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Financialisation and private equity in early childhood care and education in England

ANTONIA SIMON*, ATUL SHAH**, KATIE QUY*** AND CHARLIE OWEN****

*UCL Social Research Institute email a.simon@ucl.ac.uk
**Hult International Business School email atul.shah@faculty.hult.edu
***UCL Social Research Institute email k.quy@ucl.ac.uk
****UCL Social Research Institute email charlie.owen@ucl.ac.uk

Abstract

The Government in England contributes an estimated £3.9 billion funding to support childcare and education for three- and four-year olds and for some two-year olds. A significant proportion of this money is spent on private sector childcare. However, little is known about how the money paid to companies providing private sector childcare is used. Through a cross-case analysis, the financial accounts of a sample of medium-to large private 'for-profit' childcare groups were compared with some 'not-for-profit' childcare providers. We found that for the for-profit companies, a considerable amount of money is being extracted for debt repayment and relatively little goes into staff wages. We found that large private for-profit nursery groups predominately use 'private equity' models which are characterised by borrowings and debt, with a focus on short-term financial returns. This 'for-profit' financial operating model arguably risks the sustainability of provision in the sector. Reformed regulation and transparency in the accounting of such providers and a consideration of alternative 'not-for-profit' financial models could provide greater stability and resilience.

Keywords: financialisation; childcare; ECEC; privatisation; equity; acquisitions; England

Introduction

A recent IFS (Institute for Fiscal Studies) annual report on government education spending provides an estimate of £3.9 billion to support childcare and education for three- and four-year-olds and some two-year-olds in England in 2018-19 (Britton *et al.*, 2020: section 2.2). This is used to pay for early childhood care and education (ECEC) places for the early years in the private sector, both for-profit and not-for-profit, and nursery education in the state sector. Around £900 million was also provided in 2019 to support ECEC through the benefit system and £860 million on tax relief for ECEC (ibid). Taken together, government ECEC totalled around £5.6 billion in 2019 in England.

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This is a considerable amount of public money, with much of it going to the private sector (14,658 private providers – 61.1% of all providers – in 2019: Department for Education, 2019: Main table 1), and yet very little is known about how the money paid to these providers is used (Simon *et al.*, 2022). For example, what proportion of expenditure is spent by for-profit private providers on fair staff wages (as a means to attract a high qualified workforce) and how financially viable are these companies? These questions of transparency and accountability for public investment matter because any potential volatility (such as the coronavirus COVID-19 pandemic) could affect the number of early years places available for children and because equal access, fairness, accountability and representation are important for human rights (Alston, 2018).

The public-private divide: two conceptual models of ECEC provision in England

Within England, public expenditure on ECEC is based on two key rationales. The first is the social mobility argument, which postulates that investment into ECEC will help close the gap between children growing up with disadvantage and their better-off peers (Department for Education, 2017). This argument suggests that better long-term outcomes result for children who 'start strong' (OECD, 2017). The second policy rationale for investing in ECEC is an economic one. It suggests that investment in ECEC enables parents (especially mothers) to enter and/or increase their employment, which in turn helps to prevent poverty within families with young children. This is part of wider strategic thinking and wider welfare policy with the UK which suggests 'parents and parenting as both the cause of, and solution to, social ills such as poverty' (Simpson and Envy, 2015).

ECEC in England is a mixture of four main types of provision: state, private-for-profit, not-for-profit and informal providers (Lloyd and Penn, 2012). The balance of this provision has been changing in recent years, with many single or small group private, for-profit, voluntary and community nurseries merging (Simon *et al.*, 2022). Since the Childcare Act of 2006, local authority and voluntary sector childcare funded by local authorities has shrunk considerably, as private providers stepped in to run ECEC provision (Lloyd and Penn, 2014). Compared with elsewhere in Europe, ECEC in England is now delivered through a highly marketised system (West *et al.*, 2020). The focus on 'profit' seems to be embedded within many ECEC providers in England (Lloyd, 2020). Our analysis of the sector in England, shows a clear pattern of acquisitions and mergers of large for-profit companies (Simon *et al.*, 2022). This changing landscape has created a public-private debate within the sector, underpinned by two models, 'for-profit' and 'not-for-profit', which are conceptually different in terms of how they financially operate. This debate is centred around an important social and moral question raised within a recent United Nations

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TABLE 1. Costs and earnings ratios calculated

Ratio	Description
Wages to Sales	Calculation to determine the cost of a workforce relative to the sales revenue generated by the business.
EBITDA to Sales	Earnings Before Interest, Taxes, Depreciation, and Amortization. It is a measure of a company's overall financial performance and profitability by comparing its revenue with earnings.
Interest payments in Sales	The interest coverage ratio may be calculated by dividing a company's earnings before interest and taxes (EBIT) during a given period by the company's interest payments due within the same period. It shows the extent to which Sales revenue is used to pay for borrowings.
Profit/Loss in Sales	A profit margin as a percentage of net income or loss for the period, divided by total revenue. It indicates relative profitability, which can be compared with previous years.

report, which asked "are private entities dedicated to maximising their own profits best placed to protect the rights of the community?" (Alston, 2018: 4).

This public-private debate is not confined to ECEC; it pervades other, closely-related public spheres such as education, health and social care. For example, there is concern that private schools in the UK should provide some public benefit, but it is largely left to the discretion of private schools as to what activities are delivered to meet this public benefit (Wilde *et al.*, 2016). Questions have also been raised about the long-term gap between private and publicly educated children, with a disproportionate prevalence of privately educated people in leadership positions (Kirby, 2016) and a wage premium effect at age 25 (Green *et al.*, 2020). The public-private debate is also prominent within health care, with a 'moral-hazard' arising from the unequal access or receipt of some services (Donaldson and Gerard, 1989). Social-care studies have also questioned the role of 'ownership and business models' to provide stable services within residential care (Blakeley and Quilter-Pinner, 2019).

For-profit models

The term 'financialisation' underpins 'for-profit' models (Erturk *et al.*, 2008; Shaxson, 2018), and is defined as 'a process involving the increasing role of financial priorities, the financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Blakeley and Quilter-Pinner, 2019: 5). It is suggested that for-profit models seek 'growth through loss-making' (Blakeley and Quilter-Pinner 2019: 7; Brooks, 2019) and to minimise the amount of tax they pay (Shah, 1996) – tax is treated as a cost to be minimised rather than a distribution of profits to government which provides critical infrastructure and services. The effects of financialisation include using property as a collateral for business growth and acquisition (Simon *et al.*, 2022).

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This enables quick expansion but also builds up structural risk and reduces resilience (Sikka, 2009; Zwan, 2014). For-profit companies are argued to offer advantages contained in market capitalism: competition to meet consumer demand whilst keeping costs down, because companies that fail to do so are driven out of business by competition (Cleveland and Krashinsky, 2003). These providers focus on activities that enhance profit-maximisation (Powell and Steinberg, 2006). However, concerns are raised about the long-term viability of this model, especially when providing care services for adults or children (Simon *et al.*, 2022). Given that quality and affordable ECEC is critical to any country's growth and development, the resilience of the provision of ECEC becomes very important (Devercelli and Beaton-Day, 2020).

Profit-making may not in itself be considered a bad thing, so long as service quality is not compromised (Cleveland and Krashinsky, 2003). However, nursery provision is unlike other businesses in that it comprises providers of early years' education, the benefits of which are known to provide long-term outcomes for children and society, especially for vulnerable children (Melhuish and Gardiner, 2020). If nurseries can be sold or used for other purposes if the business becomes unsustainable or does not prove profitable to shareholders, then this could potentially impact the long-term viability of the sector, especially services for disadvantaged children. For example, ABC Learning in Australia, which was one of Australia's largest ECEC providers, collapsed during the global financial crisis in 2008 (OECD, 2020), and there is evidence in the UK that market dynamics can lead to insufficient coverage in less profitable areas (Noailly and Visser, 2009). Concerns about the potential stability of the ECEC sector have already been tracked in detail for social care of the elderly (Blakeley and Quilter-Pinner, 2019; Burns *et al.*, 2016; Kotecha, 2019). For example, Southern Cross Healthcare was the UK's largest provider of adult home care with over 750 homes. However, it collapsed in June 2011, because of financial difficulties. Its 31,000 residents were faced with the possibility of losing their accommodation (Department of Health and Social Care, 2011).

Not-for-profit model

Not-for-profit providers operate using a different business model which is not profit driven but builds on social values (Cleveland and Krashinsky, 2003). There are several theories as to why not-for-profits behave differently to for-profit companies. Two of them are 'Agency theory' (Van Slyke, 2007) and 'Trust theory' (Hansmann, 1980, 1996). Agency theory in simple terms posits that managers (often referred to as 'agents') can act out of self-interest rather than for the collective interests of the contracting parties (shareholders and company owners, known as 'principals'), which can create 'moral hazard problems' (for example, extraction of profits without ensuring quality of service) (Van Slyke, 2007). To

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correct for this, agents are incentivised and monitored to produce outcomes that are in the best interests of the beneficiaries of the service and to 'align the actions of the agent with the goals of the principal' (ibid: 162). Trust theory is related to the adjustment that is postulated within agency theory, by arguing that not-for-profits are more trustworthy (over for-profits) because they are less likely to exploit consumers and donors because they are legally constrained from distributing profits to managers or directors for personal gain (McDougle and Lam, 2013). Returning to a point made in the previous section, trust is particularly salient within ECEC because the purchasers of its services are families, and families make purchasing decision based on 'trust' and expectations of safe care (ibid). Trust is a particularly important concept within ECEC and especially services that target disadvantaged families (Roberts, 2011).

Not-for-profits may register with the Charity Commission: this is applicable for companies with an income of more than £5,000 per annum and have a board of trustees with responsibility to ensure the organisation operates with sufficient surplus reserves in the balance sheet to anticipate any financial problems and thereby sustain a going concern (Charity Commission, 2016). This financial reserves policy is beneficial to stakeholders (including parents) for two reasons. First, it acts as a level of transparency and security for beneficiaries about the financial operation of the business, which gives confidence to stakeholders that the charity's finances are being properly managed (ibid). Second, these reserves provide an indicator of future funding needs and its long-term stability (ibid). This approach within the charitable sector seems to contrast markedly with the for-profit model, where funds are often extracted to pay shareholders (McDougle and Lam, 2013). Other favourable qualities of not-for-profit companies are that they have lower rates of staff turnover and tend to hire more staff with better ECEC education, and at higher wages (Doherty et al., 2002), with the implication that this results in better service quality (McDougle and Lam, 2013).

Aims and Methods

This paper reports on one of the main workstreams carried out for a research project which explored issues of location, continuity, turnover and sustainability, transparency, and accountability in childcare services (Simon *et al.*, 2022). What we wanted to understand was if for-profit providers demonstrated any of the features of financialisation noted earlier (in particular, characteristic of 'growth through loss-making' and 'complex corporate structures': see Blakeley and Quilter-Pinner, 2019: 7), evidenced in other public-sectors, such as elder-care, and to what extent this raises concern about future stability of the sector. The paper presents the key findings of our financial analysis which aimed to answer this research question: *"Do we find in the financial accounts of*

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ECEC companies, features of financialisation that are documented in other related sectors such as elder care?'

We addressed this question through contrasting and comparing the financial practices of a selection of for-profit and not-for-profit ECEC companies in England between 2014 and 2018 (the latest published time-series data available at the time of the research). We compared these two models in order to better understand financial performance across the ECEC sector. Rather than carry out a top-level summary of all ECEC providers in England, we conducted detailed cross-case analysis of the financial performance of a set of selected nurseries to examine themes, similarities, and differences across the cases (Khan and VanWynsberghe, 2008). The selection of our case studies was purposive: for the for-profit companies, we aimed to get a cross-section of size and profitability and cover a large market share to help us be more representative of the private sector; for the charity companies (not-for-profit), we aimed to get a range of size and type of operator. We selected nurseries from each of our two conceptual models – for-profit and not-for-profit – (five from the former and six from the latter, including one which was a children's centre and one which was a large social enterprise, whose business model is 'doing good by doing business' and is committed to providing for children from poorer backgrounds). Three of the for-profit companies we sampled were in the top five companies providing ECEC in the UK based on number of settings (*Nursery Chains*, 2019 – latest edition available when sampling). One of our case studies was The Busy Bees Group, which, in 2021, was the largest single company, ranking number one in terms of number of settings (359), and offering 32,209 places across the UK (Gaunt, 2021).

We applied a forensic accounting approach, which enables the unravelling of complex financial structures (Chew, 2017). Forensic analysis is an experiential and intelligent interpretation of financial information which can be scattered in different places, and can involve group and subsidiary accounts, cross-shareholdings, and interpretation of the web of structures specifically created for the purposes of providing profitable private education and minimising taxes, which in theory should be paid fairly (ibid). It cannot be codified as it requires a range of skills that include law, accounting, taxation, finance and business complexity (ibid). In the context of ECEC services, we have used forensic analysis to assess company performance, to evaluate the ways in which companies manage their operations, and the relative emphasis these companies give to different stakeholders, such as shareholders. We used publicly available and audited financial accounts of both individual companies and groups of companies to analyse the financial and profit flows. By UK law, all limited companies have to produce a financial report annually, and file this with Companies House. This information is then publicly available on the Companies House website (Gray *et al.*, 2019). Registered charities often have a company limited by guarantee – so

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TABLE 2. Balance sheet ratios calculated

Ratio	Description
Goodwill to total Assets	Compares the intangible assets like a brand name, customer list, or unique position in an industry to the total assets of the company. The higher the ratio, the higher is a company's proportion of goodwill is to total assets.
Debt to total assets	This ratio is an indicator of a company's financial leverage. It shows the proportion of a company's assets which are financed through debt. If the ratio is less than 0.5, most of the company's assets are financed through equity. If the ratio is greater than 0.5, most of the company's assets are financed through debt.
Equity to total Assets	The closer a firm's ratio result is to 100%, the more assets it has financed with equity instead of taking on debt. The ratio reveals how financially stable it may be in the long run.
Return on Net Assets	The return on net assets (RONA) ratio compares a firm's net income with its assets and helps investors to determine how well the company is doing in generating profit from its assets. The higher a firm's earnings relative to its assets, the more effectively the company is deploying those assets.

their accounts have to comply with both company law and charity regulations. Charities are subject to specific legislation that regulates their activities differently from the for-profit sector. For example, charitable organisations must satisfy a number of conditions, including a good management condition (Piper *et al.*, 2020) and to have sufficient surplus reserves in the balance sheet to anticipate any financial problems (Charity Commission, 2016) – they are required to be prudent in their operations.

For our analysis, we used data in these accounts to calculate selected financial ratios to examine profitability and performance over time. We carefully examined the reported numbers within each company's annual report in order to understand trends and specific aspects of performance. For each case study, we examined the annual audited accounts over a number of years, their ownership structures, levels of borrowing and debt. We calculated two types of financial ratios: costs and earnings ratios; and balance sheet ratios. First, costs and earnings ratios (table 1) are financial ratios that measure how effective a company is at generating profits from its revenue. These ratios are derived from items in the profit and loss statement. They measure a company's ability to turn sales and revenues into profits. Graphs and charts of these were plotted to visualise and analyse trends over time. Second, balance sheet ratios (Table 2) are financial metrics that determine relationships between different aspects of a company's financial position (i.e. components of assets, liabilities and shareholder equity).

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Large companies are often organised in groups composed of a number of subsidiary companies performing different functions or located in different countries. There would typically be an overall holding company, which produces group accounts to reveal the summated performance of the entire group of companies. In our research, we tried to focus on group accounts, but sometimes had to look at subsidiary companies to understand what was really going on. The choice of when and how was made based on the judgement of an experienced financial analyst (co-author Shah) who knew where 'any skeletons would be buried', and therefore where to probe deeper. In this sense, the methodology drew upon analytical, audit and investigative skills.

We also scrutinised comments from the annual reports and from the auditors. This textual data helped us gain an understanding about management priorities and strategy.

Limitations

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 ECEC sector, and of new entrants to the market from abroad, our analysis in this paper includes neither the most recent developments nor the current market share of company provision. They are accurate of the time the research took place.

The selection of our case studies was purposive and therefore may not represent the whole ECEC sector, especially single stand-alone nurseries which were excluded from our financial analysis. We opted to undertake a depth over breadth approach, needed to understand the complex operation of the ECEC sector and the often multi-layered financial accounting documentation provided by groups and their subsidiary companies.

Results

Three key themes arose out of the financial cross-case analysis we undertook of our case studies. First, and primarily characterising the for-profit companies we examined, there were high levels of debt, financial loss and over-reliance on 'goodwill' to operate. Second, there was a lack of 'qualified' audited statements accompanying the accounts we examined: when auditors have reservations about aspects of the accounts they should 'qualify' their audit statements. As we go on to discuss below, the lack of a qualified accounting report was surprising given the evidence we found of high debt and risks to sustainability, although this has also been reported in other sectors (e.g. Sikka, 2009). Third, the seemingly low proportion of turnover being spent on staff wages among the for-profit companies (relative to the not-for-profit nurseries) was concerning. We present

TABLE 3. Net Income/Loss in Sales in 2017 (the latest year of comparable data)

Case study	Net Income/Loss in Sales ratio %	Net Income or Profit/ Loss (in £ thousands)
For-Profits:		
1: 'Bright Horizons', a large chain	−3.9	−9,842
2: 'Busy Bees', a large chain	−5.4	−5,010
3: 'Grandir' (les Petits Chaperons ROUGES), overseas large chain	−14.1	−4,162
4: 'Just Childcare', medium large chain	−31.7	−4,028
5: 'All about children', medium large chain	15.5	918,537
Not-for profits:		
1: 'London Early Years Foundation', large social enterprise	−4.1	−756,523
2: 'St Bede Childcare', medium sized charity	4.0	92,910
3 York Childcare', medium sized charity	5.3	58,526
4: 'Child Dynamix', medium sized charity	3.5	58,479
5: 'Childcare and Business Consultancy Services', medium sized charity	6.0	99,295
6: 'Community Childcare Centres (Growing Places)', Community Children's Centre	0.6	10,232

below a summarised account of these themes drawing on data findings from our case studies to illustrate the commercial reality.

Levels of debt, financial loss, borrowing and 'goodwill': evidence of financialisation in ECEC

We identified heavy reliance on private equity to underwrite expansion within the for-profit company accounts we examined. Private equity is an ownership and financing structure that is characterised by borrowings and debt, with short-term financial returns (Stowell, 2017). This type of financial management focuses on reducing taxes and maximising leverage and tolerates sustained losses in the subsidiary companies. In our analysis, we identified this type of financial management in two of the largest nursery chains in the UK. We identified that these companies showed consistent losses from trading over the 5-year period we examined. These companies showed losses in the region of £23 million and £10 million in 2017 (Table 3). We also found that these two chains were also heavy borrowers, with leverage ratios of between 51 per cent and 101 per cent (Debt to Total Assets).

Two of our for-profit case studies were medium-sized ECEC chains (Companies House define a medium-sized company as meeting at least 2 of the following conditions: the annual turnover must be no more than £36 million,

the balance sheet total must be no more than £18 million, the average number of employees must be no more than 250, Companies House, 2020). Examination of these two accounts also showed evidence of significant financial losses (Table 3). In one of these case studies, the company seemed originally to be making profits but after acquisition by a private equity firm, it became loss-making, with losses increasing every year. It had losses of £4 million in 2017 and negative Net Shareholders Equity of -£11.3 million (liabilities exceeded assets by this amount, making the firm appear bankrupt). In 2017, it had a high-risk leverage ratio – 142 per cent – 'a high ratio indicates that a business may have incurred a higher level of debt than it can be reasonably expected to service with ongoing cash flows. This is a major concern, since high leverage is associated with a heightened risk of bankruptcy' (Accounting Tools, 2020: 1). However, the holding company (which is a separate parent company created to own a controlling interest in a subsidiary company or companies) appears to have kept on making profits despite the subsidiary company making losses. This suggests that the holding company may have been 'extracting' the profits from the subsidiary through high loan interest charges. With regard to the second of these two case studies, a nursery company with 37 nurseries in total in 2018, the company had also been initially profit-making, with zero debt in 2017, but then raised a new loan in 2018 of £3 million which raised its leverage ratio from zero to 47 per cent in 2018.

Two key measures we examined to assess levels of borrowings (leverage) and the related interest costs are 'Debt to total Assets' and 'Interest payments in Sales'. As detailed in the methods section (Table 2), this shows the proportion of a company's assets that are financed through debt and a ratio of greater than 0.5 means that the majority of the company's assets are financed through debt. The Interest payments ratio shows the relative ability of a company to service its borrowings – the higher the ratio, the riskier the company's borrowings. As Table 4 shows, all of the for-profit case studies were considerably over this threshold – for case study 'For-profit 1', Bright Horizons, (the second largest chain in England at the time of writing, Gaunt, 2021), for example, was 105%. In contrast, the not-for-profit case studies were much closer to the 0.5 threshold (3/6 were 0 – had no borrowings at all), with the exception of the large social enterprise and one of the medium sized not-for-profit charities. The second measure we used to unravel the interest costs of borrowing was the 'Interest payment to sales' ratio, which shows the extent to which sales revenue is used to pay for borrowings (Table 4). Again, we found evidence of much larger percentages of interest payment to sales for the for-profit case studies than for the not-for-profit case studies.

Alongside the build-up of debt, we found evidence of an increase in the use of 'goodwill' as part of the value of asset holdings (Table 4). It is well documented that companies can use 'goodwill' to inflate the Balance Sheet (Seetharaman *et al.*, 2004), as goodwill can often be fictitiously created.

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TABLE 4. Borrowing and Goodwill 2017 (the latest year of comparable data)

Case study	Debt to total assets %	Interest payment in sales %	Goodwill (in £ thousands)
For-Profits:			
1: 'Bright Horizons', a large chain	105.0	8.8	195,023
2: 'Busy Bees', a large chain	76.5	9.1	91,246
3: 'Grandir' (les Petits Chaperons ROUGES), overseas large chain	58.1	2.1	32,165
4: 'Just Childcare', medium large chain	159	19.4	8,590
5: 'All about children', medium large chain	0	15.5	768,201
Not-for profits:			
1: 'London Early Years Foundation', large social enterprise	42.7	0.9	95,991
2: 'St Bede Childcare', medium sized charity	22.8	0.7	0
3 York Childcare', medium sized charity	0	0	0
4: 'Child Dynamix', medium sized charity	46.5	0.9	0
5: 'Childcare and Business Consultancy Services', medium sized charity	0	0	0
6: 'Community Childcare Centres (Growing Places)', Community Children's Centre	0	0	0

Goodwill is a soft intangible asset, based on notional property values, referring to the potential re-saleability of an asset but its actual value is difficult to establish (ibid). We found in one of our case studies, that their growth and expansion into the English ECEC market has largely been achieved through the use of 'goodwill'. This particular company was a recent entrant (at the time of this research) into the English ECEC market, and its holding company is based overseas.

In contrast, the not-for-profit case studies showed that it is possible to survive without a focus on making constant profits. Although there is evidence that some charities struggle to break even in certain years (usually caused by investing in the business or by carrying out refurbishments), their accounts do show they are largely solvent throughout, and have positive overall reserves every year of business operation (see table 3).

Audited and non-audited statements

Auditors are independent expert professionals whose primary role is to assess whether the financial performance as reported 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 (Gray *et al.*, 2019). 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 about the company financial performance and if the future survival is in doubt (McBarnet and Whelan, 1999).

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Research in financial accounting and reporting shows that it is common to manipulate or 'manage' the reported numbers, and auditors are often compliant and supportive of such 'financial engineering' (Mitchell and Sikka, 2011; Shah, 1996). This can make the data incomplete or unreliable. However, with good quality forensic accounting, it is possible to expose some of the financial engineering and manipulation to unravel the real story behind the business and its financing (Chew, 2017). Training in auditing, and in reading and interpreting large sets of accounts and accounting policies, in knowing where the hidden risks and transactions may lie, helps in unravelling the truth behind the reported numbers and transactions. There is also research which shows some of the tools used by companies to practice tax avoidance or to manipulate their earnings or borrowings, so this also helps with the analysis in this study and is cited where appropriate (Brooks, 2013).

As discussed in the previous section, we found evidence of loss making – some case study companies had significant financial losses (Table 3). In these accounts, we expected to find evidence of auditors sounding alarm bells about the levels of debt and continuing financial losses. However, this did not seem to have happened. For example, the UK's two largest chains each showed large losses (Table 3). However, we found that the auditors had consistently certified that the financial reports for these companies give a true and fair view of performance, and the auditors did not qualify the submitted reports. This 'silence of the auditors' is not a phenomenon confined to ECEC and is well-documented across other sectors (e.g. Sikka, 2009).

Staff wages

There is strong evidence to suggest a well-qualified workforce raises the quality of interaction and pedagogy in ECEC services (OECD, 2006). However, there are well documented issues within the ECEC sector related to persistent low wages, which means that raising the qualifications of the ECEC workforce has not been realised, recruitment is a problem and staff turnover is increasing (Christie & Co, 2019; Kanwar, 2019; Oppenheim and Archer, 2021). Remuneration is recognised to be a key factor within ECEC to recruit staff with high qualifications (OECD, 2019; Oppenheim and Archer, 2021). Within the context of our research, this indicates that to increase service quality, nurseries should be investing finances into increasing staff wages. To examine if companies are investing well into paying their staff, we examined financial ratios, such as wages relative to sales, provided within the public case study company financial accounts. These ratios help to provide a picture about the proportion of company income spent on staff costs.

Table 5 shows the expenditure on staff wages as a proportion of turnover for the case studies we examined. We compared this financial ratio for all of our case studies in order to see if there was any difference in how staff were being paid

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TABLE 5. Expenditure on wages and salaries 2017 (latest year with comparable data)

Case study	Wages and Salaries 2017 in £ (Thousands)	Wages in sales ratio %
For-Profits:		
1: 'Bright Horizons', a large chain	146,331	57.6
2: 'Busy Bees', a large chain	170,043	51.9
3: 'Grandir' (les Petits Chaperons ROUGES), overseas large chain	11,370	63.7
4: 'Just Childcare', medium large chain	8,870	69.7
5: 'All about children', medium large chain	Not declared	Not declared
Not-for profits:		
1: 'London Early Years Foundation', large social enterprise	12,455,800	67.9
2: 'St Bede Childcare', medium sized charity	1,512,060	65.5
3 York Childcare', medium sized charity	771,546	69.4
4: 'Child Dynamix', medium sized charity	1,174,110	70.6
5: 'Childcare and Business Consultancy Services', medium sized charity	1,167,427	71.0
6: 'Community Childcare Centres (Growing Places)', Community Children's Centre	1,137,227	69.8

based on the different operating models: for-profit and not-for-profit. Comparison of the for-profit and not-for-profit case studies shows that staff costs were as much as 10 per cent higher for the not-for-profit case studies than for the for-profit company accounts we examined (e.g. comparing case study 'For-profit 1' Bright Horizons, the UK's largest chain, with 'Not-for-profit 1' London Early Years Foundation, a large social enterprise operating in the UK). This difference means that more turnover was being put into staff wages within the not-for-profit companies and therefore into the 'frontline' service of the company.

Conclusion

Given concerns in other sectors about the quality and sustainability of delivery of services by private companies (discussed earlier), we wanted to examine the extent to which features of financialisation (such as 'growth through loss-making' and 'complex' corporate structures) were evident in the ECEC sector in England. Our analysis of the selected financial accounts, summarised above, led us to make two important conclusions. First that the medium to large for-profit ECEC nursery groups we examined seem to have shown a model of profit-making and income extraction and been characterised by debt (with borrowing often funding an expansion achieved through acquisitions and mergers). Second, that there are key differences in the two financial operating systems

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we compared (for-profit and not-for-profit), and the regulations governing the operation of these two systems, that may explain our analysis results.

We identified that not-for-profits operate and organise their finances very differently to the for-profits. For example, where not-for-profits registered as charities, they provided more detailed accounts in terms of income, expenditure, assets and liabilities to the Charity Commission than the for-profit accounts, which are not subject (through Companies House) to these same regulations for their accounting. We also identified that all of the not-for-profit companies tended to be more locally based operations that had limited turnover in comparison with the large for-profit companies. Additionally, the financial accounts for the not-for-profit case studies we examined show their capacity to borrow seems to have been restricted, and where their financial viability is of a critical concern to the governors and auditors, this is noted in their annual reports. This provides a transparent account of governance and finance to not only the shareholders but to the parents and public. There are key operational and regulatory differences, which means that, unless they have financial reserves to support them, the not-for-profit nurseries are unable to accumulate losses consistently for too long.

In contrast, the large for-profit companies we examined used highly leveraged financial for-profit models that appear to be heavily reliant on private equity to fund acquisitions and mergers and, in some cases, to have complex and opaque financial structures (e.g. no mention of loss making in the available textual data, such as annual reports, accompanying the financial data). The expansion of the for-profit nursery groups is often underwritten by specialist property and brokerage firms, and by banks and for-profit equity firms. What we expected to see was that some of the losses experienced by the for-profit companies could be due to rising staff costs. However, this was not always the case. We found evidence of a higher relative amount being spent on staff wages for some of the not-for-profit case studies. This suggests that the not-for-profit companies are willing to pay higher wages than the for-profit companies. A worrying finding too was that many of these accounts showed losses in the for-profit companies were unqualified by auditors, meaning there were no 'red flags' about the risk of collapse of some of these operators, even though auditors are required by law to ensure the entity is a 'going concern' and that the accounts give a 'true and fair view' of the financial affairs. As we noted earlier, this phenomenon is known as 'silence of the auditors' and is well-documented in other sectors (e.g. Sikka, 2009).

We have argued in this paper that there are key operational or company behavioural differences to how the not-for-profits operate relative to the for-profits. Agency theory suggests there is a solution to the problems noted in the for-profit sector. For example, agency theory posits that a mixture of incentives and monitoring checks ensure companies do not act out of self-interest, but

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instead for the 'collective good' (Van Slyke, 2007). However, the use of incentives has received some criticism, with concerns being raised this has contributed to financialisation and the focus on growth and leverage, as opposed to encouraging behaviour which is driven by social ethos (Erturk *et al.*, 2007).

Current debates about the financing of ECEC in England often argue that the main issue is a shortage of public funds going into the sector. Whilst it is the case that government subsidies to providers do not cover costs of funded places (Coleman *et al.*, 2020), our financial case study analysis shows that among the medium-large companies we examined, much of this subsidy does not go to fund frontline services (for example, through staff wages). Instead, much of the public money received by for-profit nursery groups seems to service interest on loans for things like expansion and is used for profits to pay their shareholders. This suggests that the state loses twice in this game – once through government public subsidies not being used to finance things that are important for service quality and early childhood outcomes, such as good remuneration to attract a highly qualified workforce, and again through the apparent tax avoidance practiced by the for-profit nurseries. Future policy discussions about financing for the sector must take account of the different financial business models that are evidently in operation within the ECEC sector in England (broadly for-profit and not-for-profit), and how prudent financial management could help guard against possible risks to sustainability of the sector. Of particular relevance to this debate is the 'trust' that parents may obtain with not-for-profit organisations, to deliver provision that balances costs without compromising quality.

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Competing interests

The authors declare none.

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