditors are often compliant and supportive of such ‘financial engineering’ (Business, Energy and Industrial Strategy Committee 2019; Competition and Markets Authority 2019; Financial Reporting Council 2019; Mitchell and Sikka, 2011). A government report on the collapse of the facilities management and construction services company Carillion was particularly scathing about the complicity of the auditors (Business, Energy and Industrial Strategy and Work and Pensions Committees, 2018).

The auditors for the company accounts we examined for Busy Bees and Bright Horizons have consistently certified that the financial reports for these companies give a true and fair view of performance and have not qualified their reports. For a company like Just Childcare, we would have expected to see auditors qualifying the accounts given the increasing losses and the high levels of debt, but we found no evidence in the submitted accounts that this happened, and can only therefore conclude that the auditors have endorsed the accounts as providing a true and fair view of the financial affairs of the company, as per how a qualified account would be presented.

What we have observed leads us to conclude that the high levels of borrowing led to lower profits (or even losses) and reduced or negligible payment of taxes due to the tax relief obtainable on loan interest payments. In our analysis of some publicly submitted financial accounts, we found increasing executive remuneration and rewards for the private equity holding company at the same time that the subsidiaries are making losses. For example, in one of our financial case studies, Just Childcare, we found that profits are made at the holding company level, not where the childcare is actually provided (Simon et al., 2021). This is consistent with other research on how private equity companies operate in practice. These companies appear to carry high levels of debt, which is expressed as very low profits, and therefore not eligible for taxation. It seems that at the same time as money (part of it in the form of government subsidies for childcare places) is taken out of the childcare market, tax is not paid, and yet companies continue to expand.

At the same time, some companies wish to demonstrate to be supporting good causes and corporate responsibility. Bright Horizons (see box 6) is a good example of this.

**Box 6: Example of a company (Bright Horizons) who advertises its charitable foundation on its website<sup>22</sup>**

*'The Bright Horizons Foundation for Children was established in the UK in 2005. Our mission is to make a difference in our communities by creating Bright Spaces; enriching play environments for children impacted by domestic violence, abuse, homelessness, parental imprisonment and ill health. Experiencing trauma can have devastating lifelong effects which are damaging to children's physical, emotional and intellectual development. Our Bright Spaces are designed to help vulnerable children recover from trauma, build positive relationships, have fun, learn and relax through play. The Foundation provides equipment, furniture, toys, games, books, resources and volunteers to create and sustain Bright Spaces, in partnership with organisations which include, the Police Service, Refuge, Women's Aid refuges, HM Courts and Tribunals Service, HM Prison Service and local charitable organisations.'*

<https://solutions.brighthorizons.co.uk/about-us/foundation>'.

We explored the accounts of the Bright Horizons Foundation which were submitted to the Charity Commission in 2017. The donation made by Bright Horizons to the Bright Horizons Foundation was £30,000 in 2017, which is a miniscule proportion of its income in that year of £254 million pounds. At the same time, the charity was charged £82,770 by Bright Horizons for the staff time devoted in generating volunteers and supporting the charity.<sup>23</sup> As a result, more money was taken out of the foundation by Bright Horizons than was contributed to the foundation.

As our calculations are complex and detailed for all these companies, we present them separately in the technical annex (Simon et al., 2021) which accompanies this main report (see Simon et al., 2020).

### **3.2.1.3 NOT-FOR-PROFIT COMPANIES (RQ4)**

We also examined six different groups of nurseries operating in the charity and social enterprise sectors. As we discuss earlier (see the start of this section 3.2), such organisations (with income over £5k) are required to submit accounts to the Charity Commission and adhere to guidance to operate with some reserves (Charity Commission, 2016), which is different to the private-for-profit organisations who are not required through Companies House to have reserves.

As we describe below, from examining these accounts, there seems to be a more localised culture of care in these companies, perhaps as a result of the participation of honorary trustees and involvement with local authorities. There

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<sup>22</sup> <https://brightspaces.org.uk/>. This is one of our case study companies whom we also examined in workstream one – data are in the technical annex (Simon et al., 2021).

<sup>23</sup> As part of workstream one, before we had analysed the finances in detail, we emailed the named manager of the Foundation, to ask for an interview, saying we were interested in discussing their exemplary corporate responsibility. Despite several requests there was no reply.



seems to be no obvious desire within these companies to make large surpluses or reward investors with high returns.

The London Early Years Foundation (LEYF) (technical annex 2a, Simon et al., 2021) is a large social enterprise company, and although it seeks to make a surplus in order to remain solvent, profit does not seem to be its primary motive. It provided 4,300 childcare places in 38 nurseries in London at the end of 2018. Unlike the private-for-profit companies, for example, Bright Horizons, where goodwill was a significant proportion of total assets and was over 50% in the last four years (see Table 8 in the technical annex, Simon et al., 2021), goodwill for LEYF averaged at 2 per cent (see table 29, figure 22 in the technical annex, Simon et al., 2021). Although, borrowing has been high in LEYF, averaging at 30 per cent of total assets in the last four years. In their accounts for 2018, they say that financial management in prior years was not robust and, as a result of which, they made consistent losses, something which is very challenging for any business to sustain. They raise concerns in their accounts about the high level of staff costs given that it is a labour-intensive business, and express worries about sustaining this given the rising costs of wages in London. They receive some income from local authority and other childcare support grants which are in addition to the direct government subsidy for early education and relate to areas such as disability or special needs care for children (about 23% in 2018).

St Bede's Childcare, York Childcare, Child Dynamix, CBCS and Community Childcare (technical annex, sections 2b-f, Simon et al., 2021) are smaller charities. Their turnover is much lower than the big corporate chains, and they are primarily 'local' charities, with no national network – Bolton, York and Hull are examples of their base locations. Due to the stringent requirements of the Charity Commission, their accounts are more detailed in terms of income, expenditure, assets and liabilities – there were no group structures or subsidiary companies to complicate our financial analysis. Also due to the solvency requirements for charities<sup>24</sup> (Charity Commission, 2016), their capacity to borrow seems to have been restricted, and financial viability is a critical concern, so they are unable to accumulate losses consistently for too long, unless they have reserves to support them. Their management report narratives show how concerned the trustees are about making a social impact and supporting struggling families or special needs children, and there are financial disclosures which explain how such aspirations are fulfilled. The self-reported financial information exposes some struggles for some charities to break even in certain years, usually when they are investing in new refurbishment, but overall, they are solvent throughout, and have positive overall reserves every year. Relative to sales, their staff costs tend to be approximately 10 per cent higher than the private-for-profit company sector, suggesting that they are willing to pay higher wages. Some of them operate

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<sup>24</sup> The key issue is that the organisation can pay its debts.

exclusively in deprived areas (for example, Child Dynamix – in the Hull area). Generally, they have very low borrowings if any and no goodwill whatsoever.

Some of the charities (for example, Child Dynamix and CBCS) have diverse sources of income besides fees from parents/carers, and these might include local authority grants and donation income (unfortunately, we do not have evidence from the accounts to verify other sources of income). Generally, the management and governance are also local to the area where they operate, which appears to make them more adaptable and flexible in respect of local needs. Our analysis suggests that generally, these social enterprise/charity case studies were able to retain public values and balance their budgets at the same time.

#### **3.2.1.4 COMPARISON OF THE PRIVATE-FOR-PROFIT AND NOT-FOR-PROFIT CASE STUDIES – STAFFING**

There are well documented issues within the childcare sector related to staff shortages, low wages, and poor levels of qualification (Christie & Co, 2019; Kanwar, 2019). In its analysis of the Annual Survey of Hours and Earnings, the Low Pay Commission (2019, p.20) said ‘childcare has by far the highest proportion of underpaid workers, with 43 per cent of all workers ... not receiving their minimum wage entitlement’. The DfE Survey of Childcare and Early Years Providers Survey also collects data on costs and pay. In 2019 (Department for Education 2019) they found that for private providers 15 per cent of staff aged 25 and over were earning below the National Living Wage; for voluntary providers it was 13 per cent (Main tables: Table 26). They also found that for private providers 71 per cent of their total costs was for staff compared to 77 per cent for voluntary providers (Main tables, Table 17). We used our case studies to examine expenditure on staffing using financial ratios such as wages relative to sales. Our technical annex (Simon et al., 2021) provides details about this analysis within each of the case studies.

In summary, looking across the case studies, our analysis has shown that the most significant cost for nursery companies is staff wages. For example, for Bright Horizons and Busy Bees, staff wages range between 50 per cent and 60 per cent of sales costs. This is unsurprising for a labour-intensive service business. Indeed, LEYF, a social enterprise, raise concerns in their annual reports about the high level of staff costs and express worries about sustaining this cost given the rising costs of wages in London.

However, although staffing costs were high for both the private-for-profit and not-for-profit case studies, we found that the proportion of turnover spent on staff wages was lower in the private-for-profit nursery case studies as compared with the not-for-profit case studies. This difference is more than would be expected from economies of scale since all the case studies were medium to large sized companies. We found that for not-for-profit companies, relative to sales, their staff costs can be as much as 14 per cent lower than the private-for-profit company sector (meaning that expenditure on staffing is lower). For example, in 2017, Busy Bees (a large chain of nurseries which

was initially founded in the UK but has now also branched into Asia and Canada), had a wages to sales ratio of 57.6 per cent. In contrast, one of our not-for-profit case studies, Childcare and Business Consultancy Services (a London-based registered charity and company founded in 2000), had a wages to sales ratio of 71.0 per cent.

### **3.2.1.5 WORKSTREAM 2 SUMMARY**

The results of workstream two show clear differences between the large private-for-profit case studies and the not-for-profit organisations we examined. The private-for-profits we examined tend to be dominated by highly leveraged financial models, heavily indebted and they have very complex financial structures involving foreign investors and shareholders. They have necessarily adopted a shareholder model of corporate governance. In contrast, for the not-for-profit organisations we examined, there seems to be no obvious desire within these companies to make large surpluses or reward investors with high returns and there are high levels of participation of trustees in ensuring the financial accounts are stable. Of concern, is the apparent lower expenditure on staff wages (calculated by wages to sales ratio), in some of the large private-for-profit companies relative to the not-for-profit companies.

Our findings here demonstrate that knowing how public funds are used is also of key importance. Any discussion of future financing of the sector must consider the problematic financialised childcare business models that we found larger childcare companies use and consider the sustainability of the voluntary and charitable sector, where prudent financial management and operating with some reserves is obligatory.

Our analysis here of not-for-profit companies and social enterprise models here and in workstream one, suggests that they represent an interesting option for the childcare sector, because they are more transparent, accountable and more concerned with social equity.

## **3.3 Workstream 3: Location and deprivation**

### **3.3.1 Methods**

In this workstream we address the research question 5: **Is there a fair and even distribution of private-for-profit provision across England?**

To address our research question for this workstream, we used Ofsted data<sup>25</sup> to map the ownership of provision throughout England, assess if nurseries are available equally for all levels of deprivation and assess whether the quality of nurseries in the more deprived areas is on average equivalent to that in less deprived areas. We used data from the Ofsted Freedom of Information (FOI)

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<sup>25</sup> Ofsted is a non-ministerial department of the UK government.

series<sup>26</sup>. This data was first released for 31 August 2014. For this study we have used data for 31 March 2018. We have only analysed data for childcare providers on non-domestic premises (sometimes called group-based care), such as nurseries or preschools. They were also on the Early Years Register (EYR), and so eligible to take children under five years of age.

### 3.3.2 Findings

There are various sources of data which are compared in the technical annex (Simon et al., 2021), where we explain the strengths and limitations of the Ofsted dataset. Ofsted is a non-ministerial department of the UK government. Anyone offering childcare provision must register with Ofsted and are subject to their national inspections and monitoring of standards.

#### 3.3.2.1 LOCATION AND DEPRIVATION (RQ5)

The Ofsted dataset includes, for each registered childcare setting, the deprivation quintile for the address of the individual setting. The location for each nursery is assigned to one of five quintiles of deprivation, the quintiles being defined nationally. This is done using the Income Deprivation Affecting Children Index (IDACI) scores as defining deprivation most relevant to children (Department for Communities and Local Government 2015). If childcare providers were spread evenly across all levels of deprivation, then we would expect 20 per cent in each deprivation band. Table 5 shows that this is almost the case, but there are fewer in the most deprived quintile (17.1%) and more (22.8%) in the least deprived.

**Table 5: Distribution of providers by IDACI deprivation band**

	Count	Per cent
Most deprived	4,656	17.1
Deprived	5,083	18.7
Average	5,473	20.1
Less deprived	5,782	21.3
Least deprived	6,204	22.8
Total	27,198	100

These percentages have changed very little since the first Ofsted FOI dataset for August 2014 (Simon et al., 2021): the percentage in the most deprived quintile has varied between 15.8 per cent and 17.1 per cent, whilst the percentage in the least deprived quintile has varied between 22.6 per cent and 23.6 per cent. Table 2 suggests that the availability of childcare provision was only weakly related to level of deprivation: whilst the most deprived areas have fewer than the least deprived, the differences are not large.

We used the Ofsted inspection rating for overall quality as an indicator for the quality of nurseries on the Ofsted register. This rating is on a 4-point scale:

<sup>26</sup> [https://www.gov.uk/government/collections/early-years-and-childcare-statistics#freedom-of-information-\(foi\)-datasets](https://www.gov.uk/government/collections/early-years-and-childcare-statistics#freedom-of-information-(foi)-datasets)

1 = Outstanding, 2 = Good, 3 = Requires Improvement, 4 = Inadequate. We acknowledge this rating has been criticised (for example, Mathers, Singler and Karemaker, 2012). However, it is the only quality measure available in public data for all providers.

Table 6 shows the distribution of this quality rating for March 2018. Most providers were rated either Outstanding (17.3%) or Good (77.5%). This concentration does not leave much room for variation by type of ownership.

**Table 6: Distribution of providers by overall effectiveness rating**

	Count	Per cent
Outstanding	3,578	17.3
Good	16,066	77.5
Requires Improvement	883	4.3
Inadequate	202	1.0
Total	20,729	100

The Ofsted registration database does not record the ownership status for its registered provision. We used the presence of 'Limited' (or 'Ltd') in the name of the provision or of the registered owner as an indicator that the provision was a private limited company. However, some private companies may not use Limited in their name, so this method might provide an underestimate of the actual number. By this method, 47.3 per cent of providers were identified as private limited companies. Our key questions included whether level of deprivation and quality were related to ownership status. Our expectation was that private nurseries would be more common in the least deprived areas and less common in the more deprived areas, because, as we have seen this is the advice given to potential investors. Table 7 shows that this was not borne out: although the differences are very small, private limited company nurseries are not more likely to be found in the least deprived areas and less likely in the most deprived relative to other types of nursery.

**Table 7: Distribution of levels of deprivation by type of ownership**

			Deprivation Band				
			Most deprived	Deprived	Average	Less deprived	Least deprived
Private Limited Company	Non-limited	Count	1,956	2,214	2,670	2,875	3,065
		Percent	15.3%	17.3%	20.9%	22.5%	24.0%
Private Limited Company	Limited	Count	2,024	2,255	2,268	2,372	2,608
		Percent	17.6%	19.6%	19.7%	20.6%	22.6%
Total		Count	3,980	4,469	4,938	5,247	5,673
		Percent	16.4%	18.4%	20.3%	21.6%	23.3%

The Ofsted dataset also does not identify whether a nursery is part of a ‘chain’ or ‘group’, but Ofsted themselves suggest the following: ‘We define a nursery and pre-school group as at least two nurseries and pre-schools on the EYR under the ownership of the same registered person’ (Ofsted, 2018: 36).

As for the Ofsted quality ratings, Table 8 shows, that although the limited company providers had a higher percentage of Outstanding settings (24.4%) than the other settings (20.3%), the difference is very small, and not statistically significant.

**Table 8: Ofsted quality rating by type of ownership**

		Most recent full inspection - Overall effectiveness					
			Outstanding	Good	Requires Improvement	Inadequate	Total
Private Limited Company	Non-limited	Count	2,230	8,166	468	144	11,008
		Percent	20.3%	74.2%	4.3%	1.3%	100.0%
Private Limited Company	Limited	Count	2,202	6,376	335	109	9,022
		Percent	24.4%	70.7%	3.7%	1.2%	100.0%
Total		Count	4,432	14,542	803	253	20,030
		Percent	22.1%	72.6%	4.0%	1.3%	100.0%

We wanted to assess whether the quality of nurseries in the more deprived areas is on average equivalent to that in less deprived areas. We did this by tabulating the Ofsted overall effectiveness rating for each level of deprivation. This is shown in Table 9. Since more than 95 per cent of provision was rated as Outstanding or Good, there is not much room for variation by the level of deprivation. However, there is a slight tendency for the more deprived areas to have fewer providers rated as outstanding. The relationship is not strong, with a Goodman and Kruskal gamma of  $-.080$ , which is very small and not statistically significant.

**Table 9: Ofsted overall effectiveness rating by level of deprivation**

		Overall effectiveness					Total
		Outstanding	Good	Requires Improvement	Inadequate		
Deprivation Band	Most deprived	Count	401	2,088	103	23	2,615
		Percent	15.3%	79.8%	3.9%	0.9%	100.0%
	Deprived	Count	490	2,363	110	23	2,986
		Percent	16.4%	79.1%	3.7%	0.8%	100.0%
Average		Count	627	2,661	127	19	3,434
		Percent	18.3%	77.5%	3.7%	0.6%	100.0%
Less deprived		Count	709	2,906	131	24	3,770
		Percent	18.8%	77.1%	3.5%	0.6%	100.0%
Least deprived		Count	845	2,967	144	25	3,981
		Percent	21.2%	74.5%	3.6%	0.6%	100.0%
Total		Count	3,072	12,985	615	114	16,786
		Percent	18.3%	77.4%	3.7%	0.7%	100.0%

We also ran case studies of two nursery chains, both of which show a typical financialisation pattern: Just Childcare and Monkey Puzzle. We chose to examine these over other cases studies in this report because these two exemplified very rapid acquisition policies (Gaunt, 2019), and we thought they might illustrate this new trend. We explored their location and their quality ratings on the Ofsted database. Whilst Just Childcare owns the nurseries in its group, Monkey Puzzle is a franchise, so this was another interesting contrast.

We used the website [daynurseries.co.uk](https://www.daynurseries.co.uk)<sup>27</sup> as a dataset. This describes itself as:

*‘The leading UK Nursery review website with 12,847 Nurseries, 4.5 million visits per year & 89,969 Nursery reviews’.*

It includes a large searchable database of day nurseries and nursery schools across the UK.<sup>28</sup>

For Just Childcare (Table 10) there is a slightly lower percentage in the lowest numbered quintile (most deprived) compared to other providers and slightly higher percentages in the top two quintiles (least deprived). However, the numbers are very small and the overall Goodman and Kruskal gamma correlation is low: 0.096, and not statistically significant. This indicates that

<sup>27</sup> <https://www.daynurseries.co.uk/>

<sup>28</sup> The total size of the database is 12,847, which shows it is not a comprehensive list, as the DfE 2019 Survey of Childcare and Early Years Providers estimates there to be 24,000 group-based providers, such as nurseries, and 9,100 school-based providers for England alone (Department for Education, 2019: 5).

looking across the whole range, there is no detectable difference in the deprivation levels for the location of Just Childcare nurseries and the rest.

**Table 10: IDACI deprivation ratings for Just Childcare nurseries**

		In Just Childcare			
		No	Yes	Total	
Income Deprivation Affecting Children Index (IDACI) quintiles	Most deprived	Count	3,913	8	3,921
		Percent	16.3%	13.3%	16.3%
	Deprived	Count	4,434	13	4,447
		Percent	18.4%	21.7%	18.5%
	Average	Count	4,913	7	4,920
		Percent	20.4%	11.7%	20.4%
	Less deprived	Count	5,237	14	5,251
		Percent	21.8%	23.3%	21.8%
	Least deprived	Count	5,545	18	5,563
		Percent	23.1%	30.0%	23.1%
Total	Count	24,042	60	24,102	
	Percent	100.0%	100.0%	100.0%	

For Monkey Puzzle (Table 11) there are fewer nurseries in the lowest quintile (most deprived) and more in the least deprived quintile, but the differences are small. The gamma correlation is 0.056, which is not statistically significant. Again, this indicates that looking across the whole range, there is no detectable difference in the deprivation levels for the location of Monkey Puzzle nurseries and the rest.

**Table 11: IDACI deprivation ratings for Monkey Puzzle nurseries**

		In Monkey Puzzle			
		No	Yes	Total	
Income Deprivation Affecting Children Index (IDACI) quintiles	Most deprived	Count	3,916	5	3,921
		Percent	16.3%	10.2%	16.3%
	Deprived	Count	4,436	11	4,447
		Percent	18.4%	22.4%	18.5%
	Average	Count	4,910	10	4,920
		Percent	20.4%	20.4%	20.4%
	Less deprived	Count	5,240	11	5,251
		Percent	21.8%	22.4%	21.8%
	Least deprived	Count	5,551	12	5,563
		Percent	23.1%	24.5%	23.1%
Total	Count	24,053	49	24,102	
	Percent	100.0%	100.0%	100.0%	

### 3.3.2.2 DATA LIMITATIONS

We discussed earlier how Ofsted data does not have a way of categorising childcare companies in terms of type (private-for-profit/not-for-profit) and we approached the analysis in this workstream by identifying companies using



their name, and in particular, if they have the word 'limited' in their title. To check how well Ofsted's categorised childcare type (private-for-profit/not-for-profit) worked, we tested it on two chains by looking to see how many of the subsidiary companies the Ofsted categorisation picked up. We compared the categorisation used by Ofsted against the two nursery chains. Of the 60 Just Childcare nurseries, 25 were registered with Ofsted as Just Childcare Limited and the other 35 were registered under different names. This may reflect the volatility of this group: when a nursery changes ownership they are required to register the new owner with Ofsted, but there will be a lag before this appears in the registration database. Of the 59 Monkey Puzzle nurseries, just one was registered with Ofsted under the name Monkey Puzzle Day Nursery. This may also be partly to do with the lag in the Ofsted registration data, but is more likely to be because Monkey Puzzle is a franchise, and so is not registered as the owner, even though company policy may affect the whole franchise.

This raises concerns with us about the method of categorising companies using the word 'limited' in their company name. Regulatory and governance language often becomes outmoded or insufficiently nuanced which allows changes to go undetected.

### **3.3.2.3 WORKSTREAM 3 SUMMARY**

Using Ofsted data, we estimate the company sector represents almost half (47.3%) of all places inspected by Ofsted for England in 2018. This is lower than the LaingBuisson figure for the UK, of 57 per cent (LaingBuisson 2019p.18). As we discussed previously, the estimates differ according to what sources are used; some are for the UK, and some are for England and the sources were not always consistent in their figures.

We wanted to see if the data would bear out a pattern of expanding childcare companies choosing to locate in less deprived areas, where profits were more certain, and where property values were higher. What we found in our analysis of Ofsted data for the national picture however, does not seem to support this. In fact, our evidence showed that there is a fair and even distribution of private-for-profit provision across England. Our findings from the two case studies examined in this section also indicated a spread of provision across England, and did *not* show that provision was concentrated in less deprived areas. However, as mentioned in section 3.3.2 above, there are some concerns we have raised about the accuracy of using Ofsted data to categorise provision type (private-for-profit/not-for-profit).

## 3.4 Workstream 4: Accounts of frontline managers

### 3.4.1 Methods

In this workstream we were concerned with two key questions: **To what extent do nursery managers facilitate the access of vulnerable families?** (RQ6) and **To what extent do they promote the participation of staff and parents/carers in nursery policy making?** (RQ7). We attempted to explore these issues of access and accountability from the perspective of frontline managers working in childcare.

As well as asking about access, we were also concerned in this workstream to find out about governance issues and, in particular, the extent to which staff and parents/carers were involved in the company operation.

We carried out a thematic analysis of the data we collected in this workstream to address our two key questions above.

Before we present our data, we want to reiterate two key things mentioned in the methodological note and discussed in more detail in the technical annex (Simon et al., 2021). First, that the data based on 80 nurseries were a self-selected sample recruited through advertising on various sector websites, in newsletters, in Twitter and in forums. The 80 nurseries that took part were a mix of type from individual nurseries through to large chains with 20 or more sites. However, there was a slight bias towards more standalone nurseries. We are grateful to those nurseries that took the time to respond. While this data provides a flavour of 'sector voices', we are obliged to treat the results with caution, since the numbers are still small, and we cannot say if they are representative of the wider childcare sector in England.

The survey questions and detailed analysis (including tables on the survey) are provided in the technical annex (Simon et al., 2021).

### 3.4.2 Findings

#### 3.4.2.1 TO WHAT EXTENT DO NURSERY MANAGERS FACILITATE THE ACCESS OF VULNERABLE FAMILIES? (RQ6)

We asked nurseries if they had a policy to support 'hard up' parents/carers or those who were going through a bad patch financially – 60 per cent (48/80) said yes. Settings that did offer support to poorer parents/carers often did not have specific written policies around this but rather took a more informal case by case approach. Managers frequently talked about trying to be flexible and using their discretion if and when parents/carers let them know they were struggling. There were some specific measures cited by nursery managers that had been taken by settings to support parents/carers in financial difficulty, these included:

- Offering weekly payment plans or flexible payment options
- Free lunches for children from poorer families
- Discounts for siblings

- Offering some completely free government-funded places for disadvantaged children, for example, waiving the extra charges/service charges/consumables fee
- Offering Early Years Pupil Premium (EYPP) supported places at no cost to parents/carers.

Many of the nursery managers we interviewed spoke of their frustration around not being able to afford to do more to support poorer parents/carers and that the underfunding of the provider subsidy puts them under immense financial pressure so there is little scope to offer much to poorer families. One nursery manager commented:

*‘Our intake is not as economically diverse as we would like it to be but we just can’t afford it’* (Manager of a private single standalone nursery operating for four years).

For the large companies investigated in workstream two, government subsidies met only a proportion of their total charges, and the nurseries were profitable. However, almost all of those responding to our survey said that the 30 hours subsidy was insufficient to cover costs. We discuss how the government subsidy system may be misinterpreted in workstream two; it is not only the level of subsidy that is an issue but also the way in which it is distributed (as mentioned in section 1.1 there are child age and parental income specific criteria for these subsidised places).

Our sample expressed a desire to be responsive to parents/carers, but on a goodwill basis rather than in a systematic way. Some managers said that they had given parents/carers their mobile phone number so they could contact them directly if necessary.

### **3.4.2.2 TO WHAT EXTENT DO NURSERIES PROMOTE THE PARTICIPATION OF STAFF AND PARENTS/CARERS IN NURSERY POLICY MAKING? (RQ7)**

In some countries, parents/carers and staff are more involved in the way nurseries operate. A frequently cited example is Norway, where each nursery has to submit an annual report about policy, practices and finances for consideration to parents/carers and staff – and even, in an abbreviated form, to children (Jacobsen and Vollset, 2012). Parental household income has to be considered in charging fees (a common practice, not only in Norway, but throughout Europe – OECD family database 2020<sup>29</sup>). The annual report has to be signed off by parents/carers and staff before the nursery can obtain its grants and subsidies (Jacobsen and Vollset, 2012).

Workstreams 1 and 2 give some examples of company practices in the charitable and voluntary sector (and in the case of an employee buy-out) where local governance meant that decision making was related to local circumstances. Many nurseries in our sample said both parents/carers and staff were involved in decisions about the ‘operation of the nursery’, such as

<sup>29</sup> <http://www.oecd.org/social/family/database.htm>

about fees or timetabling of sessions. Some staff were consulted about recruitment and retention policies. However, this is likely to be different from the kind of systematic management participation required in Nordic nurseries. Communications involved face to face communication at drop off and pick up, email newsletters, text and Facebook messaging, comment boxes, parents' evenings and at parent-child events such as lunches, fairs and Christmas events. It seems most likely that parental and staff involvement is ad hoc and informal rather than representing any kind of systematic policy making.

Nursery managers talked about the importance of transparency and communication with parents/carers and how building good, open relationships with parents/carers was a high priority for their nursery. Nursery managers in our sample used the term 'open door policy'. For example, one manager told us:

*'Overall the staff make themselves very available and this is the most important thing, every parent has got my personal phone number. We have established a very open atmosphere with parents so they know they can speak to us at any time about anything, a very open door policy. Parents get involved in outings and activities, a free nativity play, it's all about relationship building'* (Manager of a private, single standalone nursery operating for 15 years).

### **3.4.2.3 ADDITIONAL DATA ON FUNDING LEVELS**

In the course of carrying out our interviews, participants spoke openly about the true costs of providing places which were often higher than what could be covered by the 'free hours' of childcare funding provided by government. This is not surprising given that other research reports an estimated funding deficit in the sector of £662 million in 2019/2020 (Ceeda 2019) and a shortfall of around 20 per cent between the Government funding provided and the actual per child cost of providing the 'free' 30 hours entitlement for parents/carers (All-Party Parliamentary Group on Childcare and Early Education 2019). This shortfall has often been highlighted by the sector, for example by the Early Years Alliance in their statements<sup>30</sup>.

Almost all of the managers in our sample echoed concerns across the sector, reporting that the government subsidies were insufficient to meet their needs, that managers were working some of their time for free and that they were having to charge extras to parents/carers. For example, nursery managers told us in relation to the '30 hours free funding subsidy' that:

*'It does not cover the costs of the session, quality staff need professional wages. The funding is billed as free but is of course a cost*

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<sup>30</sup> <https://www.evalliance.org.uk/news/2019/12/alliance-calls-urgent-funding-review-after-election>) and by *Nursery World*, such as: <https://www.nurseryworld.co.uk/features/article/nursery-management-funding-make-or-break>

*to someone, in this case the nursery'* (Manager of a (self-defined) private nursery part of a large group operating for five years).

*'We only receive £3.65... being teacher led, with large premises and staff on local authority wages we struggle to break even. Our break even rate is £5.20 per hour'* (Manager of a (self-defined) LA maintained nursery, part of a small group operating for ten years).

*'Our funding rate is less than we charge private fee paying parents and less than our hourly operating costs. We had a choice of whether to reduce our costs and therefore experiences and quality, or introduce a consumables charge. We opted to introduce consumables charge'*. (Manager of a (self-defined) private, single standalone nursery operating for 12 years).

*'The funding does not cover the costs, we have to add an additional service charge, we don't put a cost on individual items, we have a service charge for everything that is not 'the care of the child' for example, telephone calls, emails, paint, glue, food, so anything that doesn't cover the direct care of the child. The service charge is a set amount of £1.30p per day, when the parents think they are getting the free hours they don't like having to pay this extra service charge, this has been quite a contentious thing with some parents'* (Manager of a (self-defined) private nursery part of small group operating for ten years).

*'Asking parents for snack donations, donations of cleaning products, running fundraising stalls as often as possible, staff working more hours than paid and cutting every expense to the bone'* (Manager of a not-for-profit single standalone nursery operating for 30 years).

Of particular concern in the accounts we received from managers, is the impact the shortfall in funding may be having on provision for vulnerable children. As these managers we interviewed said:

*'We are in an area with one third of our children living in deprived postcodes, we attract children with SEN and speech and language delay. Recently we have high numbers of EAL children and children with complex social and emotional needs. To support these children our funding is not adequate'* (Manager of a (self-defined) not-for-profit single standalone nursery operating for ten years).

*'It disappoints me that whilst we offer some entirely free places, we have to limit these so some financially vulnerable families can't afford for their children to attend'*. (Manager of a (self-defined) private, single standalone nursery operating for 12 years).

Also of concern was the two accounts from our interviews which suggest the funding issues may be compromising quality of provision:

*'We have just had to lose two staff members and make savings which compromises the care we want to give'. (Manager of a not-for-profit single standalone nursery operating for nine years).*

*'It just has an impact on the quality of what we can provide, we want to provide quality care but the funding undermines this'. (Manager of a private single standalone nursery operating for two years).*

#### **3.4.2.4 WORKSTREAM 4 SUMMARY**

The two questions we addressed in this workstream were: 'To what extent do nursery managers facilitate the access of vulnerable families?' and 'To what extent do they promote the participation of staff and parents/carers in nursery policy making?' Our thematic analysis of our data within this workstream shows that nursery managers are working very hard to facilitate the access of vulnerable families but feel frustrated that the funding levels within the sector limit what they are able to do. We also found that staff and parental involvement in policy making with childcare organisations was ad-hoc and informal. We note some limitations for this workstream in the technical annex (Simon et al., 2021), related to sampling/study participants, and not being able to explore particular issues such as Special Educational Needs and Disability and processes of financialisation, that we have discussed in other parts of our research.

## 4. Conclusions and recommendations

Prior to this report, little was known about how public funding given to the private sector is used. This report set out to examine differences in provision between public and private sector provision. In particular, the balance of public and private provision, and the location of this provision in relation to deprivation.

The aims of our report were to assess the:

- Market reach of the private sector – its size, number of places and any market changes in private provision;
- Extent to which the sector recognises questions of social impact and accountability;
- Financial structure and practices of medium to large childcare companies (these were selected case studies – the private-for-profits were selected to get a cross-section of size and profitability, and the not-for-profits were selected to get a range of size and type of operator);
- Location of private and public childcare provision in relation to indices of deprivation;
- Accounts of frontline childcare managers about access of provision to vulnerable families and the involvement of staff and parents in nursery policy making.

In response to these aims, our data produces ten key findings which we discuss below.

Our first finding is that **estimates of the size of the private sector vary**; trade literature and DfE data suggest it is large. There is not one definitive estimate. LaingBuisson estimates that 53 per cent of UK providers/settings are in the private sector but does not cite sources or methods. The DfE provider survey data of England only, reports the highest estimate, of 61 per cent of providers (and also places – 69%). These two sources are higher than that estimated from Ofsted<sup>31</sup> data, which is likely to be an underestimate. The differences are due to the various ways these sources define and count the numbers of providers and places.

Our second finding is that **the private-for-profit childcare company sector is characterised by features of financialisation - acquisitions and mergers and indebtedness – seen in other sectors**. Focusing on medium to large companies, we found clear patterns of acquisitions and mergers and indebtedness. This was evidenced from our analysis of trade literature and our financial case study analysis, which showed that large companies are expanding their market share by acquiring smaller childcare businesses. Our study found evidence of borrowings being linked to acquisitions within our

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<sup>31</sup> Ofsted is a non-ministerial department of the UK government.

private-for-profit case studies. In one of the cases, we found that after acquisitions, the company became loss making.

Our third finding is that **we found a lack of explicit reference to care for vulnerable or disadvantaged children** in the private-for-profit sector. Examination of websites for our case study nurseries, and from trade press, and interviews with some senior executives, indicates profitability and expansion as a primary concern of the private-for-profit sector. In contrast, the websites of our case study not-for-profit nurseries are more explicit about providing services for vulnerable and/or disadvantaged children.

Finding four, is that **the private-for-profits we examined tended to be dominated by highly leveraged financial models**. Our case study analysis of evidence on financial accounts, show that private-for-profit companies in the ECEC sector are heavily indebted and they have very complex financial structures involving foreign investors and shareholders. They have necessarily adopted a shareholder model of corporate governance. We also identified that a considerable amount of money is being extracted for debt repayment. For example, for two of the largest private-for-profit chains we examined were heavy borrowers, with leverage ratios of between 51 per cent and 101 per cent (looking at what is called debt to total assets).

Our fifth finding is that **borrowing for company growth has not contributed to a growth of places for children**. Our analysis of the case studies has shown that while the private-for-profit companies are expanding through acquisitions, this has not contributed to a growth of places for children. Our analysis of Ofsted reports showed that the total number of places has not increased (Ofsted, 2020a).

Finding six, is that **staff costs are low in private-for-profit companies**. In our financial case study analysis, staff costs could be as much as 14 per cent lower than the not-for-profit company sector.

Our seventh finding is that the **not-for-profit organisations have high levels of trustee participation to ensure accounts are stable**. We found evidence from our case study analysis that these type of organisations have high levels of trustee participation in ensuring the financial accounts are stable. For example, our analysis of St Bede Childcare shows that due to the stringent requirements of the Charity Commission, their accounts are more detailed in terms of income, expenditure, assets and liabilities, their capacity to borrow seems to have been restricted, and financial viability is a critical concern being monitored by their trustees, so they are unable to accumulate losses consistently for too long, unless they have reserves to support them.

Finding eight is that **despite the commercial interests, there is a fair and even distribution of private-for-profit provision across England**. Availability of childcare provision was only weakly related to level of deprivation: whilst the most deprived areas have fewer than the least deprived, the differences are not large. There is a slight tendency for the more



deprived areas to have fewer providers rated as outstanding, but the relationship is not strong. Two case studies also indicated a spread of provision across England and did not show that provision was concentrated in less deprived areas. However, we used the Ofsted inspection rating for overall quality as an indicator for the quality of nurseries on the Ofsted register, which we acknowledge has been criticised (for example, Mathers, Singler and Karemaker 2012) because it does not allow enough comparison between settings (most settings are now categorised overall as 'excellent').

Our ninth finding is that **nursery managers are concerned to support vulnerable families**. Evidence from our interviews and survey with nursery managers shows that they are working very hard to facilitate the access of vulnerable families. However, they feel frustrated that the funding levels within the sector limit what they are able to do (this is across nurseries in both the private-for-profit and not-for-profit sectors). Lack of investment in staffing could be due to funding insufficiencies in the sector (and respondents to our survey felt strongly that the money for the 30 hour 'free' places was insufficient).

Finding ten, is that **the not-for-profit organisations use parents and staff on their board of trustees to ensure they represent the needs of families and support their staff**. Our interviews and surveys with nursery managers found that the involvement of staff and parents in policy making was, in most cases, only ad-hoc and informal. However, where it was possible to clearly distinguish not-for-profit nurseries, our case studies show that having staff and parent representation on company boards is worthwhile because it supports policymaking and the social ethos of the company. For example, the management report narrative for St Bede Childcare, show how concerned the trustees are about making a social impact and supporting struggling families or special needs children. Additionally, there are exemplars from other countries, such as Norway (Jacobsen and Vollset, 2012), of how parents/carers and staff can be involved in the way nurseries operate. For example, evidence shows that each nursery in Norway has to submit an annual report about policy, practices and finances for consideration to parents/carers and staff – and even, in an abbreviated form, to children (Jacobsen and Vollset, 2012).

## Recommendations

Several of our recommendations point to the need for better tracking information about childcare provision. Currently, it is problematic to obtain a reliable estimate about the size of the sector. We recommend Ofsted collect and publish information on type of ownership (private, voluntary, local authority) and whether the nursery is part of a chain. If information on type of ownership were included in Ofsted data, it would provide much needed tracking information about how provision of different types varies by levels of deprivation, thereby acting as a check that children from deprived areas are not missing out on accessing good quality and affordable childcare. Better data collection which can track acquisitions and mergers, would also provide greater transparency of how public funds are spent by organisations receiving public funding. This information is already included in the DfE Survey of Early Years and Childcare Providers, but this is a survey, with a 38% response rate (in 2019), rather than a census of providers which the Ofsted data provides.

Other findings suggest some critical differences in the way the private-for-profit and not-for-profit sectors operate within ECEC, and these differences might result in places being at risk. This is because private-for-profit companies in the ECEC sector are heavily indebted, and a considerable amount of money is being extracted for debt repayment. Furthermore, the pattern we found of acquisitions, mergers and consolidation, has not resulted in more childcare places for children (Ofsted, 2020a), and we found little evidence to suggest the private-for-profit sector were concerned about providing places or support for disadvantaged children.

It is also concerning, given evidence that the sector is poorly paid (Bonetti, 2019; Simon, Owen and Hollingworth, 2016), and the reported importance of staff on quality (ibid, Oppenheim and Archer, 2021), that we found the private-for-profit sector was likely to spend less on staffing than the not-for-profit sector. We make two important recommendations with regard to these findings. First, as companies using a highly leveraged type of financial model in other sectors (for example, eldercare) have been shown to be at risk of collapse (Williams et al., 2002), we recommend that state funding could go only to childcare companies that can provide accounting evidence that they have financial reserves and low risk of bankruptcy. This would help avoid public funds being used to support higher profits for the large companies without the creation of new places or leading to increases in staff wages to guarantee a minimum wage level.

Second, we consider it would be worthwhile for government to explore social enterprise and charity-run nursery models more widely as an alternative to private-for-profit providers which do not have an explicit social aim. This is because there are some features about social enterprise and charity-run nurseries that make them a low financial risk and because the not-for-profit nurseries are committed by their company ethos to providing social benefit.

For example, social enterprises are committed to reinvesting their surpluses back into their organisations. Some also use social investment funding as an alternative to private equity. Our analysis also shows that not-for-profit organisations also have shared ownership structures which mean for example that the company can only be sold to a third party if the trustees want it to be, which safeguards its long-term viability. Some of these not-for-profit childcare companies are registered as charities, which limits the amount of debt they are allowed to incur and makes them at lower financial risk. They also have aims and objectives with a more explicit social purpose (and their funding often depends on this). Some not-for-profit companies are employee-owned organisations rather than investor-owned, which makes their operation more accountable to the staff and parents. It is for this reason that we also recommend that childcare companies consider making parents and staff members of the nursery management board so that their interests can be best represented. Government could consider making staff and parental involvement in the management of nurseries a condition of childcare companies receiving public funding.

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