DECISIO

Measures Market Forces Childcare

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Management summary

S1. Issue

After the financing system with allowances came to a standstill, the government intends to fundamentally change the childcare system. In the new system, up to 96 percent of the costs will be paid directly to the providers instead of paying benefits to parents. The intention is that by making childcare cheaper for both high and low incomes, all parents benefit. After the system change, demand is expected to increase by approximately 30 percent.

Because the price incentive for parents will virtually disappear in the new system, price will be less of a determining factor in the choice of whether or not, how much and which childcare. There is therefore a fear that childcare providers – and in particular parties financed by *private equity* funds – will take the opportunity to increase their prices more than proportionally. Collective resources that end up as (excess) profit for external investors are viewed as undesirable from a political point of view.

The problem statement reads: *" Which measures could be taken to intervene in the hybrid childcare market and what (advantages and disadvantages) effects does this entail for the childcare sector?"*

endorse or refute the reputation or fear of *private equity funds. The aim is to* identify measures aimed at *potentially inappropriate behavior by providers and to test these for effectiveness, feasibility and side effects.* The outcome is not a blueprint for a package of measures for the new system. The outcome is an overview of possible measures, the extent to which these measures can prevent undesirable market behavior, and additional advantages and disadvantages.

S2. Context of the childcare market

Childcare has positive effects on the development of children and boosting labor participation, resulting in higher tax revenues, among other things. Market imperfections exist: asymmetric information and scale effects create market power and barriers to entry. The market imperfections provide scope for potentially undesirable behavior by providers. The positive social effects of childcare and possible undesirable behavior of providers form the motivation for government intervention.

Undesirable behavior in the childcare market

Alleged behavior

(particularly *private equity financed)* are expected to exhibit undesirable behavior when market power offers opportunities to do so. The candidate measures to be considered are therefore aimed at curbing the following behavior:

- taking advantage of scarcity;
- the withdrawal of funds;
- jeopardizing the financial continuity of providers;
- *cherry-picking;*
- degradation of quality.

observed behavior
In reality, market parties do not display all the alleged behavior. Profiting from scarcity through high pricing and realizing a disproportionate return in any case does not play a role for *private equity* investors . The business model aims at a high sales value after the investment period. The withdrawal of profit in the form of dividend to be distributed does not play a role. High prices with a view to extracting profit does not fit with the ambition to maximize sales value.

The *leverage effect* (increasing the return on equity through the use of debt) is part of the strategy of *private equity* investors. *Private equity* houses are often accused of burdening acquired companies with heavy debts. Due to high interest costs, acquired companies can then run into liquidity problems. In the meantime, tax regulations have changed, which means that *private equity* funds have less incentive to increase the debt burden of the acquired companies. The leverage effect remains intact.

The reorganization imposed by an acquiring party may involve a shift to other market segments, for example by divesting customers with lower returns. This leaves less profitable regions for other providers. This is a form of *cherry picking.* Another form is the discontinuation of 'plus shelter'. Such choices for a selective supply imply a reduction in quality at sectoral level. In practice, it appears that parties affiliated to *private equity* are relatively more often active in neighborhoods with higher incomes.

Quality reduction can also take place at the level of branches. After all, a strong focus on cost reduction can be accompanied by a loss of quality. However, this approach is at odds with the aim of building a company that can be sold in a few years' time. In practice, it appears that providers affiliated with *private equity score above average* on measurable quality indicators . However, there are also quality aspects that are not measured – the performance on these is therefore unknown.

Expected behavior in the new system
The behavior of providers in the current system may change after the system change. Different market conditions may provide different incentives. An increase in demand is foreseen, whereby the question is whether the supply can keep up with that demand. Therefore, scarcity and waiting lists must be taken into account. Providers can raise prices, which creates accessibility problems for lower incomes.

Because there will be more money in the sector, it will become more attractive to players who are mainly out for financial gain and have less regard for the public interest. Risks of quality erosion and the withdrawal of financial gain may therefore increase.

Leverage is an important part of the strategy of *private equity* players. The interest rates of recent years provided them with a strong tailwind, making debt financing an attractive strategy. Now that interest rates are rising, parties may be confronted with (considerably) higher financing costs at a time of interest rate review, which can lead to liquidity or even solvency problems.

S3. Lessons from other sectors and abroad

Lessons from other sectors

Public housing

The housing market is a capital-intensive sector characterized by scarcity and inertia of supply. A labor-intensive sector such as childcare can be expected to respond more flexibly to changes in demand. Nevertheless, there are two lessons to be learned from public housing:

1. *Excessively strict quality requirements mainly lead to administrative burdens;*
2. *Pricing that is too tight restricts capacity scale-up.*

Concern

Regulation in healthcare is partly based on the same social goals as in childcare. There is also asymmetric information about quality in both sectors. Within the entire range of care services, specific attention has been paid to nursing home care and youth care. We draw five lessons from healthcare:

1. *For-profit scales capacity faster than not-for-profit .*
2. *For-profit providers are more likely to cherry-pick .*
3. *Private equity parties minimize tax payments with financial constructions.*
4. *There are examples of private equity financed parties that lose quality.*
5. *Private investors offer a solution for entrepreneurs with growth ambitions.*

Lessons from foreign childcare

Private equity is represented in all countries analyzed and there is chain formation. Four cases have been selected that could be of interest to the Dutch childcare sector for various reasons. These are Australia, England, Norway and Canada. We draw five lessons:

1. *For-profit childcare can contribute to achieving growth .*
2. *Transparency about quality can be effective.*
3. *Quality requirements work effectively against quality erosion .*
4. *Chain formation in childcare has led to continuity risks in other countries .*
5. *price regulation is a fairly common instrument abroad .*

S4. Measures and possible effects

Candidate Measures

Table S.1 shows measures to be assessed to prevent the above behavior. Most are not directly aimed at keeping *private equity* (or other external investors) out, but at limiting the room for maneuver of those providers. Some measures reinforce or overlap. Others work against each other. We distinguish three categories of instruments:

1. **Governance:** safeguarding measures in the supervisory system (internal: Supervisory Board), external (municipalities, GGD, ACM) , aimed at safeguarding the interests of various stakeholders;
2. **Licensing :** measures that generically deny certain types of providers access to the market, or sanctions that are imposed on providers who display undesirable market behavior;
3. **Financial:** requirements for financial parameters of business operations .[1]

[1] Some of the candidate measures have been submitted by the Ministry of Social Affairs and Employment, partly on the basis of parliamentary questions (SZW, 2022a). Further inspiration comes from literature and discussions with experts and sector parties. The division into the categories of governance, permits and financial is somewhat arbitrary.

Table S.1 Measures to be assessed

A: Governance	B: Permits	C: Financial
A1 advisory rights for parents, staff members and partners in business operations; A2 right of consent for parents and staff members in mergers and acquisitions; A3 transparency about the annual - accounts; A4 disconnect real estate and make that a municipality task; A5 code of conduct for providers; A6 mandatory quality monitor.	B1 *for-profit extinction policy*: only new not-for-profits are allowed and/or social BV status is mandatory; B2 sales ban on organizations; B3 nationalize; B4 restrictive licensing to prevent local market concentrations; B5 lower entry barriers with lower regulatory pressure;	C1 imposing a price cap; C2 solvency requirements (leverage cap); C3 recalibrate from the maximum reimbursable rate to only the operational costs; C4 standardization of annual accounts by accounting standards; C5 a restriction on forms of financing; C6 profit norm / profit prohibition; C7 dividend norm / dividend prohibition; C8 standardization of remuneration for managers; C9 expansion of the collective labor agreement.

Assessment of measures

The various measures were assessed on the basis of the *Structure* - *Conduct* - *Performance* framework for feasibility, effectiveness and the possible occurrence of side effects. *Effectiveness* answers the question of whether undesirable behavior is mitigated. *Feasibility* concerns the question of whether instruments can be incorporated legally, fit within the capacity of executive services and do not lead to (too) high administrative burdens for citizens and businesses. In addition, *side effects* are important. Table S.2 provides a summary of the measures studied. The measures that are considered impossible or particularly difficult to implement are not included in this summary. The measures in table S.2 are in principle feasible, although much will depend on how they are implemented in practice. The *feasibility column* indicates where possible implementation obstacles are foreseen.

Table S.2 Summary assessment framework of measures

	Executability	Effective-ness	Side effects			
Measure	executable	financial behavior	quality	availability	accessibility	diverse supply
Stakeholder advisory rights in business operations (A1)	=	=	+	=	=	=
Transparency about annual accounts (A3)	admin. bur.	=	+	+	=	=
Code of Conduct (A5)	not authorized	=	+	=	=	–
Mandatory participation in quality monitor (A6)	admin. bur.	=	+	–	=	–
Restrictive licensing (B4)	juridical	+	=	–	–/+	+
Reducing regulatory pressure (B5)	=	+	–	+	=	=
Price cap (C1)	demarcation	+	=	–	+	–
Solvency requirements (C2)	juridical	+	–	–	=	=
Reassessment of the reimbursable (C3)	=	+	=	–/+	–	–/+
Standardization annual accounts (C4)	juridical	=	=	–	=	=
Limitation of authorized forms of financing (C5)	admin. bur.	+	=	–	=	=
Dividend norm (C7)	juridical	=	+	–	=	–
Norms for remuneration of managers (C8)	=	=	=	=	=	=
Extension of the collective labor agreement (C9)	not authorized	+	+	+	–/+	+

Admin. bur. stands for administrative burdens. Bordered in bold: objective directly targeted by the measure in question. Pluses and minuses indicate a general direction, as a balance of expected effects. Numbering refers to Appendix A with a more detailed elaboration.

Conclusions and considerations on the measures

Transparency measures reduce information asymmetry and generally have limited negative side effects. Provided they can be implemented properly, these measures are a good starting point for improving market forces and thus preventing market power from arising or being abused. That said: due to the shortage on the supply side (locations, staff), the availability of a place is often decisive for parents in choosing a provider/location. Eligibility for a place often weighs more heavily than a somewhat lesser quality score (as long as a minimum level is guaranteed) or information about the company's finances. As a result, the effectiveness of such measures is limited. That's not to say they're pointless. Without negative side effects or serious implementation problems (costs, organizational, legal), the principle of 'if it doesn't help, it doesn't harm' applies to these measures. Fits into this category: more participation or **advisory rights** for parents and employees, transparency about quality (for example through a **quality monitor**), more insight into a company's finances (**transparency about annual accounts**) or **standardizing the remuneration of top incomes** . In principle, this can be elaborated in a **code of conduct** to which a **quality mark** is linked, for example **.** An independent body can then test who is allowed to operate under the quality mark.

With a quality monitor, the question is how it is filled in. The better monitoring, testing and enforcement, the more effective the instrument, but also the greater the organizational challenge and the costs of supervision and enforcement. By investing this in an independent organization, the costs for childcare organizations do not increase or only increase to a limited extent, but the implementation costs for the government do. It will involve substantial amounts.

One point for attention is that the combination of a large number of requirements that can be individually overcome in implementation, stacked together can still be problematic in terms of the administrative burden on entrepreneurs. Smaller organizations are relatively more affected by this, which can create new barriers to entry and make larger organizations more dominant. In that case, these measures become counterproductive. This should be taken into account in the implementation. by, for example, allowing (temporary) exceptional positions for small companies. A measure in the other direction is precisely the **reduction of the regulatory burden** in order to promote entry and thus price competition.

There are also measures that are more binding and therefore more effective. This category includes forms of price regulation and solvency requirements. Price regulation, and in particular a **price cap,** is an effective barrier to price increases that could arise from market power. Due to the potential dampening effect on prices, this measure is also good for the wide accessibility of the offer. On the other hand, the distinctiveness of organizations serving the luxury segment is limited, limiting the diversity of the offer and the options available to consumers. A difficult point in the elaboration is determining the level of the ceiling. If this is set too high it is not effective, if it is set too low it can limit the continuity of supply and diversity. A price cap can be determined in practice on the basis of cost plus a reasonable allowance for profit and risk. A locally/regional differentiated price cap is obvious, given the differences, especially in property costs at different locations. A price cap can also be differentiated into a basic package and any plus packages. Higher or no price caps may apply for this. Although the diversity of the supply can be safeguarded in this way, it does introduce an opportunity for strategic behavior and *cherry picking* . This can also be mitigated by only allowing (collectively offered) plus supply if there is already sufficient basic supply in a certain area. A price cap can therefore become a very complex measure that, moreover, only works well in combination with other measures (such as **permits**). A more accessible prelude to a price cap can be a price monitor. If it turns out that prices are not or hardly rising, further elaboration and introduction of a price cap is not necessary either. If high prices can be charged, a **dividend standard** may also be introduced. Only part of the profit made may then be distributed to shareholders. An alternative form of price regulation is a reimbursement to the providers of only the operational costs (**recalibration of the fee basis**). Strategic behavior, in which real estate is disconnected, for example, is lurking.

To prevent overloading of childcare companies with debt, debt capital can be standardized using **solvency requirements** , such as a *leverage cap* . In principle, this is an effective instrument to combat over-indebtedness, it makes companies less vulnerable to interest rate rises or disappointing turnover. However, this can also be an obstacle for starters with a small balance sheet total, who are dependent on loans. In addition, the question is whether external capital is not also badly needed to facilitate the expected growth. Solvency requirements therefore face the same dilemma as a price cap: if the requirements are formulated too broadly, the measure is ineffective, if they are too strict then there may be undesirable side effects. Although it is not a government task, an **expansion of the collective labor agreement can** also make a contribution. When higher wages become possible, the tightness on the labor market will shrink. This can facilitate entry and thus promote competition.

1. Introduction

1.1 Cause

Social interest of childcare is paramount
Childcare is a complex file in which various policy fields come together, and in which many government organizations are involved in policy and implementation. Families with children are the primary target group, but the issue touches on a broader social interest: the labor market behavior of parents, the social participation of (potentially) disadvantaged groups and the emotional and intellectual education of children. Promoting the availability and use of childcare is thus defined – in addition to monitoring quality – as a government task.

Developments on the demand and supply side due to system change
After the financing system with benefits paid through the tax authorities came to a standstill, the government has decided to fundamentally change the existing system of childcare benefits. In the new system, up to 96 percent of the costs will be paid directly to the providers instead of paying benefits to parents. The part that providers ask for on top of this is income-independent and contributed directly from parent to provider by the parent. Although the money flows are organized differently, both systems are aimed at stimulating demand.

The intention is that by making childcare cheaper for both high and low incomes, all parents benefit. Demand will therefore increase, which will contribute to the policy goals that are being pursued. ABF Research (2022) estimates that the system change in combination with demographic development in 2031 (compared to 2022) will have resulted in an increase in demand for day care and BSO of 29 and 35 percent respectively. Without a system change, this growth is expected to be 11 and 5 percent (ABF, 2022).

Because the price incentive for parents will virtually disappear in the new system, price will (still) be less of a determining factor in their choice than in the existing system. There is therefore a fear that childcare providers will take the opportunity to increase their prices more than proportionally. A larger part of the turnover (from employers, parents and from collective resources) would then end up as profit for providers. This fear is reinforced by the fact that parties with external investors (especially *private equity* funds) are active in the sector on a substantial footing . Collective resources that end up as (excess) profit for external investors are viewed as undesirable from a political point of view.

1.2 Issue

The Ministry of Social Affairs and Employment has asked Decisio to investigate which instruments may be suitable to prevent undesirable behavior, such as disproportionate profit withdrawal. Suitability is tested on the basis of effectiveness of measures, feasibility in implementation and possible side effects.

The problem statement reads: *" Which measures could be taken to intervene in the hybrid childcare market and what (advantages and disadvantages) effects does this entail for the childcare sector?", with further* specification :

- What are the effects on the supply of childcare, such as in terms of size, diversity, price and quality?

- What is additionally required to implement the measure (such as buying out organisations, preventing evasion)?
- What is the administrative burden of the measure for parents and supervisors?
- Are there examples abroad/other sectors where the measure has been applied and what are the relevant lessons for the childcare sector?

1.3 Scope and limitations of the study

1.3.1 Demarcation

Primary focus on preventing undesirable market behavior

There is a fear in politics about undesirable behavior by providers, in particular providers financed by *private equity funds* . It is not the purpose of this report to endorse or refute the reputation or fear of *private equity funds . The aim is to* identify measures aimed at *potentially inappropriate behavior by providers and to test these for effectiveness, feasibility and side effects.*

An important fear that exists lies in the realization of excessive profits by childcare providers, combined with the withdrawal of those profits from the sector. Such a practice could lead to continuity problems, an impoverishment of the supply and/or a reduction in the quality of childcare. Although the question of possible effects of measures is broad, the primary focus of the study is therefore mainly the question of whether measures create effective barriers against potentially undesirable behavior by market parties. The derived question is whether these measures are feasible and do not lead to undesirable side effects from a social point of view. The research is therefore not aimed at measures that are primarily aimed at guaranteeing the availability of child places, the quality or the accessibility. It is not a search for a set of measures that would best safeguard broad policy objectives and the outcome is not a blueprint for a package of measures for the new system. The outcome is an overview of possible measures, the extent to which these measures can prevent undesirable market behavior, and additional advantages and disadvantages.

Many measures do not only affect Private Equity

The starting point for the measures examined is a *level playing field* : measures in principle apply to all parties and not only to *private equity-* financed or other *for-profit* parties. It is conceivable that certain measures will have a stronger impact on the business operations of certain types of providers. That is why exceptions or a transition phase are conceivable, for example for providers with fewer than a set number of branches.

1.3.2 Limitations to the research

Relation market scan SEO Economic Research

This research was carried out in a relatively short period of time, parallel to a market scan by SEO Economic Research, which explored the market and identified which childcare organizations with *private equity* and how these providers perform compared to other providers (Van Eijkel *et al.* 2023). Although interim coordination took place between the two studies, it was not possible to wait for the final results of the market scan to support the analyses. Where relevant and possible, this report includes references to the results of SEO.

Uncertainty about future situation with new system
The present study also has the limitation that it explores the effect of measures in a market situation that has yet to arise, namely the situation after the system change, which has not yet crystallized in itself. Normally, markets are not intervened until some form of market failure occurs. Different types of instruments are suitable for different types of market failure. This report anticipates changes in an existing market. Because the market for childcare has yet to adapt to the new system, it is not yet possible to say (with certainty) whether and, if so, where market failure will arise and how to intervene. In addition, the behavior of parents who experience the system change after the system change may differ from the behavior of parents who only join after the system change.

The analysis of the effectiveness and possible side effects of measures is therefore based on the contours of the new system and the expected developments on the demand and supply side. This has been done on the basis of theoretical explorations and by drawing parallels with experiences elsewhere. There is, of course, no guarantee that the assumed situations will actually occur in the future. In practice, this means that many effects are surrounded by possible uncertainties. However, that does not detract from the fact that in many cases statements can indeed be made about the expected (direction of) effects (whether or not effective, positive or negative). Where uncertainties mean that no meaningful statements can yet be made, this is indicated.

Qualitative analysis, assessment of measures based on argumentation
Due to the outlined nature of the study, it was also not possible to perform quantitative analyzes of the effectiveness of measures. The study is mainly qualitative in nature (where necessary and possibly supported by quantitative data). The possible effectiveness and side effects of measures are scored with arguments. The assessment was based on a literature study, experiences in other sectors and countries and discussions with representatives from the sector, childcare and private equity. Discussion partners were selected on the basis of knowledge of the entire field, but given the question with a focus on behavioral responses from large *for-profit* providers and especially the parties affiliated with *private equity* , there was also the center of gravity of the conversations. The legal points for attention that we identify also stem from the various sources. A factual legal test of legal (im)possibilities and jurisprudence has not taken place. This should be further investigated in the further elaboration of the measures.

1.4 Reading Guide

Chapter 2 discusses the existing market for childcare (demand, supply, market failure, reasons for government intervention) and the role and reputation of *private equity* funds. Chapters 3 and 4 discuss regulations in comparable sectors, and the market for childcare in a number of relevant countries. In chapter 5, candidate measures are named and assessed, resulting in a sorting according to more or less suitable. Extensive substantiation of the assessment is included in Annex A: Catalog of measures. Appendix B outlines the consequences of various system configurations. The advantages and disadvantages of the proposed system change also follow from this, which serve as a starting point for the measures to be assessed.

2. Context: developments in the childcare market

This chapter briefly describes the market for childcare. We provide a global overview of supply and demand and a brief consideration of the public nature of childcare and aspects that may indicate market failure. We also discuss *private equity:* what is it, how does it work and what reputation does it have.

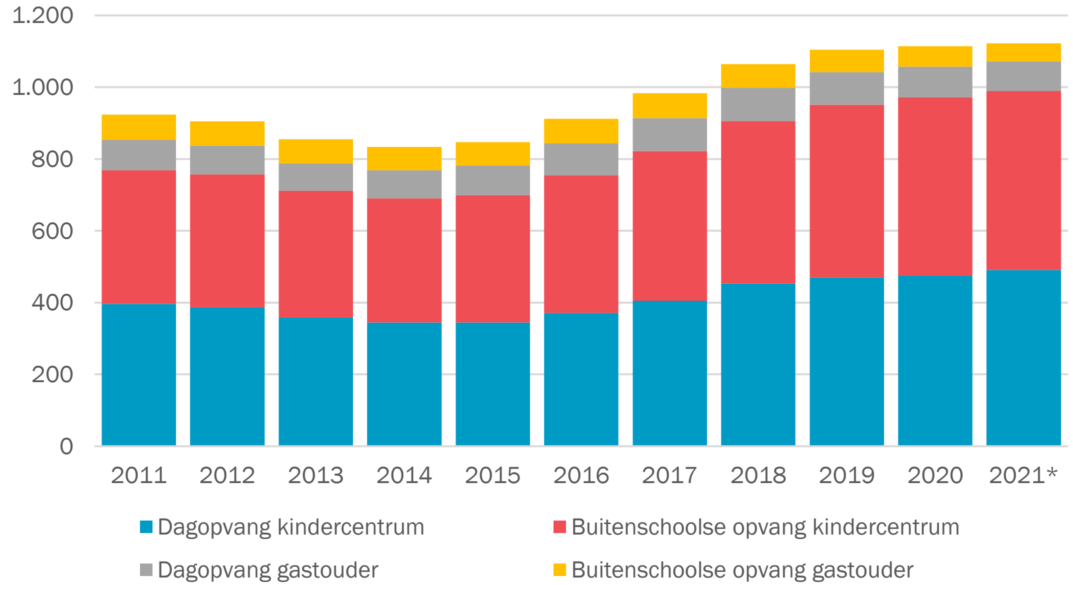
2.1 The child care market

2.1.1 Supply and demand[2]

Forms of childcare

Childcare has various forms. There is an important distinction between day care and out-of-school care. Parents use day care for children aged 0 to 4 who do not yet go to school. It often involves whole days. In addition to regular day care for children aged 0 to 4, there are also separate toddler groups and pre-school education (VE). After-school care is available for children from 4 to 13 years old. This is in line with regular primary school hours. This mainly concerns hours before or after school, whether or not in combination with full-day care during school holidays and study days (Berenschot, 2021). Facilities where children are taken care of are childcare centers, childminders and parent participation crèches.

Figure 2.1 Number of children by type of childcare (x 1,000 children)



*provisional results

Source: CBS (2022)

2 Van Eykel *et al.* (SEO, 2023) extensively discusses the size of the market and the market structure.

Ask for childcare

About 1 million children use childcare in the Netherlands. The total number of hours of childcare on an annual basis is almost 630 million. The vast majority use the childcare centres. Host parents have a much smaller share.

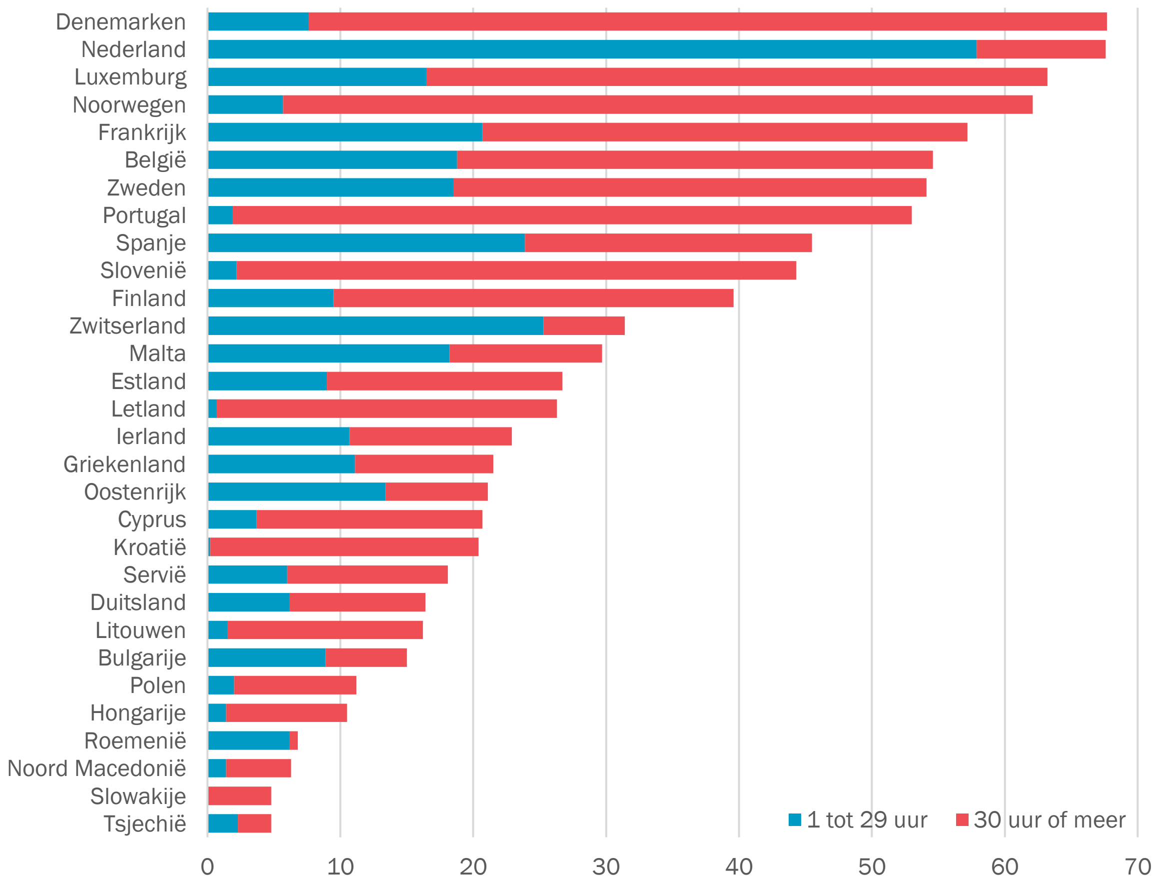
Table 2.1 Number of children and hours in childcare by type of household

	Total	1-parent households	2-parent households	other
number of hours	628,748,370	87,329,510	533,797,190	7,621,670
number of children	1,012,200	122,800	875,110	14,290

Source: CBS; research program Labor Market Care and Welfare (AZW) - azwstatline.cbs.nl

Compared to other European countries, relatively many children in the Netherlands make use of formal childcare. However, the average number of hours per week is limited (see figure 2.2).

Figure 2.2 Share of children under 3 years of age using formal childcare



Source: Eurostat, 2020 figures

The provision of childcare

On the supply side (the 'holders') there is a wide variety of players. More than 750,000 child places are registered in the national child care register (LRK, consulted October 2022), spread over more than 17,000 locations. There are foundations (*not-for-profit*) with an idealistic background and there are commercial parties. There are local holders with one branch and there are chains with hundreds of branches. See Van Eijkel *et al.* (2023) for an overview.

Geographical demarcation
Childcare is a local matter, parents look for a branch close to home or work (CPB, 2010). Only locations that are within a few kilometers of the residential address are eligible. After-school care is always close to the children's school. ACM states that the catchment area is demarcated by a travel time by bicycle of 10.28 minutes (ACM, 2019).

2.1.2 Semi-public character and market failure

Childcare can be characterized as a *semi-public* good. In economics, services and goods are considered 'public' if they are non- *rival* by nature (use by one does not come at the expense of use by another) and are non- *excludable* (no one can be excluded from use). Childcare does not meet these conditions. There is no access without a contract and payment and if a place is already occupied, another child cannot use it. [3]Childcare therefore has the characteristics of a private service, in which restraint with regard to government intervention is appropriate. However, there are three reasons that still justify government intervention:

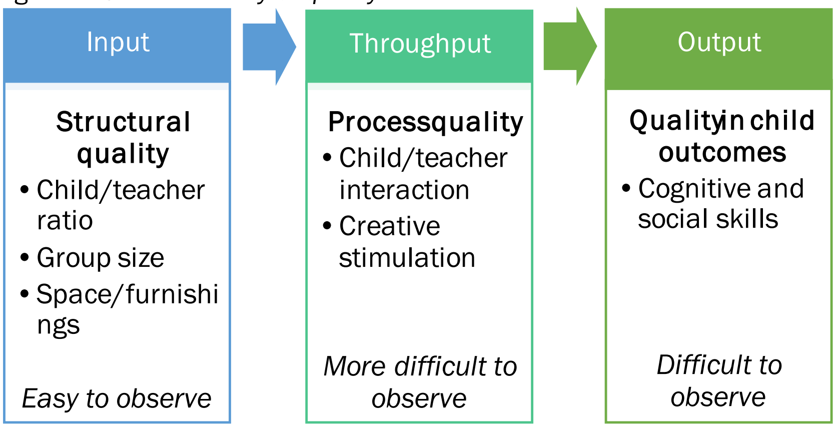
1. the duty of care for children has a disruptive effect on the labor market participation of (mainly) women;
2. there are positive externalities: benefits that arise because (social) skills learned in childcare help to prevent or resolve disadvantaged situations, and an increase in labor participation leads to more tax revenue;[4]
3. the market for childcare itself does not work well: there is asymmetric information between providers and parents, market power, barriers to entry and scale effects.

Asymmetric information
Consumers (parents) have limited insight into the quality of providers. The 'structural quality' in the sector is, however, monitored: information is available about the caregiver-to-child ratio and GGDs monitor safety and hygiene on behalf of the municipalities. But the 'process quality' (Figure 2.3) is not or much less visible. Providers themselves may be reluctant to share available information. Parents mainly choose on the basis of distance and availability, and are less guided by any available information about quality (CPB 2007).

Market power
There are switching costs *(lock-in effect)* : children build a bond with supervisors and other children, which makes switching difficult. For drop-off and pick-up logistics, it is advantageous for parents to take 'follow-up children' to the care of the eldest child, or to a care near the school of the eldest child. As opposed to *lock-able* flow: children use the various forms of childcare for only a few years. This limits the room for providers to capitalize on the *lock-in* power with price increases: after all, this could halt the necessary inflow.[5]

[3] Rivalry is not a strict criterion, because - although regulated - there is some flexibility in the number of child places per supervisor.
[4] The CPB (2010) qualifies the existence of such externalities as 'uncertain'.
[5] The CPB (2010) therefore qualifies the existence of *lock-in* effects as 'uncertain'.

Figure 2. 3Measurability of quality



Source: CPB (2007)

Entry barriers

The tightness of the labor market acts as a barrier to entry. Sector parties indicate that more and more employees are moving on to education, for example. The ratio between the number of supervisors and the number of children is regulated, so a new provider cannot (virtually) enter the market without staff. Existing staff will rather opt for the security of their existing job than for the uncertainty of a new provider. The standard collective labor agreement does not allow for extra remuneration to loosen staff elsewhere.

The availability of suitable locations, especially in urban areas, is limited (ACM, 2019). Housing costs increase as space becomes scarcer. The relationships between established providers, schools and municipalities can form a barrier for newcomers.

The fees charged by municipalities for the GGD inspection required for registration in the LRK (National Childcare Register) can amount to hundreds of euros per municipality (SZW, 2022b).

Economies of scale[6]

Larger organizations can employ specialized staff, deploy staff flexibly across multiple locations, and streamline administrative tasks in a shared *back office* . In addition, they buy cheaper (materials, insurance, support services). At the front of the process, it is precisely about a small size. Parents feel comfortable with smaller childcare organizations, they value the bond with the supervisors and appreciate a flexible response to special requests. This means that small players can still be competitive.

2.1.3 Objectives of policy

The Ministry of Social Affairs and Employment (2021) has set two substantive objectives for childcare from the point of view of the public interest: increasing labor participation and stimulating the development of the child. Labor participation is expressed in terms of the quantity and quality of the labor supply, the number of hours per week, the willingness to bridge commuting distances and the willingness to undergo further training. From a private interest point of view, other objectives can also be attached to this. For employers, productivity is essential: they invest in their employees and therefore benefit from continuity, in terms of length of employment and availability on a daily and weekly basis. Stimulating the development of children is a collective term for different types of quality in childcare, in which a distinction is made, among other things, between emotional and educational development (Sardes, 2019).

[6] See also section 2.3.3.

Both objectives are very important for families: if childcare makes it possible for parents to work (more), it concerns income generation and material prosperity. The quality of childcare helps to raise children in a safe environment. In the longer term, good quality childcare accessible to all parents should therefore contribute to equal opportunities.

The literature mentions conditions such as accessibility (in terms of price and physical proximity), reliability (as little unannounced absence as possible) and connection with other factors that determine the daily rhythm, such as working and school times (SER, 2021; Melhuish et al. 2015 *;* Van Huizen & Plantenga, 2018; Unicef, 2008). Desirability such as transparency, accessibility, a limitation of administrative burdens and the lowest possible fraud sensitivity play a role in the design of the system. There is a major financial condition above all this: everything must remain within budgetary limits.

2.2 A new system

After the financing system with allowances via the Tax Authorities came to a standstill, the Cabinet has decided to fundamentally change the financing system. In the new system, up to 96 percent of the costs will be paid directly to providers, supplemented by an income-independent contribution from parents.

Additional question

Although the money flows are organized differently, the new system is also aimed at stimulating demand. The aim is to make childcare cheaper for households. ABF Research (2022) estimates that the system change in combination with demographic development in 2031 (compared to 2022) will lead to an increase in demand for day care and BSO of 29 and 35 percent respectively. Without a system change, the expected growth is 11 and 5 percent respectively. One factor that could hamper growth is the tense situation on the labor market. At the moment, the demand for personnel already exceeds the supply. Additional demand will only increase the tension.

Tariff formation in the new system

The exact details of the new system are not yet known. In the current system, a maximum hourly rate that can be reimbursed per segment (day care, out-of-school care, childminder care) applies. This is determined annually by the Minister of Social Affairs and Employment on the basis of the hourly rate of the previous year and an indexation factor. [7]With each annual indexation, the hourly prices are further detached from the original structure of costs and margin. However, because the operating structure of childcare does not change substantially over the years, it may be assumed that the composition of the maximum hourly rate in the average still corresponds reasonably well with the operating costs in practice.

In the new system, the provider declares 96 percent of the turnover directly to the – yet to be designated – organizing central body and four percent to the parents. It has yet to be determined on what amount the 96 percent will be calculated. It may be assumed that the concept *of the maximum hourly rate to be*

[7] The indexation factor is a weighted average of the development of the wage rate of companies (eighty percent) and the development of the consumer price index (twenty percent), both as tracked by Statistics Netherlands. There is room for ad hoc adjustments in the indexation, for example – as in 2023 – additional inflation correction or by shifting between the three segments (Ministry of Social Affairs and Employment, 2023).

reimbursed will continue to play an important role in this. The government reimburses 96 percent of the actual costs, up to a maximum of 96 percent of the set maximum hourly rate.[8]

However, variants are conceivable. If a distinction is made between a basic package and a menu of 'plus services', then a scenario is obvious in which the 96 percent is determined on the basis of the amount for the basic package, and that the parents pay for the plus services entirely themselves, with which their contribution exceeds four percent. The definition of the basic package is therefore given a heavy weight in policy-making. [9]The government can also decide to reimburse part of the plus services, in such a way that the ratio of 96% government reimbursement and 4% parental contribution remains intact on average. This requires demarcation of the question of which plus services fall under the reimbursement regime and which do not.[10]

Figure 2.4 Coherence costs and prices

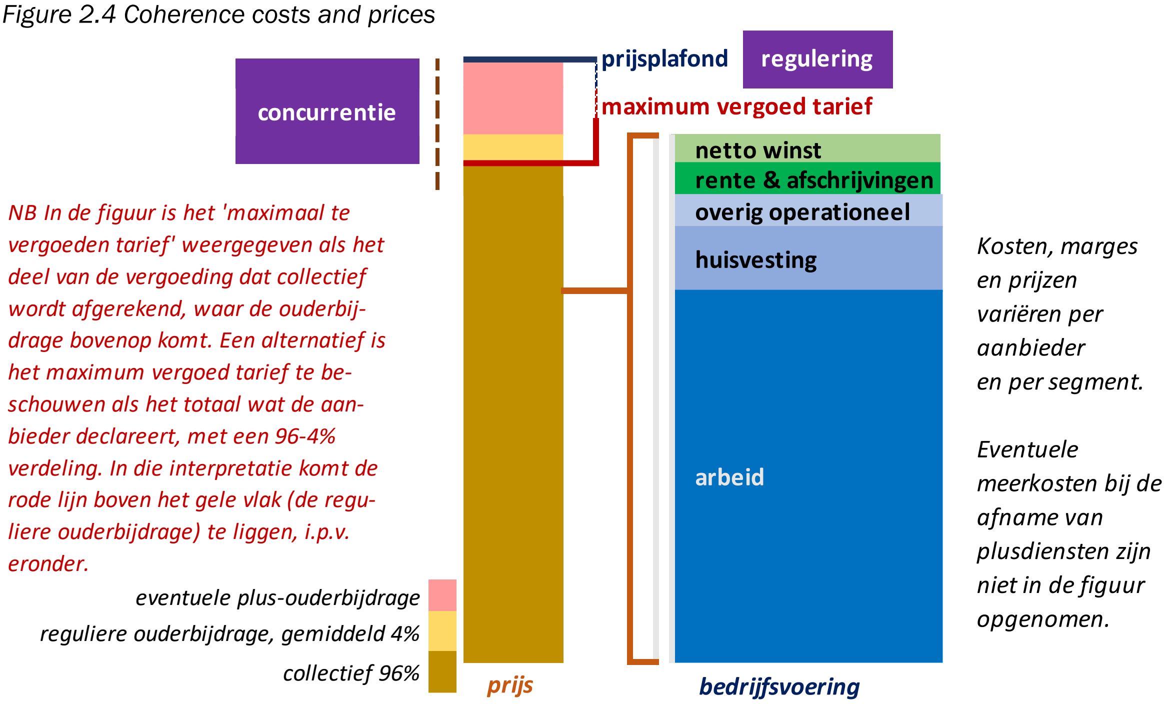


Figure 2.4 shows schematically how various quantities relate to each other. A provider determines its hourly rate (per segment) based on the total of the expected costs, the expected occupancy rate and the target margin. [11]The asking price is limited by the competitive process (which is reflected in the bandwidth of the rates of other providers in the region), by the maximum hourly rate that can be reimbursed, by the

[8] Providers are free to charge higher prices than the maximum hourly rate that can be reimbursed, the part above the maximum hourly rate that can be reimbursed is not eligible for a subsidy and is therefore fully borne by the parents. In the new system, it has yet to be determined whether the four percent parental contribution will apply per contracted child-hour, or per realized child-hour. With the contract option there is a risk that parents buy hours 'in stock', which can lead to underutilization of the capacity.

[9] An important notion in the discussion about plus services is whether they can only be offered at the level of the entire group (or the entire location) (then they are 'non-excludable' and therefore public-like) or can be offered individually per child. A choice for non-excludable services may lead to a dichotomy between 'ordinary' and 'luxury' childcare providers.

[10] Music and yoga classes are often referenced in the industry as examples of services that straddle the boundaries between basic, comprehensive, and luxury.

[11] Entrepreneurs, especially in small and medium-sized enterprises, often do not have a good idea of their cost price. In practice, costs and profit are the outcome of what the accountant or tax advisor calculates after the end of the year, partly driven by tax and pension-technical considerations. Prices are often determined by feeling.

willingness of parents to contribute more than the average four percent (for example for plus services) and by a possible price cap.

Van Eijkel et al. (2023) point out that in the existing market the average hourly rates of all types of providers are above the maximum hourly rate that can be reimbursed.

However the implementation of the new system turns out, the costs of childcare will be less of a determining factor for parents in their choice than in the existing system. There is therefore a fear that providers will use the opportunity to increase their prices more than proportionally – especially since most of the price incentive for parents will disappear. A larger part of the turnover (from employers, parents and from collective resources) would then end up as profit for providers. This fear is reinforced by the fact that parties with external investors (especially *private equity funds)* are active in the sector on a substantial footing . Collective resources that end up as (excess) profit for external investors are viewed as undesirable from a political point of view. Section 2.3 discusses the role of these parties in the market.

2.3 private equity

2.3.1 What and how[12]

Private equity is venture capital contributed by *private equity* funds to unlisted companies. *Private equity* funds are funds that result from the cooperation of a *private equity* firm *(* the *general partner)* and investors *(limited partners*). The *private equity* firm itself contributes a small portion of the fund's assets and acts as fund manager *.* The *limited partners* are institutional investors or (funds of) high net worth individuals. Investors commit to the private equity fund for a longer period of time – usually ten to thirteen years. *Limited partners* have no control over the investments, except as laid down in fund regulations.

The main manifestations of *private equity* are *buyouts* and *venture capital* . *Venture capital* is invested in *start-ups* or emerging companies. In a *buyout, a private equity fund* acquires a majority interest in an existing company. For this study, *buyouts are* most relevant. The *private equity ownership model* is temporary: an exit is usually expected after four to seven years (Ligterink et al. 2017). As a rule, in the case of a *buyout,* the acquisition is financed with a relatively large share of borrowed capital. This loan capital usually comes from banks or from other parties such as institutional investors, with banks acting as intermediaries. The loan capital can also come from the *private equity* fund itself or an affiliated institution, in which case this is referred to as a 'shareholder loan '. Loans can be defined in all kinds of variants: the interest can be paid periodically or credited to the principal, they can be subordinated (i.e. at the back of the queue in the event of bankruptcy) or convertible (in which they are not repaid, but converted be converted into shares).

In the business model of *private equity* funds, the return comes from the profit on the sale of the company in question. The aim is to sell the company at the end of the investment period (usually four to seven years, see above) for a higher amount than the invested amounts. For the distribution of the revenues, agreements apply about what accrues to the *limited partners* and what accrues to the *general partner* . As a rule, a performance-related incentive is built in for the *general partner (* the *'carried interest')* : the higher the

[12] This section relies heavily on De Jong *et al.* (2007), Ligterink *et al.* (2017) and the Tax and Customs Administration (2017). For the sake of readability, detailed references have been omitted.

realized return, the higher the *general partner's remuneration* . This method of distribution is not relevant in the context of this report.[13]

To realize a higher value at the end of the investment period, the *general partner must* ensure better profitability; after all, the value of a company is defined as the sum of its discounted future cash flows. To this end, the *general partner* , together with the management of the company in question, employs various strategies, which are not mutually exclusive: *value arbitrage, financial engineering* and *business adjustments* .

Value Arbitration
Professional investors do their best to identify undervalued or underperforming companies, acquire and restructure them (for example, by merging or splitting off parts) and sell the refurbished company at a higher price.

Financial engineering
private equity business model is the ' *leverage'* of debt capital. The risks and returns for an investment that is partly financed with equity (risk-bearing) capital and partly with loan capital are unevenly distributed. Lenders receive interest and get their loan repaid; these are, in principle, fixed amounts, where the interest rate includes a price for the risk of non-repayment borne by the lender. Profits and losses are borne by the shareholders. Under the assumption that a larger investment produces more profit, debt capital helps to increase shareholder returns. After all, thanks to the use of borrowed capital, they make more profit with the money they invested themselves than they could have done without that borrowed capital. This is reinforced by the tax treatment of interest costs: in principle, they count as costs for the company that incurs them and are therefore tax-deductible. By financing acquisitions with money that the acquired company itself borrows, a tax advantage can thus be achieved.

In the case of a shareholder loan (also known as 'participation loans') with a high interest rate, this effect has an additional effect. [14]In the tax system (Belastingdienst, 2017; Bletz, 2020), the tax rules for *private equity* -like participations have been tightened in a number of steps. Regulations remain topical now that the accountancy sector is also increasingly being entered by such participations with potentially conflicting interests (FD, 2023). Supported by court rulings, the Tax and Customs Administration no longer allows tax constructions that are solely aimed at achieving a tax advantage. [15]The interest deduction on acquisitions is limited to what the acquisition holding company (the investment vehicle that the *private equity party* sets up for the acquisition) can realize as profit on a *stand-alone basis. An arm's length regime* applies to shareholder loans , which in short means that interest on loans is only deductible if they have been taken out under market conditions. This means that the tax incentive for *private equity* funds to 'overload' acquired companies with debt has largely disappeared. The leverage effect based on debt capital will continue to apply.

Operational adjustments

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[13] The performance-related remuneration of *private equity* houses is under discussion in politics, see recent reports on the remuneration of private equity investors by pension funds (FD, 2022 *).* This reward does not relate to the companies invested in, but refers to the return of the *limited partners* , for example pension funds. Tax regulations are aimed at taxing 'excessive' revenues of the *general partner more heavily (* Belastingdienst, 2017).

[14] Axelson *et al.* (2009) indicate that shareholder loans generally do not form an important part of the financing. In the Netherlands they are also no longer attractive from a tax point of view.

[15] Raising costs (artificially or otherwise) in order to reduce taxable profit and thus tax payments is also known as *'earnings stripping'* . Recent reports indicate that this form of *financial engineering* is now being successfully combated (FD, 23-2-2023).

A third variant with which *private equity* investors aim to make a profit is to adjust the business operations of the acquired company. Those adjustments can be sought in cost savings (efficiency improvement) , reorganization and/or expansion. Efficiency improvement can be achieved by cutting costs, for example by cutting jobs, cheaper housing and sharper purchasing. Particularly at large listed companies, *private equity* investors can drive substantial cost savings. The market for childcare in the Netherlands is not about cost savings, but about growth. Section 2.3.2 discusses this in more detail.

2.3.2 Scaling up

Private equity was originally aimed at investing in relatively large companies, whose share value can be approached systematically and which can be controlled on the basis of management techniques. It is common practice for the incumbent management of acquired companies to remain in place, and to be encouraged to participate in the acquisition on a risk basis, so that – as the *agency theory* (Jensen & Meckling, 1976) puts it – the financial interests of shareholders and managers run parallel *(alignment of interests)* . Small and medium-sized enterprises meet the conditions of valuability and manageability much less. The organization and financial structure of small companies are intertwined with the person of the entrepreneur, with his (m/f) retirement provision playing an important role in the balance sheet position. The combination of *private equity* and small businesses is therefore not obvious at first sight. This applies *a fortiori* in an SME sector that is organized in small-scale establishments. Centralizing overhead functions (see list below) leads to cheaper business operations, but this is offset by the management of a large number of branches, all with their own history, culture – and in the case of childcare – their own parents' committee. The emergence of *private equity* funds in all kinds of small-scale sectors, in addition to child care in various healthcare markets (dentistry , physiotherapy, veterinary medicine) and in business service providers (financial advisers, accountants) makes it clear that there are monetizable benefits for both investors and entrepreneurs, which exceed coordination costs.[16]

Economies of scale

A larger size has several advantages. Larger organizations:

- can spread their (fixed) overhead costs over more locations and customers, and thus have a cost advantage.
- can purchase on better terms and often at better prices – this applies to both material goods and services, from cleaning services to accounting services;
- are more visible on the labor market and therefore have advantages when recruiting new staff and trainees;
- have more room for development, training and promotion of personnel;
- deploying personnel flexibly (for example between branches);
- have better access to bank credit;
- have better access to high-quality (legal, technological, economic) knowledge.

Economies of scale are opposed to economies of scale. Larger organizations:

- are less able to adapt to changing market conditions due to a formalized structure;
- have less bond with the staff in branches;
- are more visible in the public domain and therefore more susceptible to reputational damage.

[16] See e.g. ABN Amro (2022), FD, 4-8-2022, NRC, 25-8-2018; NRC, 6-11-2021; FD, 9/6/2022; FD, 2/23/2023.

There is no such thing as an optimal scale size. In many sectors there is a lower limit below which companies have too little clout, and an upper limit above which companies are no longer sufficiently agile. These limits are – among other things – determined by technological circumstances, by the economic cycle and by regulations. Competition regulator ACM assesses whether mergers and acquisitions lead to an excessively dominant position of the parties involved in their relevant (usually local or regional) market.

Entrepreneurs with growth ambitions can seek economies of scale by making acquisitions or opening new branches themselves, but they run up against the availability of financial resources and their own *span of control.* They can look for financing in borrowed capital (credit from or through the bank) or in risk-bearing capital. In doing so, the entrepreneur weighs up the balance between autonomy and the benefits that come with being part of a larger whole.[17] In the theory of *small business finance* (Bygrave, 2010) *venture capital/private equity* is regarded as an option that meets the capital needs of an entrepreneur who can no longer finance further ambitions from his own profit or informal capital to be raised.[18] *Venture capital/private equity* is recorded therein as *'relationship capital'* accompanied by general management support and the availability of specific services as the company grows. In *private equity financing,* the outside investor acquires the majority of the shares. The selling entrepreneur remains a minority shareholder, and also remains in his position as a manager and driving force behind growth. A logical step after the *private equity* participation is acquisition by a listed or unlisted company or (less common) an institutional investor or (even less common) an independent stock exchange listing

For investors, the acquired company can be used as a springboard for rapid further expansion in the sector. This strategy is known as *buy-and-build* . Because they are part of the *due diligence* process in the *buy* -phase preliminary study, they already have knowledge of the sector. They specialize in the legal and negotiation aspects of the takeover process, so that they can also provide decisive assistance in the follow-up process *(build)* .

2.3.3 Private equity in child care

The childcare sector – like other sectors – has to contend with labor market problems: recruiting and retaining staff is a major challenge. Regulations place increasing demands on business operations and on the qualifications and deployment of personnel. [19]These are problems for which further scaling up can offer some relief. It is therefore logical that the sector is interested in further developing chains. The circumstances for *private equity* parties are also attractive: there is room for centralization and efficiency improvement through chain formation. Demand is also continuing, and demand is expected to grow by around 30 percent under the new financing system. It is therefore in line with the fact that well-functioning childcare chains can also be resold in accordance with the *private equity business model.*

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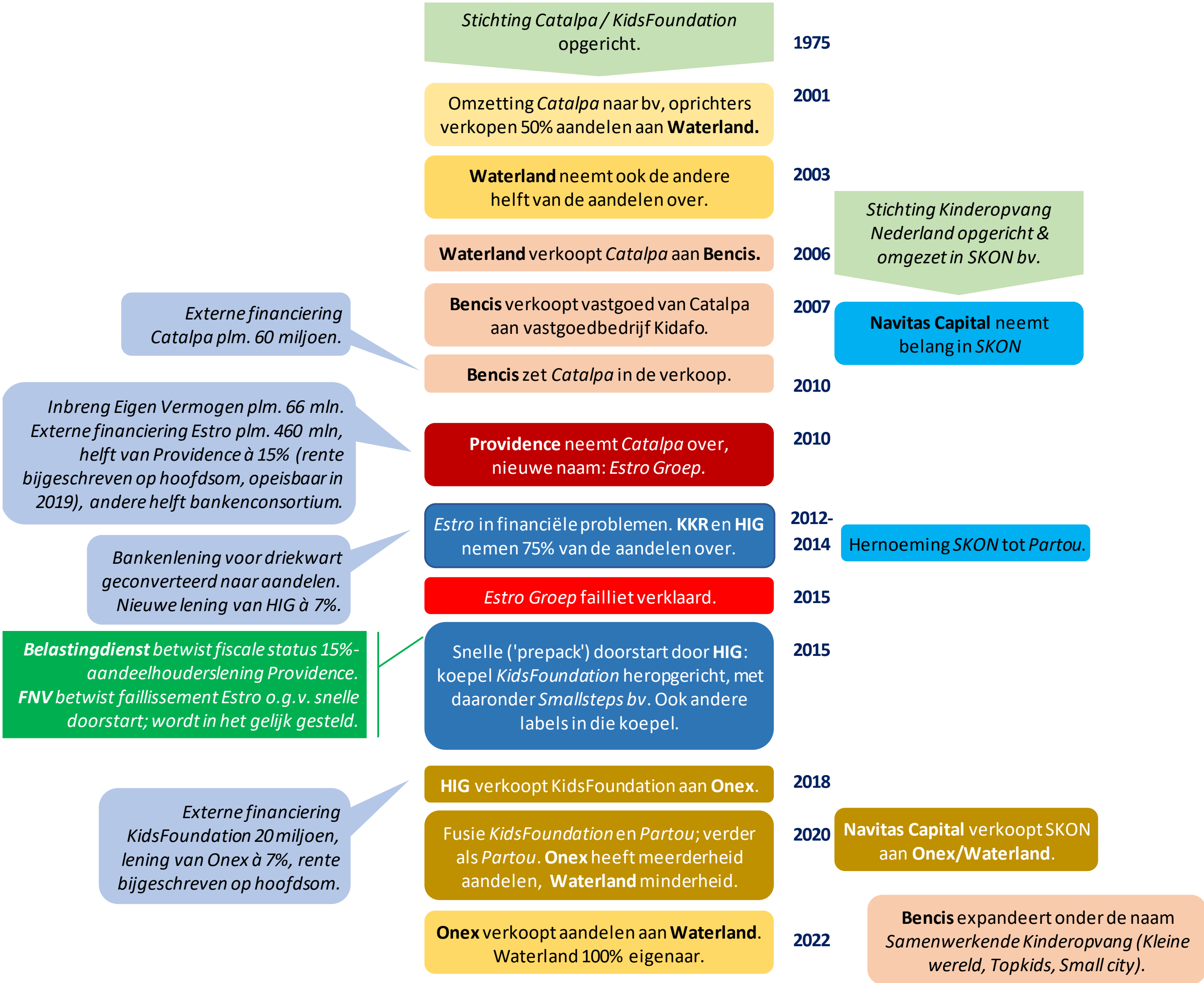
17 A difference with joining horizontal forms of cooperation (purchasing combinations , franchise chains) is that sales offer the opportunity to *cash in* and thus secure the pension, or an opportunity to look for new challenges.

18 The *pecking order theory* of Myers & Majluf (1984) indicates a preferential order among entrepreneurs who want to grow: first use internally accumulated equity (retained earnings), if that falls short debt capital and only then external risk-bearing capital. The reasoning is based on information inequality about the value of the company (the entrepreneur is in the middle of it) and on the signal value of being able to manage with a bank loan. Autonomy also plays a role: the sale of shares implies the surrender of control.

19 https://www.kinderopvangtotaal.nl/de-regeldruk-loop-uit-de-hand-ook-in-de-kinderopvang/

Figure 2. 5Timeline Private Equity in childcare



Private equity parties have therefore long shown an interest in the childcare sector. *Private equity* house Waterland took an interest in Catalpa as early as 2001 , after which a turbulent period followed for this chain, see Figure 2.5. Van Eijkel *et al.* (2023) discuss the events at Catalpa/Estro in more detail. After the bankruptcy of Estro in 2015 and various changes of ownership, this part of the sector has entered calmer waters. Recently, a number of childcare chains have started working again with *private ones equity* investors.

2.3.4 Private equity in the public opinion

The previous paragraphs deal with the operation of *private equity* and the way in which *private equity* can play a role in the development of companies and sectors. In the public opinion, however, *private equity parties do not have a good reputation.* In the Netherlands, the experience of the Hema is a well-known case (Vermeulen, 2018). Concerns about the attitude of *private equity* parties play a role throughout the economy and are expressed in the media by journalists and politicians of various stripes, among others. Recent reports (FD, 23-2-2023) show that these concerns are still there. *Private equity* parties are seen as exponents of shareholder capitalism with a purely financial objective, without a long-term perspective and without an eye for the interests of employees and customers. In this view, investment funds maintain a portfolio of various companies, sail close to the wind and calculate the risk that one company in the portfolio will occasionally fail, in which case the loss will be taken. The performance component embedded in the *general manager 's pay* (the higher the sales value based on expected returns, the higher the pay) contributes to this picture. In sectors with a fully market character this can be dismissed as an expression of free market forces, in sectors that (partly) float on public funds (such as healthcare, utilities and childcare) such a return-driven strategy is more sensitive.

Redistribution vs. value creation

Through improved efficiency or successful expansion, a *private equity* fund can create new value, from which the fund reaps the financial revenue when sold. But customers, suppliers and other parties in society can also benefit from this: if a company delivers a higher and/or more stable quality at lower costs, there is a welfare gain. If the value does not increase and the *private equity* fund only attracts revenues that previously belonged to others, there is no value creation, but redistribution in favor of the *private equity* fund and its fund participants. This redistribution can be at the expense of the tax *(fiscal engineering)* , of the previous shareholders (value arbitrage), of employees (more work pressure, poorer working conditions), of suppliers (worse conditions) or of customers (higher prices, lower quality) .

Pick bald

The lack of profit withdrawal in the form of dividends in the business model of *private equity* funds does not mean that no funds can be withdrawn over the life of the investment. Methods that can be used for this are interest on shareholder loans, charging fees for management services or housing, and selling assets, for example in the form of a *sale & lease back* construction.

Opinion or reality?

This report is not intended to weigh up the extent to which public opinion paints a realistic picture of private equity practice. Boot (2023) points to the danger of a one-sided view and the consequences for the hybrid system of an incident-driven debate. Parties in the sector contradict the image in the public opinion, with various arguments.

Private equity parties do not poach markets, but facilitate entrepreneurs with growth ambitions
The causality in the investment relationship starts with the entrepreneur. A *buy-and-build private equity* investment is not a unilateral takeover. The initiative lies with the entrepreneurs *involved , who seek* financing for their expansion plans and strive for a *match* with a party that can provide financing and clout.

Buy-and-build requires a well-stocked greenhouse
Expansion through acquisitions and the opening of new branches is a form of investment that takes place partly with risk-bearing equity and partly with loan capital. Tax regulations, the ambition to create well-functioning companies and liability issues in the context of *good governance* limit the possibility of entering into financial obligations that could lead to discontinuity.

Shareholder loans are very limited. They are used as a bridging loan. Because they have less collateral (for example because of a subordinated character), an interest surcharge may be part of this.

Withdrawing money during the term of the participation is counterproductive
The emphasis is on *build* : funds that leave the company and are not used for investments in growth and quality are at the expense of returns. The performance-related remuneration of the *general manager* is precisely aimed at preventing such short-term strategies.

The return must be made by selling the company concerned at a profit at the end of the ride. This is only possible if the company is in a good financial position with a good market position. A good market position requires satisfied customers and satisfied staff.

Extracting profits in the form of dividends during the investment period is not part of the practice of *private equity*.

The aim is growth and a stable return in the long term
Childcare is not a sector where large profits are made. The Childcare Guarantee Fund (2022) indicates that a return of between three and five percent has been considered regular for years. The sector is interesting for *private equity investors because of stable returns and growth prospects in terms of the size of the entire market and the market share to be realized.*

Cherry picking by limiting attendance to higher income neighborhoods is not a strategy. The financial performance *of* a childcare location is determined by the occupancy rate, which is often higher in neighborhoods with lower average incomes.

The reputation mechanism
Private equity managers must distinguish themselves commercially with good returns. The Dutch market is relatively small. *Private equity fund* portfolios are also limited in size, with around twenty investment projects. *Private equity* managers and their advisors cannot afford tax and legal slips or commercial failures in that context: these make it difficult to raise money from *limited partners in the future.*

Where there are examples of problems at companies affiliated with *private equity* , the parties refer to *private equity* funds of Anglo-Saxon descent, with a different background and culture than Dutch funds. (Nevertheless, such funds can still invest in the Netherlands.)

There have been no (demonstrable) excesses recently[20]
According to those involved, the breaking point in the Estro case was changing regulations, as a result of which turnover *fell* without the cost level being able to be adjusted (quickly enough). Estro was not the only childcare company that collapsed, but it was the company that received all the attention. Ultimately, *private equity* parties and the banks took their losses, and other *private equity* parties revived Estro's estate.

2.4 Possible starting points for policy

The purpose of this report is to identify which measures the government could use to prevent or combat behavior by (particularly) *private equity* parties that *may run counter to the public interest.* The trade-off between the benefits offered by external risk investors (matching supply against growing demand, investing in quality, facilitating entrepreneurship) and the (possible, perceived) dangers of such investors' actions is a political matter.

We name the elements as they are regularly referred to in the public debate with a controversial character of the strategy that *private equity* funds (can) use, with special attention to the childcare sector. Inhibiting factors already exist for many of these behaviors. These are partly laid down in generic regulations and partly based on specific circumstances in the childcare market. These factors do not guarantee the prevention of undesirable behavior, but they do help. We name these factors and circumstances in blue.

Companies overloaded with debt
The most frequently cited strategy of *private equity* houses in this context is to increase leverage, by heavily burdening acquired companies with debt, either with third parties (banks or through banks) or with lenders affiliated to the *private equity house.* with an interest rate well above the market level. If that interest is not settled annually, but is added to the principal, the total amount can be high thanks to the compound interest. Due to high interest charges, the acquired companies can run into liquidity problems, for example if turnover falls short, interest rates rise, or if loans are demanded by the bank. Such loans and the

[20] The absence of malpractices is – with some caution – endorsed by Ligterink et al. (2017). The authors also point to research indicating that *private equity* investments can have a positive impact. Other companies (Bernstein et *al. 2010* ; Lubbers, Von Eije and Westerman, 2015) find that in industries where *private* equity there were relatively more investment and employment growth. This may indicate *spill-over* effects and a competitive incentive for all companies in the sector to work more efficiently.

associated interest charges played a role in various bankruptcies in the past, such as that of Estro, but also in the retail sector (Vendex, Hema). The legal battle in the aftermath of Estro is largely about the interest on a substantial shareholder loan (Amsterdam Court of Appeal, 2022a & 2022b).
The buy-and-build strategy of the chains backed by private equity funds includes a well-stocked 'war chest', in which debt capital plays an essential role. In the meantime (see above) the tax regulations have changed, and private equity funds no longer have a tax incentive to increase the debt burden of the acquired companies with shareholder loans . The interest deduction on acquisitions is also limited to what the acquisition holding company (the investment vehicle that the private equity party sets up for the acquisition) can realize as profit on a 'stand alone basis'. The leverage effect itself (the use of regular debt to increase the return on equity) remains intact, but its scope is limited.
Van Eijkel *et al.* (2023) show that *private equity* chains on average have a considerably lower solvency than other private providers: 24 percent vs. 42 percent. The authors indicate that these relationships are considerably different (and implicitly less unsafe) than was the case at the time of the acquisition(s) of Estro.

Saddling companies with high costs
A high interest rate on a shareholder loan is one way to extract money from a company, but there are other ways, many of which are unregulated. The *general partner* can request an *advisory* charge *a fee for services to be provided by the shareholder.* Such a fee is not necessarily related to efforts and can – after all, the *private equity* party is the majority shareholder – be imposed unilaterally. Another form is forced shopping, for example by obliging to use real estate to be rented from the *private equity party.* Here too, rental and service costs can be determined and imposed unilaterally by the majority shareholder.
As with dividend withdrawal, the rationale applies here that money not deployed to implement the buy-and-build strategy ultimately comes at the expense of shareholder returns . The performance - related remuneration that the general manager receives is precisely aimed at preventing such short-term strategies .
Van Eijkel *et al.* (2023) also indicate that in the existing market, *private equity* parties withdraw resources from childcare companies in this way.

The inclusion of goodwill on the balance sheet , the surplus value of newly acquired companies, is also mentioned. Amortization of this *goodwill* depresses profit and thus reduces tax payments.
This is a form of fiscal engineering that is aimed at reducing tax payments, but has no impact on the business operations of the company in question. The Tax and Customs Administration determines the extent to which tax constructions are permitted.

Realization of real estate or other tangible assets
The *private equity* shareholder can monetize value of the acquired company by selling real estate (or other assets) and possibly renting or leasing it back. This allows capital gains to be made into money. In addition, if the property in question was mortgaged, the balance sheet is shortened, potentially increasing the borrowing capacity for unsecured credit – which improves leverage.
In childcare there is only very limited material assets, almost the only thing that can apply is real estate. However , there are no real estate transactions (sale & lease back) in the sector . There is a scarcity of good locations that are cherished and not sold .
Van Eijkel *et al.* (2023) indicate that ownership of real estate plays a very minor role in the sector, even among the larger providers.

Emptying companies through dividend payments

There is a fear (Tweede Kamer, 2022) that external investors (more specifically: *private equity* funds) are able to generate 'excess profits' on the basis of turnover that partly originates from public funds, and to withdraw these profits from the sector ("to skim off"). It should be noted that 'over profit' is a debatable concept from an economic point of view . The concept of profit has various functions in economic transactions. At the system level, shareholders' right to profit *('the residual claim') is* an incentive for efficient business operations. There are several circumstances that make it necessary for companies to make a profit. Retained earnings are needed as a buffer for continuity, as cover for loans and to finance further investments. Distributable profit is necessary to return shareholders for the money they have invested and is the reward for the efforts of the active owner. In market sectors, a concept such as excess profit does not play a role, it only comes into the picture when there is a question of regulated activities in the (semi-)public domain. Cook et al. (2020) discuss this in detail in the context of healthcare. Surplus profits can only arise in the event of imperfect market forces. Excess profit in such a situation is associated with a return from providers that is more than reasonable, for example if the return on invested capital exceeds the cost of capital, being 'the expected return on alternative investments of comparable risk'. [21]In regulated sectors with companies with substantial invested capital (utilities, public transport), excess profit is operationalized with a standard based on the *weighted average cost of capital (WACC)* that companies are allowed to include in their tariffs. [22] A measure such as 'return on capital employed' (ROI) is of limited significance if that capital employed (the denominator of the fraction) is limited in size, as is the case in service industries and a fortiori in SMEs. The numerator (the nominal profit) then has a major influence on the outcome, so that the volatility of the ROI is high, both between companies and over time. This makes a numerical interpretation of the phenomenon of excess profit a delicate matter. The conclusion of Kok et al. (2022) that excess profits in healthcare mainly occur in small healthcare companies should also be seen in that light.

The discussion about excess profit is primarily concerned with the question of whether it is possible to generate excessive profits. In that regard, see the comments above on the level of returns in the sector. The next question is whether it is possible (or desirable) to withdraw realized profit in the form of dividend. In the business model of private equity investors, extracting profit in the form of dividends to be distributed plays no role. Private equity investors realize their return from the sales value at the end of the ride.[23]

Van Eijkel *et al.* (2023) show that the operating result of *private equity* chains is in line with other private providers. Due to the higher interest charges, the result before tax is lower, on average (even) negative. This is a logical reflection of the use of debt capital, and not a basis (in the long run or with other types of shareholders) for excessive dividend payments.

Cherry-picking

The reorganization imposed by an acquiring party may also involve a shift to other market segments, for example by disposing of customers whose returns are lower, because they generate too little turnover or entail relatively high costs. In the case of childcare, this may mean a concentration policy on regions or neighborhoods where relatively many families with wealth live (FD 21-3-2022). In doing so, they leave the (potentially) less profitable regions to other providers, who therefore also have fewer opportunities to use

21 This definition actually requires supplementation for resources that a working owner can extract from the company in some other way, for example in the form of a disproportionate remuneration. However, such a strategy is not very attractive because of the progressive nature of income tax. The tax authorities therefore require that directors/major shareholders enjoy a competitive *minimum salary* (EUR 51,000) from their BV. The *Top Income Standards Act* imposes an upper limit on the remuneration for the higher ranks at public and semi-public institutions.

22 For example, ACM periodically determines the WACC for drinking water companies, see ACM (2021).

23 For parties that do pay dividends (BVs with active shareholders on the one hand and chains with (BV) listed shareholders on the other) there is already a limit : dividends may only be distributed if there is sufficient profit and the continuity of the BV is not at stake. comes.

profits from 'easy regions' to compensate for losses in difficult regions. Another form of *cherry picking* is the discontinuation of 'plus care', the care of children who require extra attention, for example because of ADHD or autism (NRC 16-6-2020).

Such a choice for a selective offer implies a reduction in quality at sector level: the offer becomes less diverse and serving segments that require higher costs is left to a smaller number of parties.
Childcare companies indicate that this method of cherry picking is not a strategy. The buy - and-build strategy goes hand in hand with the aim of increasing market share , and a wide range is in line with this.
Van Eijkel *et al.* (2023) conclude that there is a statistically significant higher presence of private equity chains in economically stronger neighborhoods. This conclusion does not necessarily point to *cherry picking*, but may also be related to a geographically concentrated acquisition and growth strategy, and the insight that economies of scale can be *better* achieved in areas with a higher population density – which often also score better on wealth indicators.

Quality erosion
Quality reduction can also take place at the level of branches. After all, a strong focus on cost reduction can be accompanied by a compromise on quality, for example by cutting back on staff, on accommodation maintenance, or on activities and meals (NRC 8-6-2019, FD 24-2-2022).
Childcare companies indicate that this approach is at odds with the aim of building a company that can be sold in a few years' time. This requires a company that is well positioned in the market with satisfied customers (parents) and motivated staff.
Van Eijkel *et al.* (2023) indicate (based on LKK data) that providers affiliated with private equity score above average on measurable quality indicators .

High prices
The focus of external investors is on turnover and profit. It is in line to charge rates at the top end of the market. This is easier in affluent areas (see above under *'cherry picking'*). When childcare places are scarce, parents have little or no choice and no alternative if their childcare raises prices.
Childcare companies indicate that this strategy does not fit with the ambition to become big and build a good reputation. They refer to the very limited number of cases that come before the Disputes Committee because of this approach.
Van Eijkel *et al.* (2023) indicate that *private equity* chains and other private providers charge a slightly (6 to 7 percent) higher hourly rate on average than *not-for-profit* providers in the years 2019-2021. As *a caveat,* the authors state that this does not take possible additional services into account, so that it cannot be concluded that market power is being exercised.

Looking for the edges of the regulations
There are examples that indicate that *private equity* parties are adept at sailing close to the wind in regulations, at the expense of the tax authorities, suppliers or customers (FD 26-6-2020). A recent example is the approach of the French fund Orpea in dementia care, where the general conditions are formulated in such a way that the law is strictly observed, but in such a way that customers de facto have no rights (NRC 5-11-2022).
It should also be noted that Orpea is not a private equity fund with an investment with a limited time horizon, but a financial healthcare conglomerate that is listed on the stock exchange and (assumed) focuses on dividends.

2.5 Different market conditions, different policy?

Section 2.4 provides an overview of possible starting points for policy based on the existing practice of supply and demand. The reason for the inventory in this report is concern about the market after the proposed system change. A number of developments are important for the question of whether different market conditions also call for a different policy: growth in demand, more money for the sector and further consolidation. Rising interest rates may also play a role.

The labor market and demand growth

An important objective in reforming childcare reimbursement systems is to promote labor market participation. According to forecasts (ABF, 2022), the demand for childcare will increase by approximately thirty percent. The sector is already struggling with severe shortages, it is uncertain whether capacity can be scaled up quickly enough to meet the increasing demand. That is why – at least in the short term – a scarcity of reception places and waiting lists must be taken into account. This jeopardizes accessibility and may put upward pressure on tariffs. If that price pressure also manifests itself above the maximum reimbursable rate, it will encourage further inequality between income groups.

More money

More money will be made available for childcare. In combination with further scarcity, this can make the market more attractive to players who are mainly attracted by the prospect of financial gain. These can be professional investors, but also fortune seekers of all kinds. With the possible entry of such parties, the risks of quality erosion and the withdrawal of financial gain increase. Proactive quality assurance and monitoring of financial flows then become more urgent.

Further consolidation

Private equity is an intermediate phase for growing companies, aimed at financing expansion. In this phase profit withdrawal does not play a role, the focus is on continued growth. The participation by a *private equity* fund is temporary, just like the expansion phase. Eventually – if all goes well – there will be a new phase, with a more stable pattern and with shareholders who do count on dividends. Given the sector's stage of life, it is still too early to anticipate this, but in the case of 'normal' development, shareholders with other preferences must be taken into account in due course. These may be institutional investors, who generally prefer long-term investments with a stable and reliable return. However, they can also be *hit-and-run* players, with a different profile. That threat does not seem to be an issue now, but may be a point of attention in the long term.

Rising interest

Leverage is an important part of the strategy of *private equity* players. The interest rates of recent years provided them with a strong tailwind, making debt financing an attractive strategy. Now that interest rates are rising, parties may be confronted with considerably higher financing costs at a time of interest rate review. The events at Estro (turnover fell while costs remained the same) have shown that an imbalance between the developments on the turnover and costs side can lead to continuity problems. If the reverse happens for private equity-backed parties in the coming years – costs rise while turnover remains at the same level – there will be a similar imbalance. Then these parties may face liquidity problems or even solvency problems.

3. Comparison with other sectors

This chapter outlines the way in which the public interest is safeguarded in two sectors that are comparable in parts to childcare: public housing and parts of the healthcare sector. Although concerns about *private equity* are widespread (including internationally), there is not much experience with targeted regulation. We take a closer look at a number of sectors that are – in parts – comparable to childcare (a semi-public character, a hybrid market structure, a fragmented supply) and describe which forms of regulation exist there to safeguard the public interest.

3.1 Public interest in public housing

The housing market in the Netherlands is divided into three segments: owner-occupied homes (58%), homes in the private (non-regulated) rental sector – rent per month from the 'rental limit' of €806.06 (8%) and homes in the (regulated)) social rental sector – rent below the rent limit (34%). The cabinet intends to place all homes with a rent of up to approximately € 1,100 in the regulated part of the market.

The social rental sector is aimed at providing housing to households that cannot (financially) realize this on their own. The right to housing is enshrined in the Constitution, social rental housing can therefore be regarded as semi-public goods. The social rental market is dominated by housing associations, with approximately 96 percent of the total number of regulated rental properties. Nevertheless, there is a hybrid market: there are also private providers, which can be subdivided into business parties and private investors. *Private equity* parties take up a small part of this.

Table 3.1 Generic instruments for the regulated part of the rental market

Instrument	Intent
Contract regulation: Rent protection does not allow unilateral termination of the lease by the landlord, with the exception of temporary contracts.	Protection of sitting tenants.
Price regulation : The home value system (point system) determines the maximum rent based on properties that determine the value of the home. The annual rent increase is also limited, partly related to the state of repair. The Rental Committee is the independent body that settles conflicts between tenants and landlords about the rent.	Protection of tenants against improper rent increases.
Permit system: Since 2022, municipalities can introduce *purchase protection* at district level . Under this scheme, cheap and medium-priced rental properties can only be sold to private individuals who will occupy the property themselves.	Making more owner-occupied homes available to first-time buyers and middle-income households. Barring commercial landlords for fear of rapid rent increases and poor maintenance.
Taxation: The landlord levy (to be abolished in 2023) is a tax for landlords of more than ten social rental properties.	Skimming and redistribution of financial surpluses at housing corporations.

Table 3.2 Instruments aimed at housing associations

Instrument	Intent
Licensing system: The Decree on Admitted Institutions for Public Housing sets requirements for the legal form, the organization (including directors and internal supervisors), mergers & acquisitions, the letting policy, the financial policy and activities that corporations are allowed to develop. Internal supervisors (the Supervisory Board or Supervisory Board) have an important task, assisted by the house accountant. The external supervisor is the Housing Associations Authority.	Ensure financial health and continuity. Ensuring that resources remain within the sector. Promoting involvement of corporations with their tenants.
Licensing system: are housing associations limited in their activities to Services of General Economic Interest (SGEI). This does not include the development of private sector rental homes, owner-occupied homes and commercial real estate.	No financial exchange (cross-subsidies, losses to be incurred) between the core task and any market activities.
Guarantee system: The Social Housing Guarantee Fund carries out a risk assessment and acts as a guarantor for corporation loans.	Safeguarding the borrowing capacity of corporations at the lowest possible interest rates.
Governance: The position of the tenants is laid down in the *Landlords Consultation Act:* they are consultation partners in performance agreements with regard to housing. Tenant organizations have the right to a binding nomination of at least one third of the Supervisory Board or Supervisory Board, the right to participate in the sale of rental properties and the right to consent in the event of a merger. In 2014, housing associations with more than 5,000 rental units were designated as public interest entities (PIEs).	Guarantee tenants' participation in policy. The PIE status comes with stricter requirements for statutory auditing, especially in the field of quality control.
Contract regulation: Housing associations must allocate at least 92.5% of the vacant homes to households with an income below € 44,035. Depending on local performance agreements, that minimum can be set lower, but not lower than 85%.	Ensuring that the target group is served, preventing skewed living.

Table 3.3 Instruments based on self-regulation

Instrument	Intent
Governance: Aedes applies a *Governance code for* directors and internal supervisors. Compliance is monitored by an independent committee.	Guarantee rights tenants.
Employee rights: The collective labor agreement stipulates the right to be consulted by the works council on the appointment of internal supervisors and on proposed mergers and reorganizations.	Guarantee workers' rights.
Monitoring: The Aedes benchmark provides a mutual comparison in performance fields: tenant satisfaction, operating expenses, sustainability, maintenance and improvement, availability and affordability and quality of new construction.	Informing directors and supervisors about possible deviations, early identification of underperformance and identifying *best practices* .

There is a wide spectrum of regulations for the landlords of regulated rental properties. Part of this is generic, the most important part is specifically aimed at corporations, which also have a package of self-regulation in their umbrella organization Aedes. [24]Apart from the generic regulations, no rules apply to private landlords. See the different instruments below.

Within this context, the effectiveness of the rules aimed at social housing varies:

- The quality of housing association housing is good, although there are major challenges with regard to sustainability. The governance rules do not prevent things from going wrong, but after the Parliamentary inquiry in 2014 there have been no more significant affairs.
- There are persistent accessibility issues. Skewed living is only combated to a very limited extent, the allocation rules ensure that selection is made at the gate based on target group, but they cannot prevent (thanks to the lack of promotion options and rent protection) that households keep their social rental home occupied when income rises. The waiting lists for qualified intake are still long.
- Just like the SGEI policy, which ensures that housing associations cannot make a profit (but also no loss) on project development outside the core task, the landlord levy, aimed at skimming off (assumed) surplus funds from housing associations, ultimately turned out to be crippling for the investment capacity in new construction.
- A recent evaluation (Spelbos & Bröring, 2022) concludes that the introduction of the PIE status "has not led to a demonstrable increase in the quality of internal control", but has led to higher administrative burdens. the authors advocate raising the lower limit (in terms of the number of rental units) for PIE status.

The wide range of regulation and self-regulation cannot therefore prevent the housing market from suffering from all kinds of market and policy failures. An important reason is that many regulations are ineffective due to scarcity and inertia of the supply that can be explained in a capital-intensive sector. A labor-intensive sector such as childcare can be expected to respond more flexibly to changes in demand.

3.2 Public interest in healthcare

3.2.1 Nursing home care

Nursing home care is regulated in the Long-term Care Act (Wlz). In 2015, the long-term care system was revised. Clients can choose to receive care in kind arranged by regional care offices or to purchase care themselves with a personal budget (PGB). Clients can also opt for a combination of both forms of delivery. In order to receive this care, a client needs a Wlz indication from the Care Assessment Centre.

[24] This has been tightened up after various affairs that gave rise to the *Parliamentary Inquiry on Housing Corporations* in 2014.

Table 3.4 Instruments used in nursing home care

Instrument	Intent
Tariff regulation: The NZa sets maximum rates. When making production agreements, implementers and care administration offices may agree on lower rates. The regulation is regionally differentiated: in areas where healthcare provision is more expensive, a higher maximum rate applies.	Avoid high rates. Care offices themselves are not the users of the care and have limited insight into the quality (NZa, 2020).
Profit ban: A profit prohibition applies to intramural care. Its effectiveness is debatable. By separating licensing and implementation, commercial providers can still make a profit (see, for example, FD, 1-11-2017 and 8-11-2017). The care is then purchased by the client with a PGB or by care offices with a complete or modular package at home (VPT or MPT).	Remove incentive to save costs by cutting in non-observable quality.
Quality framework IGJ: The Health and Youth Care Inspectorate monitors the quality of nursing home care. The Inspectorate assesses personal focus, expertise of care providers, quality and safety management, and medication safety.[25]	Guarantee quality.
Permits: The Healthcare Providers Accession Act (Wtza) specifies the requirements that healthcare providers with more than ten healthcare providers must meet when obtaining a permit. Requirements are set for: ▪ quality (Care Quality, Complaints and Disputes Act); ▪ client participation (Care Institutions Client Participation Act 2018); ▪ governance (including the presence of an independent internal supervisor); ▪ financial transparency.[26]	Gain more insight into care providers and their quality of care.
Reduced turnover thresholds for healthcare mergers and acquisitions: From 2007 to 1 January 2023, lower turnover thresholds applied in the healthcare sector for reporting mergers and acquisitions to ACM. As a result, 48 additional applications were processed from companies that provide (intramural) care for the elderly (Niessen *et al.* 2021) . In its opinion on the abolition of the lower notification thresholds, ACM (2022) mentions that the Dutch ZBC segment and elderly care are becoming more attractive for *private equity* .	Effective merger control in a sector with small relevant geographic markets and low turnover.
Healthcare Governance Code: Compliance with this code is a membership obligation for sector organizations affiliated with the Healthcare Interest Groups. Governance Support (2020) concludes that the code contributes to the professionalism of supervision, the prevention of conflicts of interest and the development of good governance and supervision, but also "Although self-regulation makes positive contributions, options for external intervention are also necessary if self-correction fails to materialize."	Based on self-regulation, this instrument should contribute to guaranteeing good care, achieving social objectives and public trust.

Growth of for-profit nursing homes
Bos et al. (2020) point to reasons for the rapid growth of commercial providers in nursing home care. The first reason is the slow response of the *not-for -profit* sector to changes in demand. Growth in demand led to waiting lists at nursing homes. The *for-profit* offer was able to respond more quickly to this. In addition, the *for-profit offer* responded to client wishes. Clients expect nursing homes where you can feel at home with a focus on well-being, rather than just the medical aspects. As a result, customer satisfaction is higher at *for-profit* care homes than at *not-for-profit* providers. The findings of Bos *et al.* (2020) are in line with economic intuition. Private parties have an incentive to respond to demand and the opportunity to attract private investors to grow quickly. The other side of the coin is that the incentive to keep costs down can lead to savings in healthcare staff and selection for low-cost clients.

In addition, *for-profit* nursing homes have benefited from the opportunities for *cherry picking* in the market. For example, they select based on what their staff can handle and how clients fit into the group. There are also examples where residents had to move to a *not-for -profit institution* because of the seriousness of their illness . *For-profit* nursing homes can shift clients who risk becoming too expensive to other nursing homes. Smit et al. (NRC, 5-11-2022, see also chapter 2) discuss the practices of the French listed company Orpea in this regard.[27]

Third, *for-profit* nursing homes employ fewer staff. Instead, they use medical specialists from the general healthcare system. This is possible because the clients in *for-profit* nursing homes legally live *at home* . As people living at home, they can use a personal budget or a complete or modular package at home to purchase nursing care from the nursing home, but they can also go to a regular GP (NRC, 5-11-2022).

No consensus effect private equity ownership of care homes in the US
Private equity responds more positively and negatively to competitive incentives
private equity owned care homes in the US. They conclude that in highly competitive markets expenditure on personnel increased, while in less competitive markets expenditure decreased. Care homes also respond more strongly to policies that enable consumers to compare local care homes with each other. The influence of *private equity* on the quality of care homes therefore partly depends on how competitive the market is. In view of these findings, the authors recommend taking measures that stimulate competition to ensure that *private equity* parties can have a positive influence on the quality of care.

Quality of care homes owned by private equity lower
Gupta et al. (2020) find a negative influence of *private equity* on the quality of care homes. Mortality rates of patients (in the short term) are higher in care homes with a *private equity owner.* The authors explain this higher mortality rate by impaired mobility of patients, higher use of antipsychotics, a poorer nursing staff to patient ratio and lower compliance with care standards.

No effect of private equity on quality of care homes
Huang & Bowblix (2018) study data on residents of care homes in Ohio between 2005 and 2010. They find no negative effect of *private equity* on the quality of care homes.

3.2.2 Youth Services

Youth care uses similar instruments as nursing home care. Rate regulation by the NZa applies, a quality framework of the IGZ, a license is required under the Wtza for providers with more than ten care providers,

[25] https://www.igj.nl/zorgsectoren/verzorghuiszorg/verzorghuiszorg-in-beeld
[26] https://www.eldermans-geerts.nl/expertise/governance-in-de-zorg/wat-is-een-wtza-permit-en-wanneer-heeft-een-instituut-een-wtza-permit-necessary/
[27] After a restructuring, Orpea is now largely owned by the French state bank *Caisse des Dépôts et Consignations* , which is supposed to bring 'peace and stability' (FD, February 1, 2023).

and the *Healthcare Governance Code* applies. Until 2023, there were reduced revenue thresholds for mergers and acquisitions.

In the sector, there are similar suspicions against *private equity* parties as described in Chapter 2. *Follow the Money* (2021) investigated Mentaal Beter, owned by private equity firm NPM Capital, which offers mental health care for young people. This was a case of *cherry-picking,* in which mainly simple cases were dealt with. These were then almost always charged as a more expensive specialist mental health treatment instead of the cheaper basic mental health care treatment. In addition, savings were made on personnel. Employees worked considerably more billable hours than at other mental health institutions and there were relatively many young basic psychologists employed. They indicated that they received too little guidance. The company also used financial constructions to reduce its tax burden. At least 20 million euros was written off on goodwill in seven years, as a result of which the company made a loss on paper. In addition, the company borrowed more than 14 million euros at 8% interest from NPM Capital, where, according to Follow The Money, the market interest rate was 2.9%.

Experiences with *private equity* in youth care in the United States
According to research from the United States, *private equity* parties benefit from market power in youth care. According to O'Grady (2022), this includes at least residential youth programs, foster care, services for young people with intellectual and developmental disabilities, services for young people in the juvenile justice system and services for young people with autism. Regarding the latter services, Bannow (2022) writes that private equity investments have boosted the market for applied behavioral analytics, which is necessary given the rise in autism diagnoses. The market is also interesting for private equity parties because all states mandate insurance coverage and for some parents this is the only treatment covered by insurance.

Bannow (2022) writes that the treatment should prevent unwanted behavior and should contribute to language and social skills. In practice, the treatment of private equity-financed parties more often leads to fear and collapse. The providers cut costs by replacing the necessary customization per patient with more general treatment plans. The providers also encourage parents to come as often as possible, while many of the clinicians have burnout complaints and the turnover is therefore high. Parents and clinicians indicate that profit fixing by private equity parties deteriorates the quality of the service and may make it harmful.

In the other forms of youth care, excessive returns over a short time horizon are placed above the well-being of children, according to O'Grady (2022). The providers in these markets are guilty of cutting facilities and personnel and of using non-certified personnel. This has led to abuse, neglect and unsafe living conditions of young people under the watchful eye of private equity financed companies. The private equity parties have nevertheless made large profits.

3.2.3 Profit distribution in healthcare

The social goals of regulation in healthcare (quality, accessibility and affordability) are the same as in childcare. In addition, there is information asymmetry about the quality of the service in both sectors. For these reasons, the literature on profit distribution in healthcare is also relevant for childcare.

Attract risk-bearing private investors
In 2006, 'regulated market forces' were introduced. Since then, the income of healthcare providers is no longer fixed. As a result, the financial risks of hospitals have increased sharply, making it more difficult to raise loan capital. According to Varkevisser (2019), risk-bearing private investors can offer a solution for this. However, to make bearing this risk worthwhile, hospitals must be able to pay out profits to investors (under certain conditions).

Risks of profit distribution
Risks in allowing profit distribution in healthcare arise from information asymmetry and conflicting interests between hospitals and customers. If customers cannot properly assess the price, quality and necessity of care and hospitals have the wrong incentives, this can lead to high prices, irresponsible cuts in quality or unnecessary care, for example. The risk increases as care becomes more complex and the incentives to abuse information asymmetry increase (Plomp, *et al.* 2013; Dijkgraaf *et al.* 2006) .

Benefits and risks of profit distribution in hospitals
Kerste & Kok (2010) conclude that the risk to the public interest is insufficient reason not to allow profit distribution within strict conditions. They also cite the possibility of raising equity capital as an advantage. In addition, there is an incentive to increase efficiency. The public interest is safeguarded by supervising minimum requirements.

3.3 Lessons from public housing and healthcare

The sectors mentioned resemble each other in parts and deviate from each other in parts. The table below shows the main similarities and differences between the sectors. The sub-sections below the table show the lessons we can learn from these sectors.

Table 3.5 Comparison table with properties per sector

	Childcare	Rental sector	Nursing home care	Youth Services
Not for profit	Present	Present	Present	Present
For profit	Present	Limited presence	Present	Present
private equity	Present	Limited presence	Present	Present
Higher quality	Directly	-	*Not for profit*	*Not for profit*
Higher price	*For profit*	Maximum rate	Maximum rate	Maximum rate
Measures for (non-exhaustive):	▪ Price ▪ Accessibility ▪ Concentration ▪ Participation right ▪ Quality	▪ Price ▪ Accessibility ▪ Continuity ▪ Participation right ▪ Quality	▪ Price ▪ Quality ▪ Participation right ▪ Concentration	▪ Price ▪ Quality

No information was found for cells with a dash.

3.3.1 Public housing

The housing market is a capital-intensive sector that is characterized by scarcity and inertia of supply. Extensive government interventions cannot therefore prevent the housing market from being weighed down by market and policy failures. A labor-intensive sector such as childcare can be expected to respond more flexibly to changes in demand.

A number of conclusions can be drawn from public housing. These are listed below with the relevance for childcare in blue:

- Quality in public housing is good due to stricter quality requirements. If the quality requirements are tightened too far, the marginal utility decreases further while administrative burdens pile up.

Measuring quality in childcare is more difficult. We can learn from public housing that quality requirements are effective up to a certain level, but that unnecessarily stricter quality requirements will no longer lead to increasing quality, but will lead to administrative burdens.

- Intervening on accessibility in public housing is not working. Living at an angle is problematic and as a result there is little traffic flow.
  Childcare has its own accessibility problems, which are of a different nature than those in public housing.

- Pricing or profit standards that are too strict lead to limited investment capacity. This leads to a lack of supply.
  Accessibility problems in childcare are partly caused by a lack of supply. Public housing shows that too strict pricing reinforces this mechanism. This is relevant for childcare with the expected increase in demand.

3.3.2 Concern

Regulation in healthcare is partly based on the same social goals as in childcare. In both sectors there is also asymmetric information about the quality of the service. That is why childcare can learn lessons from government intervention in healthcare.

A number of conclusions can be drawn from the concern. These are listed below with the relevance for childcare in blue:

- The *for-profit* part of the range has grown considerably faster in nursing home care than the *not-for-profit* part after a sharp increase in demand. The commercial offer also appeared to respond better to the wishes of clients.
  The hybrid childcare market currently has waiting lists and demand will only increase further after the system change. We can learn from the care that the for-profit offer can help to meet the demand the fastest.

- *There are For-profit* providers in healthcare who engage in *cherry-picking* . A selection is made on which patients fit into the group and do not entail too much care.
  There is also the possibility of cherry picking in childcare . Experiences in the healthcare sector show that this can have negative effects for certain target groups and the passing on of costs to others. If the negative consequences of cherry picking are expected, regulation is appropriate.

- *Private equity* parties in youth care set up financial constructions to pay less tax.
  comparable possibilities for such constructions in childcare . Experiences in healthcare show that opportunities are utilized when not regulated.

- Parties financed by *private equity* in U.S. youth care have compromised on quality in order to make higher profits.
  If quality is not strictly enforced, this risk also exists for Dutch childcare. Although there are already quality standards in childcare (on which PE parties score relatively well), they are not all-encompassing.

- Since the introduction of regulated market forces, it has become more difficult for providers to attract loan capital. Risk-bearing private investors offer a solution, provided that profits can be made. Allowing profits and the presence of information asymmetry increases the risk of high prices, quality cuts or unnecessary care.
  There is also information asymmetry in childcare and profit can be made, albeit that the diversity and complexity of the offer is more limited. Combating information asymmetry through transparency about price and quality limits risks.

4. Comparison of childcare abroad

This chapter examines which lessons can be learned from foreign childcare. Four cases have been selected that could be of interest to the Dutch childcare sector for various reasons. In the selected countries, as in the Netherlands, there is a hybrid system, but the financing and embedding in legislation and regulations differ. The cases are Australia, England, Norway and Canada. [28]Section 4.5 summarizes the lessons from these countries.

4.1 Australia

4.1.1 Market and subsidy system

Childcare subsidy Australia
Parents in Australia who work, receive training or attend school for at least 8 hours every two weeks are entitled to a *Child Care Subsidy* . Depending on the number of hours that parents work or attend school, they are entitled to 36, 72 or 100 hours of childcare every two weeks. A maximum of 85% of the costs will be reimbursed. With higher incomes, this percentage decreases and a maximum of the amount of subsidy that parents can receive applies.[29]

Child care market in Australia hybrid
In Australia, childcare providers are both *for-profit* and *not-for -profit* institutions. In the past, a listed party (ABC Learning) owned 25% of the day care centers. ABC Learning collapsed in 2008. These centers are now in the hands of a *not -for-profit* organization. Despite that, a large part of the market is still *for-profit* (Gambaro *et al.* 2014).

4.1.2 For-profit childcare experiences

Mistrust of for-profit (chains)
Because *for-profit* childcare centers are said to have more safety violations, lower quality and too much focus on profit, opinion makers advocate banning *for-profit childcare (Curtis, 2021; Bryant, 2022).* Research among employees of childcare centers in Australia finds no significant difference between the perceived quality of *for-profit* and *not-for-profit* childcare. Employees of childcare chains do give lower scores for quality (Sumsion, 2012).

Private providers score lower on quality
Private providers are more likely to have a lower NQS *(National Quality Standard) score* . Locations in areas that score low on socio-economic indicators are more likely to have a lower NQS score. Locations in metropolitan areas are more likely to have a lower NQS score (Char, 2022).

Suspicions ABC Learning
Specifically about ABC Learning, there are suspicions that it divested childcare centers in less profitable areas, making childcare unavailable in these areas. In addition, ABC Learning had most of its centers in areas with low demands on employee qualifications (Sumsion, 2012).

[28]A number of sector parties have suggested including Germany in the comparison. Germany was not selected in advance because of the quite different system. In the time frame of the study it was also no longer possible to make a separate case study of this.
[29] https://www.servicesaustralia.gov.au/child-care-subsidy

4.2 England

4.2.1 Market and subsidy system

Childcare subsidies

Children aged three and four are entitled to 15 hours of free childcare. Children of these ages with working parents are entitled to 30 hours of childcare. This only concerns children of whom both parents work in a two-parent household. Some children of 2 years old are also entitled to free childcare. Childcare providers receive an amount per hour for the care of children with free access. Outside of free access, there are two options for working parents. Tax-free childcare saves 20% up to a maximum of £2,000 per child per year. In addition, there is a tax credit for low-income parents that reimburses 85% of costs up to a maximum of £646 for one child or £1108 for 2 or more children. The part that must be paid for by the child should give parents an incentive to 'shop' for affordable childcare (Gambaro et al. 2014).[30]

Childcare market hybrid with growth of chains

Childcare in England is a mix of public providers and the private, voluntary and independent (PVI) sector. Besides government-organized childcare, the majority of providers are private *for-profit (* Gambaro et al. 2014). The share of chains is growing at the expense of the share of single-seaters. The share of chains with more than 20 branches as part of the total number of providers grew from three percent to nine percent between 2016 and 2019. The chains also got bigger. The two largest chains grew by about fifty percent between 2014 and 2021, from 237 and 202 branches respectively to 359 and 304 branches (Simon et al. 2022). Both chains are active internationally. The largest, *Busy Bees* , is owned by a private investor. the number two, *Bright Horizons* is a listed company and also active in the Netherlands. The growth of childcare chains in England is due to mergers and acquisitions, without this resulting in an increase in the number of places (Ofsted, 2020).

Quality monitor Ofsted

Inspector Ofsted reports on its website scores of childcare centers in England. Once every few years, each childcare center receives the score “unsatisfactory”, “requires improvement”, “good” or “excellent”. However, Blanden et al. (2017) found few relationships between childcare score and children's later school performance. The explanation for this would be that Ofsted cannot effectively measure which childcare is good for children's development. In other research, Blanden *et al. (2022) do* find a relationship between visiting a childcare center with excellent scores and later school performance. Properly measuring quality proves to be difficult; the scores issued are in some cases inaccurate and can regularly count on criticism (Alberts, 2022).

A survey of parents in 2021 found 60 percent to see Ofsted reports as a valuable resource for information about local childcare. A visit to the childcare in question is cited more often as a source of choice information than the Ofsted report. *Word of mouth* is mentioned just as often. Proximity was the most important factor in making the choice (YouGov, 2021).

30 https://www.gov.uk/get-childcare

4.2.2 For-profit childcare experiences

Warning risks private equity

Simon *et al.* (2022b) warn against the debt and focus on short-term profit in *for-profit* childcare organizations with a *private equity* investor. This poses a risk to the sustainability of the supply in the sector. To make the sector more stable, they propose a number of measures:

- to qualify for financing, companies must demonstrate financial reserves and a low risk of bankruptcy;
- investigate the possibilities of stimulating social businesses and charitable organizations in childcare;
- influence of staff and parents as a condition for receiving public money.

Personnel costs at for-profit are lower than at not-for-profit

Simon *et al. (2022b)* conclude that the share of expenditure on personnel by *for-profit* childcare companies is up to 14% lower than that of the *not-for -profit* part of the sector. This may lead to lower quality.

High interest costs for nursing homes
The high debts mentioned by Simon et al. (2022b) also occur in the UK nursing home market. Dobber (FD, June 3, 2020) describes how the weak financial position and high interest costs after acquisitions of private equity parties, in combination with government cutbacks, mean that nursing homes are on the verge of collapse.

High debt and poor quality in *private equity* financed children's homes
The *Competition & Markets Authority* (2022) expresses concern about the risk of high debt among *private equity* funded children's homes. Open Global Rights (2022) cites a court ruling stating that children in one of the *private equity-* funded children's homes lived in a “neglected, chaotic and unsafe environment”.

No difference between quality public and private hospitals
Moscelli *et al.* (2017) compare the quality of public and private hospitals in the United Kingdom. Taking into account the geographical preferences of patients in hospital choice, they found no differences between different types of hospitals.

4.3 Norway

4.3.1 Market and subsidy system

Municipal shelter and subsidy for private shelters

Childcare in Norway is a mix of municipal childcare and private providers. Private childcare centers receive the same amount as municipal providers per child (Traetteberg et al. 2021). Fifteen percent of the costs of municipal childcare can be requested from parents (Engel et al. 2015).

Tariff regulation does not lead to long waiting lists in Norway. Statistics Norway indicates that between 2017 and 2021, the number of children up to and including five years on waiting lists was stable at around two percent of the total capacity (Statistics Norway, 2022 a & b). Because the subsidies for childcare organizations differ per municipality, there are municipalities where companies run into problems. Insufficient demand is not the problem.[31]

Share of largest chains is growing

There are also (international) chains active in the childcare market in Norway. The market share of these chains is growing. In 2007, the six largest chains owned 5 percent of private childcare centers and 17

[31] https://www.barnehage.no/ulna-legger-ned-barnehage-i-kommune-med-ventelister-og-vekst-i-barnetall/238144

percent of private childcare places. In 2016 this had grown to 11 and 32 percent respectively. Half of the childcare centers are private (Traetteberg et al . 2021).

4.3.2 For-profit childcare experiences

For-profit childcare has a lower supervisor/child ratio
Although private childcare centers receive the same amount per child as municipal providers from 2016, private *for-profit* providers did have a lower supervisor/child ratio than public and *not-for -profit* providers. In 2018, new national regulations came into effect, as a result of which *for-profit* profits in 2019 were lower than in previous years (Traetteberg et al . 2021).

Private childcare as a result of growth in childcare places
The growth in the share of private childcare places is a result of the desire to make childcare available to everyone. In 2003, two-thirds of children used childcare. Private and public institutions received the same regulation and financing and a maximum rate was introduced with the aim of increasing demand. From 2000 to 2013 (the year with the most children in childcare), the growth of private childcare was 79 percent. Public childcare grew by 33 percent in the same period (Traetteberg et al . 2021).

4.4 Canada

4.4.1 Market and system

Childcare subsidies
Childcare is arranged provincially. The use of regulated childcare differs strongly per province: between 17 and 42 percent for children up to the age of five. With the exception of Quebec, most of the costs are covered by the parents. For each family, the lower-income parent gets a tax deduction for childcare costs, with a maximum of $8,000 for children up to seven years old and $5,000 for children between seven and sixteen years old.[32]

A number of provinces have introduced a maximum rate for regulated childcare organizations. For low-income parents, all provinces (except Quebec) pay part or all of the childcare costs directly to the childcare provider. From the age of five, children attend kindergarten, paid for by the government (Friendly et al . 2020).

Market structure
for-profit in 2019 . This percentage also differs greatly per province (Friendly et al . 2020). In two provinces there is no *for-profit* childcare, while in other provinces up to 70 percent of childcare is *for-profit* . In general, the offer consists of a mix of *for-profit* and *not-for -profit* organizations. In a number of provinces there are also childcare locations organized by the government (Friendly et al . 2020).

4.4.2 For-profit childcare experiences

For-profit childcare in Canada scores lower on quality, more often does not meet the requirements for attendant/child ratios and have fewer trained employees. Prices are also higher than at *not-for -profit* childcare centers (Friendly et al . 2020).

[32] https://www.canada.ca/en/revenue-agency/services/tax/technical-information/income-tax/income-tax-folios-index/series-1-individuals/folio-3-family-unit- issues/income-tax-folio-s1-f3-c1-child-care-expense-deduction.html#toc3

4.5 Lessons from abroad

Foreign childcare may provide tools for Dutch government interventions. *Private equity* is represented in all countries analyzed and there is chain formation. Nevertheless, childcare cannot be compared one-on-one between different countries due to differences in, among other things, the system design, socio-cultural characteristics, quality standards and regulation of employment conditions. The table below shows differences between Dutch childcare and foreign cases. The five lessons that can be drawn from the above analysis are listed below, with the relevance for Dutch childcare in blue.

Table 4.1 Comparison table with properties per country

	The Netherlands	Australia	England	Norway	Canada
Usage	67%	-	-	62%	30%
Use >30 hours	10%	-	-	56%	-
Not for profit	Present	Present	Present	Present	Present
For profit	Present	Present	Present	Present	Present
private equity	Present	-	Present	-	-
Higher quality	Directly	*Not for profit*	*Not for profit*	*Not for profit*	*Not for profit*
Higher price	*For profit*	-	-	Directly	For profit
Parent contribution	4%	Min. 15%	Min. 15%	max. 15%	>50%

No information was found for cells with a dash.

1. **For-profit childcare can contribute to achieving growth**
   for-profit childcare organizations received the same regulation and funding as *not-for-profit* childcare organizations in order to achieve rapid growth of the sector. This resulted in strong growth in the *for-profit* part of the sector compared to growth in the *not-for -profit* part of the sector.
   Dutch childcare is hybrid, just like in Norway. The Norwegian case shows that the for-profit part can play an important role in the necessary expansion of the range.

2. **Transparency about quality can be effective**
   In England, Ofsted publishes quality scores of providers. Parents can make choices based on that. This disciplines providers to deliver good quality. However, measuring scores is tricky and in some cases inaccurate.
   Something similar could be effective for the Dutch childcare sector and counter any cutbacks in quality.

3. **For-pro fit providers often maintain lower attendant/child ratios**
   In Canada and Norway, *for-profit* childcare organizations were found to employ fewer counselors per child. In England, personnel costs for *for-profit* organizations accounted for a smaller share of expenditure than for not-for-profit organizations. Lower supervisor/child ratios can lead to a poorer quality of care.
   In Dutch childcare, personnel costs are fixed because of the standard collective labor agreement and the regulated supervisor/child ratio. Requirements/standards already exist in the Netherlands for the quality aspects that were cut back abroad.

4. **Chain formation in childcare is an international phenomenon with continuity risks**
   Chain formation takes place in all four countries analyzed. This is done by both *private equity* parties and listed companies. Simon et al. (2022) point to the risks of the high indebtedness of *private equity* -owned childcare organizations for the continuity of supply. In Australia, the listed ABC-learning went bankrupt. The government had to invest $22 million in the company to keep the daycare open, after which the branches were taken over by a newly created *not-for-profit* organization (ABC News, 2008; Hurst, 2010).
   In the Netherlands, too, private equity parties are behind several large and smaller chains. Risky behavior can be regulated to safeguard the continuity of the sector.

Lesson number 5: price regulation is common abroad
In Norway, the price of childcare is regulated, as described above. Price is also regulated in countries other than those included in this chapter. In Latvia, for example, there is a public system with free admission at certain ages. European Commission, EACEA and Eurydice (2019) indicate that most European countries have pricing policies aimed at access, priority and tariff reduction for children from certain families. For example, tariff reductions and priority rules apply in various European countries for families in poverty, families with several children, single parents, children with a disability, working parents, working parents in education or families with a migration background or belonging to an ethnic minority. These targeted government interventions are carried out by, for example, Belgium, Germany, the United Kingdom, Ireland, Hungary, Slovenia, Serbia, Greece, Spain and Portugal.

Slovenia and Finland also use sliding tariff scales. The rate reduction is then determined, for example, on the basis of income, assets and family size. In a number of countries, a price cap applies to everyone. These are, for example, Norway (Relocation, 2023) and Sweden (Ferguson, 2014).

5. Measures and possible effects

This chapter outlines the possible measures and their effects. Based on the *Structure - Conduct - Performance* framework, we describe how measures can have an effect by intervening in the market. We then discuss the scope of various forms of regulation and the measures in question. This is followed by an elaboration of the assessment framework. The latter comes with a brief consideration of the various measures and the possible consequences of their introduction. A more detailed assessment per measure is included in Annex A.

5.1 Theoretical framing

The SCP *(Structure – Conduct – Performance)* paradigm (Scherer, 1980) assumes an interaction between the market structure (how companies relate to each other and their customers), the market behavior of those companies and the collective performance of the companies. That performance does not include the financial performance of those companies, but the performance of the market as such: is there sufficient supply, do all parties have sufficient access to information, and consumers have a choice in terms of price-quality ratio.

Performance is the market outcome, which cannot be controlled or influenced directly by government intervention in the form of regulations. The primary government objectives in childcare are labor market participation and educational value. In order to achieve these objectives, the sector must perform sufficiently in terms of accessibility, continuity and quality. Intervention in the market is based on underperformance at the sector level in the light of the objectives.[33]

market behavior of the parties is a natural starting point for government intervention. Depending on the objective, that intervention can be stimulating or restrictive, and can take on all kinds of forms, from quality requirements to tariff regulation. The **market structure** (what kind of providers with what market shares are there, what are the dynamics in it, what returns are achieved), although a determining factor, is in principle neutral in government policy - as long as the market performs well. The classification of what structure, what behavior and what performance is, is not always the same. For example, in a competitive market, price is a market outcome (structure), in a market with a dominant player as a price setter, price is part of market behavior and in a fully regulated market, price is part of the regulation that determines behavior.

In the interaction of the SCP model (Figure 5.1), government intervention influences market behavior. The behavior has an effect on the market structure and that leads to market performance, which the government can test. Figure 5.2 translates the SCP factors specific to the childcare sector *from the perspective of the issues for which private equity is (justly or not) mistrusted* . We weigh up the operation and impact of possible measures against the relationships in Figure 5.2.

[33] In principle, *continuity* is a less hard performance indicator than quality and accessibility. After all, bankruptcies are also there to force poorly performing companies out of the market and thus make room for better replacements. On the other hand, bankruptcies come with negative effects that – can – be passed on to employees, creditors and parents. Due to the semi-public character of the sector, and the importance that parents and children have in reliable childcare, continuity is therefore counted among the performance indicators here. In this context, Boot (2023) argues that the sector should be able to absorb breakdowns itself, so that the supply remains intact.

Figure 5.1 The SCP Cycle and government intervention

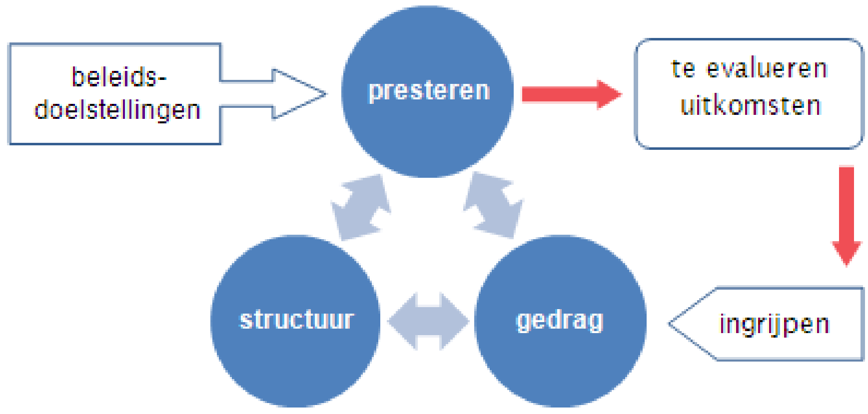
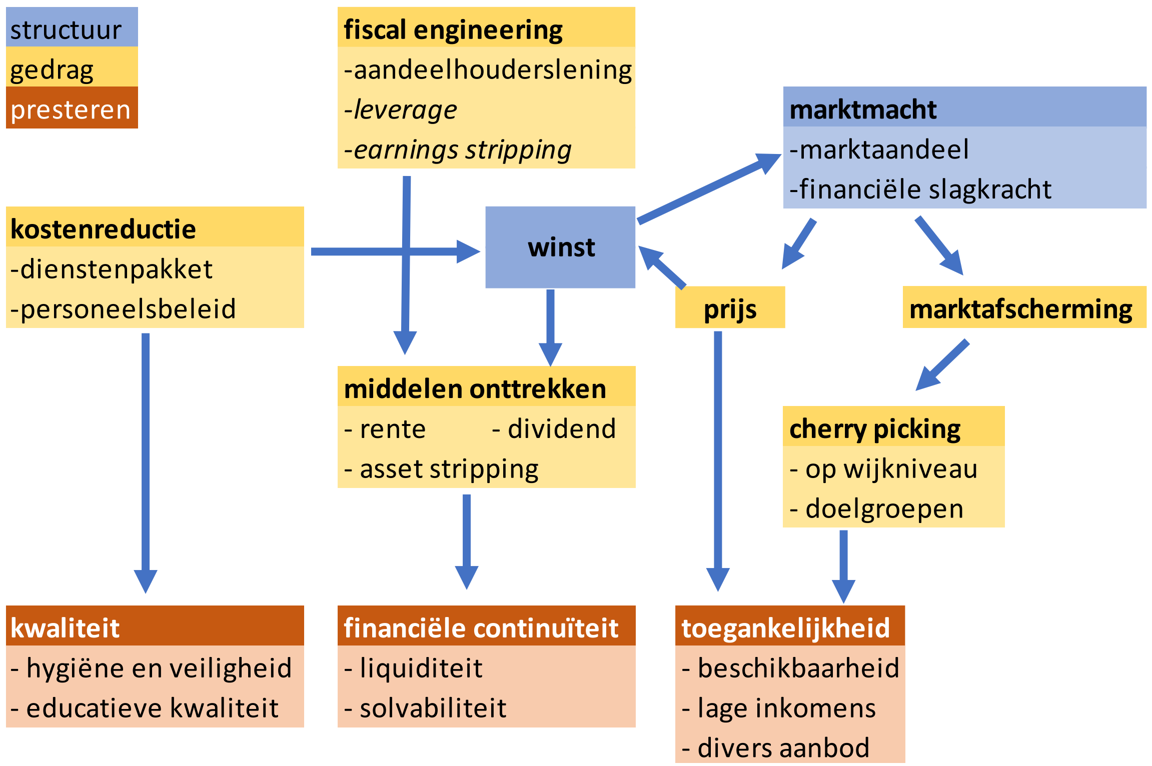


Figure 5.2 Behavior, structure and performance in childcare



This is in line with the approach of Kerste & Kok (2010):

"Public interests:

Efficiency : providers provide the quality desired by consumers at the lowest possible cost so that they get 'value for money' (static efficiency). In addition, sufficient innovation is being made to enable efficient production in the longer term (dynamic efficiency).

Quality : the products and/or services offered by providers in any case meet the minimum quality requirements set by the government.

Accessibility : everyone can have access to the socially desirable quantity of the product and/or service in question (physical accessibility), within the socially acceptable period (availability), within the socially acceptable distance (geographical accessibility) and at a socially acceptable price (financial accessibility).).

Source: Dijkgraaf et al. (2006), edited by SEO Economic Research".

5.2 Scope of regulation

In line with the public interest, the broad question facing the government is "how to organize the funding and governance system of the childcare sector in such a way that the objectives of labor market participation and educational quality are met, while maintaining affordability and accessibility? ". The question on which this report is based is much more limited (see section 1.3, 'Demarcation'). It is formulated succinctly as follows: "What instruments may be available to the government to prevent or curb undesirable behavior by external (particularly *private equity) investors?"* The candidate measures to be considered are therefore aimed at containing the behavior that *private equity* parties are accused of – rightly or wrongly – as discussed in Chapter 2:

- Withdrawing funds and endangering the financial continuity of providers:
  - the withdrawal of disproportionate dividends;
  - *debt to* take full advantage of leverage;
  - provide shareholder loans to companies at excessive interest rates;
  - charging high costs for deliveries through the investor;
  - withdraw assets (e.g. real estate) from the companies;
- Impairment of quality:
  - increasing group size;
  - deployment of cheaper/less qualified personnel;
  - cutting back on food and other facilities;
- *cherry-picking:*
  - only keep establishments in affluent neighborhoods with wealthy parents;
  - no offer for children with extra attention needs;
  - more generically: exploring the edges of supervisory requirements;
- Taking advantage of scarcity:
  - raise the rates as high as possible.

Additional regulations aimed at *private equity* funds also affect the investments of these funds in other sectors. Regulations specifically aimed at childcare in principle affect all providers in the sector. An assessment will have to be made as to whether the means (further-reaching regulation) and consequences are in proportion to the objective: promoting quality, accessibility and continuity in the childcare market.

Regulations aimed at private equity

As mentioned in Chapter 2, tax regulations are already moving in the direction of restricting *fiscal engineering* by *private equity* parties (Belastingdienst, 2017). This has already curbed a number of parts of the feared behavior. The nature of this inventory implies that additional regulations are more restrictive in nature. This will also have consequences for the investments of these funds in other sectors, with potentially undesirable effects. It can be expected that additional regulations for private investors in private companies will quickly run up against private law limits. The revenue model of *private equity* funds is not appreciated by everyone, but it is not under discussion from a legal point of view. Because the revenue model of *private equity* is partly based on tax constructions, an approach based on tax regulations is the most obvious approach. In the following, we are sailing a cautious course, in which private law consequences in principle lead to the dictum 'not feasible'.

Regulations aimed at childcare

It has been stated above that from an economic perspective childcare does not qualify as a public good (because it is rival and excludable), but that there is sufficient reason to grant the sector semi-public status.

The latter leaves room for government intervention, whereby measures that promote the objectives of quality and accessibility as specifically as possible are the most suitable in terms of effectiveness, impact and feasibility. Continuity as an objective, in the sense of preventing financially risky behavior, quickly collides with the desired hybrid character of the sector (see also footnote [33]).

Within this context fits the realization that regulations aimed at certain parties also affect other parties, either directly (regulations are generic if possible) or indirectly, because the freedom of other providers is restricted. Van Eijkel *et al.* (2023) show that the childcare sector is a sector with many faces, which can be affected in all kinds of ways by additional regulations. For large providers, compliance with (new) regulations is usually a piece of cake, for small providers additional obligations can be complex and therefore relatively expensive. The sector is home to a large number of small and medium-sized companies, where dividend distribution is the normal way of rewarding the director-majority shareholder. Unspecified restrictions in this area can have major – and undesirable – consequences.

When considering new regulations, it is therefore always advisable to include the question of whether rules should be imposed generically, or only on parties with a certain legal form or minimum size – for example from 50, 100 or 500 locations. [34]Another form of clauses is the incorporation of *comply or explain* options, which steer providers in the right direction, but it remains possible to choose one's own course depending on special circumstances.

Regulations and supervision
This report is about regulation. However, unsupervised regulation is a dead letter. For various measures, supervision can be linked to the existing supervision infrastructure within the sector (the Guarantee Fund) or outside it (Tax and Customs Administration, ACM/AFM). The question is whether it is realistic to give municipalities more tasks or to rely more heavily on external supervisors such as accountants. The yet to be appointed body that will take care of the collective cash flows will have to enter into a transaction relationship with all providers. The information infrastructure to be set up for this purpose may also be used as a vehicle for other forms of information exchange, for example in the field of quality requirements and financial information. An *Authority for Childcare* , by analogy with the Authority for Housing Corporations, is an option.

5.3 Possible measures

Table 5.1 shows the candidate measures. Most are not directly aimed at keeping *private equity* (or other external investors) out, but at limiting the room for maneuver of those providers. We distinguish three categories of instruments.

1. **governance:** safeguarding measures in the supervisory system (internal: RvT/ Supervisory Board), external (municipalities, GGD, ACM) , aimed at safeguarding the interests of various stakeholders;
2. **licenses:** measures that generically deny certain types of providers access to the market, or sanctions that are imposed on providers who display undesirable market behavior;
3. **financial:** requirements for financial parameters of business operations .

[34] Competition law considerations play a role in this. From the perspective of consumer protection, the government is also the guarantor of fair market relations.

Some of the candidate measures have been submitted by the Ministry of Social Affairs and Employment, partly on the basis of parliamentary questions (SZW, 2022a). This list was expanded during the research through inspiration from the literature and discussions with experts and sector parties.[35]

Table 5.1 Measures to be assessed

A: Governance	B: Permits	C: Financial
A1 advisory rights for parents, staff members and partners in business operations; A2 right of consent for parents and staff members in mergers and acquisitions; A3 transparency about the annual - accounts; A4 disconnect real estate and make that a municipality task; A5 code of conduct for providers; A6 mandatory quality monitor.	B1 *for-profit extinction policy*: only new not-for-profits are allowed and/or social BV status is mandatory; B2 sales ban on organizations; B3 nationalize; B4 restrictive licensing to prevent local market concentrations; B5 lower entry barriers with lower regulatory pressure;	C1 imposing a price cap; C2 solvency requirements (leverage cap); C3 recalibrate from the maximum reimbursable rate to only the operational costs; C4 standardization of annual accounts by accounting standards; C5 a restriction on forms of financing; C6 profit norm / profit prohibition; C7 dividend norm / dividend prohibition; C8 standardization of remuneration for managers; C9 expansion of the collective labor agreement.

Thresholds in regulation and supervision

The starting point for policy is to maintain (or create) a level playing field: regulations in principle apply to all parties. It is nevertheless conceivable to stipulate measures that specifically relate to expanding chains with a size threshold: only applicable to providers above a certain size (say X establishments or Y employees). This also happens in the regulations for employee representation and works councils, the filing of annual reports, the obligation of an annual audit and the landlord levy for regulated rental properties.

Providers below a certain size threshold could also be offered the opportunity to 'grow in' if measures intervene firmly in business operations. After the introduction of a measure, these providers will receive a temporary denial during a transition phase. After this transition phase, these providers will have to comply with the measure. Such thresholds disrupt the level playing field, but prevent small providers, for example, from being confronted with requirements that they may consider unreasonable. Depending on the impact of the rules, thresholds can lead to strategic behavior: companies can decide to legally compartmentalize into smaller operating companies that fall below the threshold. Such an approach will require careful consideration of the level to which the regulations apply: the operating company or the group.

This is related to the fact that the level of measurement has an influence when testing the effectiveness of financial measures. For providers with external shareholders (such as *private equity* funds), there is an interaction between the group level (the investor) and the operating company (the child care facility) when preparing the annual accounts. Investors and their advisors are creative in setting up administrative structures that are also aimed at 'tax optimization': they can shift items. [36]This can be a limiting factor when

[35]The classification of measures into the categories of governance, permits and financial is somewhat arbitrary. Certain measures relate to several categories.

[36] See Van Eijkel *et al.* (2023) for insight into the ownership structure of a number of existing players in the Dutch market.

testing the outcomes (compare Figure 5.2). This is an argument for focusing in the regulations mainly on points of application that are close to the practice of childcare.

5.4 Assessment framework

Assessment criteria

Table 5.2. shows the assessment framework against which the effectiveness, feasibility and possible side effects of measures have been assessed. The various measures have been assessed for effectiveness, feasibility and the possible occurrence of side effects.[37] *Effectiveness* answers the question whether the goals that have been set are achieved. So: will undesirable behavior be mitigated when the system reform is implemented? This effectiveness is determined on the basis of whether the measure gives providers an incentive to the desired market behavior, in combination with the impact: will the measure actually lead to prevention and/or behavioral change? *Feasibility* concerns the question of whether instruments seem legally compatible, fit within the capacity of executive services and do not lead to (too) high administrative burdens for citizens and businesses. Effectiveness and feasibility are tested on the basis of the ' *limited'* question: how to contain or eliminate undesirable behavior.

Table 5.2Assessment framework

Criterion	Assessment question
Effectiveness	
Incentive	Does the instrument provide an incentive in the right direction to combat undesirable behavior?
Impact	To what extent does the instrument have an impact on undesirable behavior?
Practicality	
Legally feasible	Are there any legal (private or competition law) obstacles?
Objective, transparent	Does the measure restrict the *level playing field* and can that be explained?
Administrative burdens	Are there administrative burdens for providers and parents?
Execution costs	Does the measure come with additional implementation costs?
Organizational	Will parties such as municipalities be charged with extra tasks?
Side effects	
Quality	How does the measure affect the quality of childcare?
Availability	How will the measure affect the existing supply?
Expansion offer	What effect does the measure have on the possibility of expanding supply in the event of increasing demand?
Accessibility	What influence does the measure have on the accessibility of childcare?
Diverse offer	Does the measure leave room for a diverse range and thus freedom of choice for parents?
Business climate	How does the measure affect the business climate in the Netherlands?

side effects are important. Viable and effective tools look desirable at first sight, but they can have unintended effects on the market or society. Side effects primarily relate to objectives or characteristics of the sector itself: quality, availability, upscaling capacity, wide accessibility and diversity. An indirect side effect is the business climate. That is relatively far from childcare. but measures that regard existing property rights and/or restrict the freedom of investors have an impact on the business climate in the Netherlands and the reputation of the Netherlands among (foreign) investors.

37 We join it Integral assessment framework for government *policy and regulations :* https://www.kcbr.nl/beleid-en-regelgeving-ontontwikkeling/integraal-afwegingskader-voor-beleid-en-regelgeving

5.5 Assessment of measures

In Appendix A, the measures from Table 5.1 are examined on the basis of the assessment framework from Table 5.2. Limiting financial behavior (partly in the form of the disproportionate withdrawal of resources, partly in the form of entering into financial obligations that could affect continuity) is the main objective when it comes to effectiveness. In a strict sense, quality, availability, scalability, accessibility and diversity of the supply are side effects – see also Figure 5.2 and Table 5.2

Tables 5.3 and 5.4 summarize the findings in Appendix A. In this summary, the '**feasible** ' column represents an accumulation of legal feasibility, organizational feasibility and the extent to which implementation costs and administrative burdens are expected to play a role. Here it is briefly indicated where there may be an implementation obstacle. The **financial behavior** column covers effectiveness: preventing withdrawals and financial risks. The other columns concern the side effects. **Guaranteeing quality** speaks for itself. **Availability** concerns both the existing supply and the required upscaling capacity in the new system. **Accessibility** means accessibility for lower incomes. **Diverse offer** reflects the possibilities for diversity of the offer, in which the offer at the top end of the market is also served. The answers to all assessment questions from the assessment framework in table 5.2. are shown per measure in Appendix A. the various feasibility aspects (which are summarized here under ' **feasible** ') are listed separately, effectiveness (here summarized under ' **financial behavior** ') is broken down into 'incentive' and 'impact' and, as a side effect, the expected influence of measures on the business climate in the Netherlands.

The pluses and minuses in Table 5.3 and Table 5.4 are thus the summarized result of the considerations in Appendix A. Because the candidate measures are stated in general terms, the results are indicative. They indicate the direction in which the measures will – presumably – develop, but how hard and how fast that will take place requires further elaboration. The pluses and minuses are emphatically not results that can be added or subtracted from each other. Some measures reinforce or overlap each other: a solvency ceiling has a similar objective to removing the interest costs from the price to be reimbursed. A form of communicating vessels is a recurring phenomenon: measures that promote market forces are generally good for availability, but can have a negative impact on quality or financial continuity. Conversely, enhanced quality assurance and governance can stand in the way of market forces, and thus impede growth and diversity of the supply.

Measures therefore come with pluses and minuses. Therefore, it was decided not to provide the measures with an overall assessment. The trade-off between effectiveness, feasibility and side effects is not up to the researchers, that is a political matter. If combinations of measures are considered, it is essential to take mutual interaction into account.

a number of measures can be rejected on the grounds of impracticability, mainly due to foreseeable legal barriers. This mainly concerns instruments that affect property rights, such as a sales ban or nationalization; if that is legally feasible at all, it is prohibitively expensive. In those cases, the elaboration no longer really plays a role, but for the sake of completeness these measures are shown in Table 5.3. Annex A further discusses the implementation problems of rejected measures.

Table 5.3 Non-executable measures

	Practicality	Effectiveness	Side effects			
Measure	executable	financial behavior	quality	availability	accessibility	diverse supply
Right of consent *stakeholders* mergers and acquisitions (A2)	execution issues	=	–	– / +	=	=
Disconnect real estate (A4)	execution issues	=	+	– / +	–	–
Extinction policy *for-profit (B1)*	execution issues	+	=	–	– / +	–
Sales ban (B2)	execution issues	+	–	–	–	–
Nationalize (B3)	execution issues	+	=	=	–/ +	–
Profit norm (C6)	execution issues	+	–	–	–	–

Bordered in bold: objective directly targeted by the measure in question.
Pluses and minuses indicate a general direction, as a balance of expected effects.
Numbering refers to Appendix A with a more detailed elaboration.

What remains is a list of candidate measures that mainly relate to governance and financial regulation, see Table 5.4. The paragraphs following the tables provide a summary assessment for each feasible measure. The measures have been extensively assessed in Appendix A.

Costs of implementation and supervision of compliance

Instruments can be used with different intensities and in different combinations. The costs – for the government and for providers – of implementation and supervision of compliance will vary greatly depending on the nature of the instruments and the way in which they are implemented. Self-regulation is cheaper than a statutory framework, making use of the existing infrastructure (Disputes Committee, Tax and Customs Administration) is cheaper than setting up a sectoral supervisor. Regulations that are only aimed at providers of a minimal size are easier to implement than measures that concern the entire sector.

A cost estimate requires choices about the direction and intensity of policy. In the following, expected differences in costs are included, but not taken into account: 'feasible/no obstacles' means that it is possible, but not that it is free of charge. The trade-off between intended effects and implementation costs is a political one.

Table 5.4 Summary assessment framework of measures

	Executability	Effective-ness	Side effects			
Measure	executable	financial behavior	quality	availability	accessibility	diverse supply
Stakeholder advisory rights in business operations (A1)	=	=	+	=	=	=
Transparency about annual accounts (A3)	admin. bur.	=	+	+	=	=
Code of Conduct (A5)	not author-ized	=	+	=	=	–
Mandatory participation in quality monitor (A6)	admin. bur.	=	+	–	=	–
Restrictive licensing (B4)	juridical	+	=	–	–/+	+
Reducing regulatory pressure (B5)	=	+	–	+	=	=
Price cap (C1)	demarcation	+	=	–	+	–
Solvency requirements (C2)	juridical	+	–	–	=	=
Reassessment of the reim-bursable (C3)	=	+	=	–/+	–	–/+
Standardization annual ac-counts (C4)	juridical	=	=	–	=	=
Limitation of authorized forms of financing (C5)	admin. bur.	+	=	–	=	=
Dividend norm (C7)	juridical	=	+	–	=	–
Norms for remuneration of managers (C8)	=	=	=	=	=	=
Extension of the collective la-bor agreement (C9)	not author-ized	+	+	+	–/+	+

admin. bur. : administrative burden. Bordered in bold: objective directly targeted by the measure in question.
Pluses and minuses indicate a general direction, as a balance of expected effects.
Numbering refers to Appendix A with a more detailed elaboration.

5.5.1 Governance measures

A1 Influence of parents and staff in business operations

Parents, staff members and/or partners will have a greater say in the management of childcare locations. This could include more far-reaching influence specifically on the quality policy of childcare (staff qualifications, group size, facilities) and on entering into financial obligations such as loans. This limits the ability of shareholders to cut costs and compromise on quality. In addition, the possibility of taking greater financial risks by raising more loan capital is limited. Feasibility is not a (major) issue and there are not expected to be any negative side effects. More control can lead to higher quality.

The measures aimed at governance are mainly aimed at promoting transparency. Transparency can include insight into quality and enforce accountability for financial aspects of business operations. As a result, parents and other parties can make better choices and possibly exert *countervailing power* . Transparency makes undesirable behavior more visible and therefore correctable.

A3 Transparency about the annual accounts

By means of By publishing data from annual accounts in a clear and complete manner, financial flows become more transparent and verifiable. Risky behavior becomes visible. Parents *can take* this into account when choosing a provider, although it is unlikely that they will. Such a measure can therefore contribute, but is probably of limited effectiveness. There may also be some administrative burdens for small providers; it could be considered to impose such an obligation only above a certain size threshold or to offer small providers a denial during a transition phase.

A5 Code of Conduct

As an expression of self-regulation, a code of conduct (or governance code) can be an impetus for a quality mark supported by the sector itself, for example for quality standards, financial ratios (such as solvency, liquidity and profitability) or the quality of financial reporting. This can be effective, but it does involve administrative burdens that can weigh heavily on small providers and thus create a new barrier to entry. A code of conduct can be seen as a preliminary phase of mandatory periodic quality monitoring. An independent body can test and judge who may operate under the quality mark.

A conditional process is conceivable in the elaboration: the sector will initially be called upon to come up with guarantees for quality, accessibility and continuity on the basis of self-regulation. If the government finds that self-regulation falls short, it can still switch to regulation with, for example, stricter quality requirements in order to obtain a permit.

A6 Compulsory quality monitor

Monitoring the structural and process quality of suppliers prevents cutbacks on quality aspects that are currently not being measured. Childcare companies are already being checked for hygiene and safety. Additional monitoring for quality can further strengthen the information position of parents, so that they can take this into account in their choice behavior. The effectiveness is limited by scarcity. The measure is feasible, but does require standardized data exchange and an implementing organization charged with monitoring. This is accompanied by considerable administrative burdens and implementation costs. Intensification of external supervision of quality may be possible by designating larger providers as Public Interest Organizations (PIEs), with stricter audit supervision.[38]

One objection to a compulsory quality monitor is that the requirements to be set can turn out to be relatively heavy for small suppliers and starters. Then the instrument has an anti-competitive effect and the market power of (larger) incumbent players may even increase.

5.5.2 Measures in the form of licensing policy

B4 Restrictive licensing policy

Childcare is a local business. Players with a locally dominant position can exert market power, for example with higher prices. A lower concentration leads to more competition and less market power. A more diverse range can also prevent *cherry picking* . The measure may be effective, but legally contestable and market concentration is already regulated under competition law.

B5 Reducing regulatory pressure & barriers to entry

Reducing regulatory pressure facilitates entry and leads to increased competition. Promoting competition helps to ensure that parties with market power have less opportunity to strengthen their dominant position

[38]Listed companies already have this status.

and realize excessive profits. A danger that comes with reducing regulatory pressure is that it can lead to the erosion of quality.

5.5.3 Financial measures

C1 Price cap

Under scarcity, providers in the childcare market have market power. This allows them to charge higher prices than necessary (Plantenga *et al.,* 2022). This works to the advantage of parents with a higher income and can lead to the displacement of families with a low income. This can jeopardize accessibility for parents with a small budget, and there is room for excessive profits. A hard price cap (above the maximum rate that can be reimbursed) can keep the costs of childcare at a reasonable level and encourages providers to work efficiently. There is no difference in accessibility for different income groups. [39]Because demand remains intact, waiting lists may arise. Depending on whether and how a price cap also applies to premium services, it can also frustrate the 'luxury' offerings at the top end of the market. This limits the freedom of choice of providers and parents.

The costs to the government vary with the height of the ceiling. However, the implementation will be complex: in order to avoid (major) negative side effects, differentiation by location/region and possibly also by different services is desirable. Differentiation by location is mainly related to accommodation costs. The local/regional demarcation is a serious task. The introduction of a price cap also includes a definition of which services fall under that 'hard' ceiling: only a basic package or also (part of) the plus facilities (see section 2.2). These choices not only affect pricing, but also the accessibility and diversity of the offer.

C2 Solvency requirements

To avoid overloading childcare companies with debt, the loan capital can be standardized on the basis of solvency requirements, such as a *leverage cap* . In principle, this is an effective instrument to combat over-indebtedness and makes companies less vulnerable to interest rate rises or disappointing turnover. Such requirements are an obstacle for starters, who often depend on loans for their starting capital (from family and friends if the bank does not lend a hand). A size threshold therefore seems an important addition.

Such a requirement is difficult to target specifically at companies in the childcare sector: companies can shift with legal entities to circumvent requirements. A generic approach for *private equity* parties (in the light of European directives and tax standards) is legally dubious and practically unfeasible.

Limiting borrowing capacity limits the growth potential of chains, the heart of the *private equity* business model . This can lead to the existing investments being divested and no money from external investors becoming available for the desired upscaling of the sector.

C3 Recalibrate remuneration basis

The operational management of childcare companies is relatively homogeneous: partly thanks to the standard collective labor agreement, the relationship between labor costs, housing costs and other costs is more or less fixed in financial operations. The maximum rate to be reimbursed is based on an average cost price and a reasonable margin. By not basing the compensation on the integral cost price, but only on the operational costs, *without interest and depreciation* , it becomes more difficult for childcare companies to take

[39] Appendix B presents technical understanding of different variants of cost compensation and price caps for support.

on other, possibly more risky, obligations. This measure, which makes taking out loans less attractive, is substantively related to setting a minimum solvency requirement (measure C2, see above), but specifically aimed at the sector.

The measure provides the desired incentive, is feasible and effective, but requires (presumably) regional differentiation . The effectiveness lies more in efficiency than in keeping the price down. The measure limits the borrowing capacity of the sector. This makes childcare less attractive to external investors, including *private equity* parties. However, such a restriction also has an inhibiting effect on the desired scaling-up capacity of the sector.

C4 Standardization of annual accounts
In terms of impact and feasibility, this measure has the same characteristics as imposing a solvency ceiling (measure C2), i.e. legally questionable and practically problematic. Moreover, the impact mainly lies with the tax profit and not with the practice of childcare.

C5 Restriction on forms of financing
Shareholder lending is already heavily curtailed by tax regulations. Measures can help to limit continuity risks, but can also lead to problems in capacity scaling. A generic restriction limits the parties' clout.

C7 Dividend standardization
With a dividend standard, the profit that may be distributed is standardized. Norms can be based on the profit achieved or on the invested capital. With a dividend standard, companies can – in principle – make as much profit as they want or can, but the part that can be paid out is limited. This means that extra money remains in the company as a buffer for bad times or for investments.
The measure provides the right incentive, but has legal obstacles and has more negative than positive side effects. The measure is only workable as standardization (and therefore not a ban). In addition, exceptions are conceivable; for example, only standardizing under certain combinations of size threshold and legal form.

C8 Standardization of executive remuneration
In principle, limiting the remuneration of managers (via income standardization) ensures that profits increase. Without a dividend standard, the measure is therefore unsuitable because executives can be rewarded through shares, for example [40].

The remuneration of childcare company executives does not accrue to the outside investors. There is therefore no incentive to influence the attitude of investors. It is a signal to society that parties in the sector recognize the social importance of controlled business operations. Managers are often still minority shareholders themselves, for them it is a matter of pocket. In addition, the measure only concerns a few individuals.

C9 Expansion of the collective labor agreement
In a tight labor market, as is the case today, it is a challenge for companies to recruit and retain staff. Sector parties indicate that many personnel are leaving the sector and moving on to education. There is currently a standard collective labor agreement from which employers may not deviate positively. Better

[40]This previously proved legally impossible, but the new system may provide scope for this, see Ministry of Social Affairs and Employment (2011)

employment conditions within the standard collective labor agreement could bind more staff to the sector. A minimum CLA can also work - then employers can deviate from the CLA in a positive way.
The sector will become a more attractive employer. Easier entry through improved personnel recruitment limits the possibilities of realizing disproportionate profits and ensures the desired expansion of capacity. It is also likely that labor costs will increase. If the turnover does not increase, then the profit will be depressed. [41]We see two objections:

- higher wages in a standard collective agreement lead to higher system costs;
- a minimum CLA can lead to accessibility problems due to labor market competition between providers who are mainly active in segments and/or locations where childcare can be offered cheaper and providers who offer childcare in segments and/or locations where it is more expensive to offer childcare.

5.6 Conclusions

Transparency measures reduce information asymmetry and generally have limited negative side effects. Provided they can be implemented properly, these measures are a good starting point for improving market forces and thus preventing market power from arising or being abused. That said: due to the shortage on the supply side (locations, staff), the availability of a place is often decisive for parents in choosing a provider/location. Eligibility for a place often weighs more heavily than a somewhat lesser quality score (as long as a minimum level is guaranteed) or information about the company's finances. As a result, the effectiveness of such measures is limited. That's not to say they're pointless. Without negative side effects or serious implementation problems (costs, organizational, legal), the principle of 'if it doesn't help, it doesn't harm' applies to these measures. Fits into this category: more participation or **advisory rights** for parents and employees, transparency about quality (for example through a **quality monitor**), more insight into a company's finances (**transparency about annual accounts**) or **standardizing the remuneration of top incomes** . In principle, this can be elaborated in a **code of conduct** to which a **quality mark** is linked, for example **.** An independent body can then test who is allowed to operate under the quality mark.

With a quality monitor, the question is how it is filled in. The better monitoring, testing and enforcement, the more effective the instrument, but also the greater the organizational challenge and the costs of supervision and enforcement. By investing this in an independent organization, the costs for childcare organizations do not increase or only increase to a limited extent, but the implementation costs for the government do. It will involve substantial amounts.

One point for attention is that the combination of a large number of requirements that can be individually overcome in implementation, stacked together can still be problematic in terms of the administrative burden on entrepreneurs. Smaller organizations are relatively more affected by this, which can create new barriers to entry and make larger organizations more dominant. In that case, these measures become counterproductive. This should be taken into account in the implementation. by, for example, allowing (temporary) exceptional positions for small companies. A measure in the other direction is precisely the **reduction of the regulatory burden** in order to promote entry and thus price competition.

There are also measures that are more binding and therefore more effective. This category includes forms of price regulation and solvency requirements. Price regulation, and in particular a **price cap,** is an effective barrier to price increases that could arise from market power. Due to the potential dampening effect on

[41] This is related to the redistribution of value as described in chapter 2, in this case between shareholders and employees.

prices, this measure is also good for the wide accessibility of the offer. On the other hand, the distinctiveness of organizations serving the luxury segment is limited, limiting the diversity of the offer and the options available to consumers. A difficult point in the elaboration is determining the level of the ceiling. If this is set too high it is not effective, if it is set too low it can limit the continuity of supply and diversity. A price cap can be determined in practice on the basis of cost plus a reasonable allowance for profit and risk. A locally/regional differentiated price cap is obvious, given the differences, especially in property costs at different locations. A price cap can also be differentiated into a basic package and any plus packages. Higher or no price caps may apply for this. Although the diversity of the supply can be safeguarded in this way, it does introduce an opportunity for strategic behavior and *cherry picking* . This can also be mitigated by only allowing (collectively offered) plus supply if there is already sufficient basic supply in a certain area. A price cap can therefore become a very complex measure that, moreover, only works well in combination with other measures (such as **permits**). A more accessible prelude to a price cap can be a price monitor. If it turns out that prices are not or hardly rising, further elaboration and introduction of a price cap is not necessary either. If high prices can be charged, a **dividend standard** may also be introduced. Only part of the profit made may then be distributed to shareholders. An alternative form of price regulation is a reimbursement to the providers of only the operational costs (**recalibration of the fee basis**). Strategic behavior, in which real estate is disconnected, for example, is lurking.

To prevent overloading of childcare companies with debt, debt capital can be standardized using **solvency requirements** , such as a *leverage cap* . In principle, this is an effective instrument to combat over-indebtedness, it makes companies less vulnerable to interest rate rises or disappointing turnover. However, this can also be an obstacle for starters with a small balance sheet total, who are dependent on loans. In addition, the question is whether external capital is not also badly needed to facilitate the expected growth. Solvency requirements therefore face the same dilemma as a price cap: if the requirements are formulated too broadly, the measure is ineffective, if they are too strict then there may be undesirable side effects. Although it is not a government task, an **expansion of the collective labor agreement can** also make a contribution. When higher wages become possible, the tightness on the labor market will shrink. This can facilitate entry and thus promote competition.

Appendix A. Catalog of measures

Each candidate measure is defined and assessed in this appendix. For each measure, we discuss the intended effect and a summary assessment of the measure is given. This judgment is substantiated in tables that classify the various candidate measures on the basis of three questions:

- does the instrument give investors **the right incentive** to combat undesirable behavior and does it also have **an impact** ?
- to what extent is the instrument **feasible** ?
- are positive and/or negative **side effects** to be expected?

To answer these questions, we test against a number of criteria. See the table below for the test questions on which measures are assessed per criterion. The testing is done (partly) with pluses and minuses. A plus score is always a positive social impact. A plus score on the implementation costs criterion therefore does not mean that these costs will increase, but rather that they will decrease.

Criterion	Assessment question
Effectiveness	
Incentive	Does the instrument provide an incentive in the right direction to combat undesirable behavior?
Impact	To what extent does the instrument have an impact on undesirable behavior?
Practicality	
Legally feasible	Are there any legal (private or competition law) obstacles?
Objective, transparent	Does the measure limit the *level playing field* ?
Administrative burdens	Are there administrative burdens for providers and parents?
Execution costs	does the measure come with additional implementation costs?
Organizational	Will parties such as municipalities be charged with extra tasks?
Side effects	
Quality	How does the measure affect the quality of childcare?
Availability	How will the measure affect the existing supply?
Expansion offer	What effect does the measure have on the possibility of expanding supply in the event of increasing demand?
Accessibility	What influence does the measure have on the accessibility of childcare?
Diverse offer	Does the measure leave room for a diverse range and thus freedom of choice for parents?
Business climate	How does the measure affect the business climate in the Netherlands?

We test the instruments on the dimensions 'effective', 'feasible' and 'presence of side effects'. For 'effective' and 'feasible' we focus as strictly as possible on the *limited* question. Aspects that affect other essential elements of the functioning of the sector are classified in this context under the side effects.

Governance

A1: Right of advice for parents, staff and cooperation partners on business operations

Parents, staff members and/or partners (such as schools and IKCs) are given the right to participate in the management of childcare locations. This could include more far-reaching influence specifically on the quality policy of childcare (staff qualifications, group size, facilities), on entering into financial obligations and entering into partnerships, such as mergers and acquisitions.

NB This right has already been partially completed. There are parent committees and there is a dispute committee that parents can turn to if they disagree with decisions made by their provider. In large (50+) companies, employee participation is via the works council, in companies under the two-tier regime (ownership not held by a single natural person, issued capital > 16 million euros, more than 100 employees in the Netherlands), works councils have the right to nominate supervisory directors for to carry. The private equity providers in the childcare sector meet these size requirements (or have the ambition to meet them as part of their buy-and-build strategy).

Objective: quality assurance / guarantee continuity.

Summary judgment

Positive incentive, limited impact, doable.

Intended effect

Parents/carers, cooperation partners and staff are expected to use the right to participate in aspects such as *affordability, quality and continuity and good working conditions.*

effectiveness		Effect
Incentive	▪ Shareholders' freedom to cut costs and compromise on quality is limited. ▪ The possibility for (new) shareholders to take greater financial risks by raising more loan capital is limited.	+
Impact	▪ In a tight labor market, workers have bargaining power . Entrepreneurs have an incentive to take their staff seriously . ▪ When childcare places are scarce, parents have no alternative. They have an interest in a good relationship with the management of the existing childcare facility, and will therefore be reluctant to use their participation option.	=/+
Judgment: the measure provides the right incentive, but has limited impact		

practicality		Effect
Legally feasible	▪ No substantial obstacle foreseen.	=
Objective, transparent	▪ The law has already been partly filled in, no substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ No substantial obstacle foreseen.	=
Organizational	▪ No substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ Shareholders' freedom to compromise on quality is limited. ▪ The right to participate requires transparency. This provides the incentive to keep quality high.	+
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ No substantial effect foreseen.	=
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has a slightly positive effect on quality		

A2: Right of consent of parents and staff in mergers and acquisitions

Parents, staff members and/or partners (such as schools and IKCs) are given the right of consent in mergers and acquisitions involving their location.

Objective: quality assurance / guarantee continuity.

Summary judgment

Positive incentive, limited impact, not feasible, unwanted side effects.

Intended effect

The influence of stakeholders is expected to have a dampening effect on possible change. This can mitigate financial risks, but it can also be an impediment to investments in growth and quality.

effectiveness		Effect
Incentive	▪ Acquiring parties will have to make clear what their plans are and commit to them. The possibility for new shareholders to take greater risks, for example by raising more loan capital, is limited. ▪ Restricting the ability to sell the company leads to fewer takeovers. This may limit market concentration and thus market power for the larger parties.	+
Impact	▪ Experience in the social rental sector shows that employees and tenants often oppose mergers and acquisitions, but that their right to participate and consent has not prevented housing associations from undergoing a strong concentration movement since the privatization in the 1990s .	=
Judgment: the measure provides a positive incentive, but the impact is expected to be limited		

practicality		Effect
Legally feasible	▪ The measure implies a restriction on the salability of companies. Entrepreneurs will successfully challenge such restriction in court or otherwise claim compensation.	–
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail high costs.	–
Organizational	▪ No substantial obstacle foreseen.	=
Judgment: the legal unfeasibility hinders the feasibility		

side effects		Effect
Quality	▪ Parents and staff tend to opt for short-term self-interest. This may run counter to ambitions (investing in growth and quality) that will work out better in the longer term.	–
Availability	▪ Restricting the ability to sell the company leads to fewer takeovers. This may limit market concentration and thus market power for the larger parties.	+
Expansion offer	▪ Parents and staff tend to opt for short-term self-interest. This may run counter to ambitions (investing in growth and quality) that will work out better in the longer term. ▪ A restriction on the ability to sell the company (under the best conditions for the seller) is *de facto* a barrier to exit. This makes the sector (in the long term) less attractive for starters.	–
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen	=
Business climate	▪ Restrictions on the salability of private companies harm the business climate in the Netherlands. It can deter foreign investors, and it will make investors reluctant to invest in Dutch companies.	–
Verdict: the measure has market-disrupting side effects		

A3: Transparency about the annual accounts

Encourage/mandate clarity and completeness of reporting on annual accounts of childcare organizations.

Objective: to guarantee continuity.

Summary judgment

Presumably limited effectiveness and problems with feasibility, but positive side effects for market forces. It could be considered to impose such a requirement only above a certain size threshold or offer small providers a denial during a transition phase .

Intended effect

It will become clearer to stakeholders how different providers operate. This can help parents (for example through interest groups) and cooperation partners in their choice behavior.

effectiveness		Effect
Incentive	▪ Parents and partners benefit from quality and continuity. Assuming they are less likely to opt for parties that take on relatively large financial risks and/or cut back on quality.	+
Impact	▪ Parents choose childcare based on proximity, price and perceived quality , and may be limited by *lock in* - effects. The availability of financial data is not expected to influence that choice. ▪ Financial reporting requirements already apply to larger – in particular bank-financed – companies. Such an instrument has limited impact for this group.	=
Judgment: the measure provides a positive incentive but has a limited impact		

practicality		Effect
Legally feasible	▪ There are, as with housing associations, legally successful examples of reporting requirements for private, non-listed parties. Therefore, no substantial obstacles are foreseen.	=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ For small providers, merging into a standardized structure comes with administrative burdens, for example due to advice from the accountant or tax adviser. ▪ There are also material consequences for small providers. The financial annual data are linked to the personal financial (tax, pension) situation of the entrepreneur. Standardization reduces the scope for choice and can therefore have adverse tax consequences.	–
Execution costs	▪ Depending on the implementation, supervision can be intensive. Implementation costs can be high in a fragmented market.	–/=
Organizational	▪ No obstacle provided	=
Verdict: feasible despite administrative burden for mainly small players		

side effects		Effect
Quality	▪ The availability of accessible financial information can assist parents and staff in their right to participate. ▪ For professional cooperation partners (schools, banks, municipalities), the availability of standardized financial information can contribute to the evaluation of the cooperation.	+
Availability	▪ The availability of accessible financial information at a testing organization provides an up-to-date overview of cash flows in the sector and possible vulnerabilities at a macro level. Government policy can therefore be tailored to the needs of incumbent providers.	+
Expansion offer	▪ No substantial effect foreseen.	=
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has positive side effects		

A4: Disconnect real estate and create a municipal task

Shifting the housing task for childcare from providers to municipalities.

Objective : to reduce the effect of location scarcity as a barrier to entry and to neutralize the impact of non-regional differentiated tariff regulation.

Summary judgment

The measure comes with feasibility problems and, on balance, negative side effects.

Intended effect

Differences in accommodation costs are regarded as a cause of differences in cost price. This difference can be neutralized by externalizing housing, for example by making it a municipal responsibility. As a result, existing social real estate (schools, sports facilities) could be used more efficiently.

effectiveness		Effect
Incentive	▪ Reducing barriers to entry promotes competition.	+
Impact	▪ By standardizing accommodation costs, the cost prices of providers become more comparable , making tariff regulation easier to implement.	–/+
	▪ Incumbent providers have an advantage because of existing relationships, so that the barrier to entry remains.	
Verdict: the measure makes financial regulation easier, but may support established players		

practicality		Effect
Legally feasible	▪ Major adjustments are needed. Municipalities must offer their own locations , buy out owners of existing locations or take over the lease. This leads to lengthy legal proceedings.	–
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Housing primary and secondary education is already a municipal task. Municipalities are responsible for new construction and expansion, while school boards are responsible for maintenance. Therefore, no substantial obstacle is foreseen.	=
Organizational	▪ The question is whether every municipality is capable of fulfilling this task. Political resistance, budgetary problems and a lack of administrative capacity can hinder sectoral growth.	–
Verdict: the measure is far-reaching and feasibility is not guaranteed		

side effects		Effect
Quality	▪ Childcare locations are becoming social real estate. This makes it easier for the property to offer multiple functions (for example, school and childcare or sports location and childcare).	+
Availability	▪ Major adjustments to the current operation can affect continuity. ▪ Municipalities and schools will prefer to do business with established parties.	–/+
Expansion offer	▪ If municipalities cannot offer space quickly enough, new barriers to entry will arise.	–
Accessibility	▪ A limited choice of location can hinder accessibility.	–
Diverse offer	▪ Diversity of the supply may decrease because municipalities are not prepared to offer at more expensive locations, for which there is a demand.	–
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has positive and negative side effects		

A5: Provider Code of Conduct

A code of conduct is a form of self-regulation in which providers commit themselves to agreements with regard to, for example, quality standards and participation for parents and staff. A code of conduct can be an impetus for a quality mark supported by the sector itself.

Objective: quality assurance.

Summary judgment

A code of conduct can set a quality standard in the market, but requires adequate enforcement.

Intended effect

A code of conduct can provide a basis for the quality level and guarantee the say of parents and employees. Such a code may include guidelines relating to, for example, quality, internal supervision, financial ratios (such as the share of overhead costs in total costs, solvency, liquidity and profitability) and the quality of financial reporting.

A code and quality mark supports the reputation mechanism: if parties do not comply with the agreements, they are held accountable. Supervisors can also fall back on it. Codes of conduct may also contain rules that prevent financially undesirable behavior or guarantee the continuity of the sector.

effectiveness		Effect
Incentive	▪ A code of conduct aims to provide certainty about the quality and rights of customers and employees.	+
Impact	▪ It is likely that large providers, with a correspondingly higher reputational risk, will be more compliant than small providers. ▪ A code of conduct is no guarantee of good conduct, but it does ensure that companies are accountable. ▪ Consumers' choice behavior will only be influenced to a limited extent.	=/+
Judgment: the measure can have positive incentives and impact		

practicality		Effect
Legally feasible	▪ The government can promote self-regulation, but not enforce it. ▪ As a self-regulation instrument, no legal obstacles are foreseen.	=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ Supervision of compliance requires an infrastructure that comes with administrative burdens.	–
Execution costs	▪ Checking compliance requires active supervision. Implementation costs can be high in a fragmented market.	–
Organizational	▪ A code of conduct must rely on sector-wide support. Co-operation of civil society organizations is essential and supervisors must have the option of imposing sanctions.	=
Judgment: the measure is feasible but requires a big stick; supervision leads to administrative burdens		

side effects		Effect
Quality	▪ Quality standards are an objective.	+
Availability	▪ Compliance requirements in a code of conduct can put small providers at a competitive disadvantage. ▪ Continuity in the event of bankruptcies can be safeguarded in a governance code. Providers can agree to continue the offer if another provider fails.	–/+
Expansion offer	▪ *Compliance* requirements in a code of conduct can act as a barrier to entry.	–/=
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ A code of conduct can promote convergence towards a standard quality.	–/=
Business climate	▪ No substantial effect foreseen.	=
Verdict: possible negative side effects; the foreseen side effects depend on agreements made. There may be additional barriers to entry.		

A6: Mandatory quality monitor

Monitoring the structure and process quality of suppliers. A mandatory quality monitor is an extension of a governance code, but with a legal basis.

Objective: quality assurance.

Summary judgment

A quality monitor provides the right incentive, but the impact is questionable if there are scarcity of places for children. The measure is feasible and no significant side effects are expected. The administrative burden can be considerable, but there are learning effects from the LKK monitors. Intensification of external supervision of quality may also be enforced by designating larger providers as *Public Interest Organizations* (PIEs), with stricter audit supervision. Additional quality requirements can have an anti-competitive effect and promote a more uniform range.

Intended effect

A limited insight by parents into the quality of childcare providers is one of the causes of market failure. In the absence of competitive incentives, parties can use their market power by offering lower quality and thus working cheaper. Transparency in the form of a quality monitor limits that possibility. This strengthens parents in their choice behavior. A prescribed monitor requires a system of alerts, warnings and sanctions.

effectiveness		Effect
Incentive	▪ Quality transparency helps parents in their choice behavior and ensures that providers who focus on quality notice this in their turnover.	+
Impact	▪ Supervisors can enforce targeted measures based on the results. ▪ When childcare places are scarce, parents have no alternative. The impact of a quality monitor is therefore limited.	=/+
Judgment: measure provides the right incentive; impact is through supervision, the influence on parents' choice behavior is limited		

practicality		Effect
Legally feasible	▪ In other semi-public sectors (education, care) quality is tested successfully. Therefore, no substantial obstacle is foreseen.	=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ A quality monitor requires standardized data collection and exchange). That process comes with administrative burdens.	–
Execution costs	▪ The implementation of a monitor (data exchange, assessment, reporting) requires an organization and an infrastructure, which incurs costs .	–
Organizational	▪ The Education Inspectorate may have a role to play here.	=
Opinion: the measure is feasible, but comes with administrative burdens and implementation costs		

side effects		Effect
Quality	▪ Quality monitoring is expected to lead to better quality.	+
Availability	▪ Compliance requirements in a code of conduct can put small providers at a competitive disadvantage.	–
Expansion offer	▪ *Compliance* requirements can act as barriers to entry .	–
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ Uniform quality requirements can encourage convergence towards a standard quality.	–/=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has a positive effect on quality. There may be additional barriers to entry.		

Permits

B1: Extinction policy *for profit*: only allow new not- for profit providers (or social BVs) on the market.

The long-term (partial) elimination of providers with a profit motive can be implemented in various ways:

- allow only new foundations and social BVs, but allow existing providers to operate for profit until they leave themselves;
- oblige existing providers with a profit motive to change the legal form to 'social BV'. This implies that part of the profit must be used to 'make a social impact'.[42]

Objective: to prevent profit withdrawal .

Summary judgment

In theory, the measure prevents profit withdrawal, but it is not feasible and has substantial negative side effects.

Intended effect

The measure prevents profit withdrawal.

effectiveness		Effect
Incentive	▪ The measure prevents profit withdrawal.	+
Impact	▪ Profit is an incentive to operate efficiently. A ban on profit withdrawal removes that incentive.	–
Verdict: the incentive for efficiency disappears		

practicality		Effect
Legally feasible	▪ A (final) ban on profit concerns a large part of the sector. Existing commercial providers will legally challenge this restriction (presumably successfully). The measure is also not in line with the ambition to have a hybrid system.	–
Objective, transparent	▪ There are no examples of a successful extinction policy in this way.	–/=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail high costs.	–
Organizational	▪ No substantial obstacle foreseen.	=
Judgment: legal feasibility hinders feasibility		

[42] On the understanding that the social BV does not yet exist as a legal entity (https://ondernemersplein.kvk.nl/sociale-onderneming-gett-betere-recognition-en-erkenning/).

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ *shake-out* among existing providers can be expected.	–
Expansion offer	▪ Experiences in other sectors, such as care homes, show that private providers are more successful in the required capacity scaling up. ▪ A takeover ban is a barrier to exit, which ultimately makes it unattractive to enter the sector. This will frustrate the desired capacity scaling-up.	–
Accessibility	▪ Restrictions on growth capacity are bad for accessibility. ▪ Not *-for-profit* offerings can be expected to be more accessible and therefore also more accessible to low incomes.	–/+
Diverse offer	▪ Discontinuing the hybrid offer means a more uniform offer.	–
Business climate	▪ A restriction on private companies is an attack on the business environment. It can deter foreign investors, and it will make investors reluctant to invest in Dutch companies.	–
Verdict: The negative side effects are substantial		

B2: Sales ban on organizations

Chains are not allowed to take over existing providers.

Objective: to prevent chain formation.

Summary judgment

The measure is ineffective and legally unfeasible.

Intended effect

A sales ban (or purchase ban) prevents chain formation and increases in scale.

effectiveness		Effect
Incentive	▪ The measure is effective in keeping out external investors. The behavior of which they are suspected cannot therefore manifest itself.	+
Impact	▪ Chains are able to open new branches themselves. ▪ The measure can be circumvented by legalizing takeovers differently.	=
Judgment: the measure provides the right incentive via a detour, but effectiveness is limited		

practicality		Effect
Legally feasible	▪ Both potential buyers and potential sellers of childcare companies will (suc-cessfully) challenge the restriction in court. The measure is also not in line with the ambition to have a hybrid system.	-
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail high costs.	-
Organizational	▪ No substantial obstacle foreseen.	=
Judgment: legal feasibility hinders feasibility		

side effects		Effect
Quality	▪ Older entrepreneurs have no exit prospects and therefore no incentive to maintain quality.	-
Availability	▪ Existing entrepreneurs have no exit perspective . That implies a steady *shake out.*	-
Expansion offer	▪ A takeover ban is a barrier to exit, which ultimately makes it unattractive to enter the sector. This will frustrate the desired capacity scaling-up.	-
Accessibility	▪ Restrictions on growth capacity are bad for accessibility.	-
Diverse offer	▪ The supply will decrease and with it the diversity.	-
Business climate	▪ A restriction on the sale of private companies is a detriment to the business climate. It could deter foreign investors and make *venture capital* and *private equity providers* reluctant to invest in Dutch companies.	-
Verdict: the measure has substantial negative side effects		

B3: Nationalizing

Childcare organizations are bought up by the state and placed in government operating companies or foundations .

Objective: to remove a profit motive from the sector.

Summary judgment

The measure is very effective in banning private equity parties, but it is difficult to implement and has negative side effects.

Intended effect

The profit phenomenon is disappearing from the sector. Any surpluses are reinvested to improve the quality of care.[43]

effectiveness		Effect
Incentive	▪ Nationalization causes the disappearance of *for-profit* organizations. Profit-driven undesirable behavior can therefore not manifest itself.	+
Impact	▪ The disappearance of the profit incentive also removes the efficiency incentive.	–
Verdict: the measure is effective in banning private equity parties		

practicality		Effect
Legally feasible	▪ Although there experience with takeovers (banks) and buy-out schemes (farmers) in exceptional situations, forced nationalization of companies in a thriving sector will be a bumpy road both legally and politically.	–
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ In addition to the buy-out sums themselves , considerable administrative costs can be expected in the process of valuation, negotiation and transfer.	–
Organizational	▪ No substantial obstacle foreseen.	=
Verdict: the measure is far-reaching and expensive and feasibility is not guaranteed		

side effects		Effect
Quality	▪ There is no reason to assume that the quality will go up or down in government business operations.	=
Availability	▪ Providers are being bought up, but supply from the same locations should remain available.	=
Expansion offer	▪ Experiences in care homes and abroad show that private providers are more successful in scaling up capacity when demand increases.	–
Accessibility	▪ Restrictions on growth capacity are bad for accessibility. ▪ It can be expected from the government's supply that access for low incomes is guaranteed.	–/+
Diverse offer	▪ The sector is expected to become more uniform.	–
Business climate	▪ The precedent of nationalization of companies in a well-functioning sector can deter investors.	–
Verdict: the measure has negative side effects		

[43]This is the core of the argument of Bokhorst & Hemerijck (2023).

B4: Restrictive licensing

Municipalities are implementing a licensing policy to maximize the number of branches per provider.

Objective: to prevent chain formation.

Summary judgment

The measure is effective, but its feasibility is questionable and has negative side effects.

Intended effect

Childcare is a local business. Players with a dominant position locally can exert market power, for example with higher prices. A lower concentration leads to more competition and less market power. A more diverse range can also prevent *cherry picking* .

effectiveness		Effect
Incentive	▪ More local competition limits possible market power.	+
Impact	▪ From a competition perspective, less strict rules on concentration make a sector with small relevant geographic markets and low turnovers more attractive to *private equity* investors (ACM, 2023). Stricter rules should therefore make the sector less attractive.	+
	▪ There is a danger of strategic behavior. Chains can circumvent the regulations by working with different labels and legal entities.	
Judgment: the measure provides the right incentive and is effective		

practicality		Effect
Legally feasible	▪ Zoning plans and competition regulation already indicate restrictions. Further tightening is legally contestable.	–
Objective, transparent	▪ Differences in policy between neighboring municipalities can lead to 'border disputes' and disrupt regional market forces.	–
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail high costs.	–
Organizational	▪ The question is whether every municipality is capable of fulfilling this task.	–
Verdict: the measure comes with legal problems, but seems feasible		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ The measure may exclude players with growth potential and ambition.	–
Accessibility	▪ By excluding players with growth potential, accessibility can be compromised.	–/+
	▪ If local market power can be abused, this will be limited with restrictive licensing.	
Diverse offer	▪ There can be more room for a varied offer.	+
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure mainly has negative side effects		

B5: Lowering barriers to entry

Simplifying the regulations that must be met to start and run a childcare facility .

Purpose : to promote price and quality competition.

Summary judgment

The measure is feasible and will have limited impact; any concern for the quality level.

Intended effect

Regulatory pressure contributes to an increase in scale: small providers have an incentive to join larger chains and starters are discouraged. Reducing regulatory pressure promotes the competitiveness of small players and counteracts the emergence of a market.

effectiveness		Effect
Incentive	▪ Reduced regulatory pressure promotes competition on price and quality.	+
Impact	▪ Small providers will have slightly more competitive power	=/+
	▪ Regulatory pressure is not the main barrier to entry. Staff shortages and scarcity of suitable locations weigh more heavily.	
	▪ Incumbent players can erect new barriers, for example by institutionalizing quality requirements or increasing reward levels (see Blees *et al.*) .	
Judgment: the measure provides a positive incentive but will have a limited impact		

practicality		Effect
Legally feasible	▪ No substantial obstacle foreseen.	=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ No substantial obstacle foreseen.	=
Organizational	▪ No substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ Reducing quality requirements can lead to reduced quality.	–
	▪ Experience shows that larger organizations are more compliant with quality requirements .	
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ Lower barriers to entry can contribute to supply growth.	+
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Judgment: the measure may lead to an expansion of the supply with concerns about the quality of that supply		

Financial

C1: Imposing a price cap

Due to scarcity, providers in the childcare market have market power. In the existing market, the hourly rates used are on average already above the maximum reimbursed rate (Van Eijkel *et al.*, 2023). Parents are (apparently) already willing to adjust. If demand increases and parents (mainly with a high income) have to pay less themselves, it is obvious that there will be additional upward pressure on prices. Providers may charge higher prices than necessary, jeopardizing accessibility for low-income parents and generating excessive profits.[44] A price cap, a maximum rate – above the maximum rate that can be reimbursed – that providers can charge for purchasing (a basic package of) childcare services limits this price pressure. A price cap requires a proper definition of a basic package and plus services (see section 2.2). Determining the difference between a price cap and the maximum rate to be reimbursed is a challenge.

Objective : to prevent parents from being forced by scarcity to raise their own contribution (far) above four percent.

Summary judgment

The measure is effective and feasible, but requires (possibly complex) differentiation by region, and comes with a more limited supply at the top end of the market.

Intended effect

A price cap keeps the costs of childcare at a reasonable level and encourages providers to work efficiently.

effectiveness		Effect
Incentive	▪ Due to a price cap, providers cannot charge disproportionately more than the maximum rate reimbursed to them.	+
Impact	▪ A price cap prevents excessively high prices and thus the realization of disproportionate profits.	+
Judgment: the measure provides the right incentive and is effective		

44 This is the core of the argument of Plantenga cs (2022).

practicality		Effect
Legally feasible	▪ No substantial obstacle foreseen.	=
Objective, transparent	▪ Because certain cost items differ regionally (mainly due to housing), cost prices are not easily comparable. A regional differentiation of the price cap is obvious , otherwise providers in low-cost areas will still be able to charge relatively high prices. R egionally differentiated policy , however, always leads to 'border disputes', which disrupt local market forces. ▪ Outside of fully regulated markets (healthcare, utilities) there are no successful experiences with such price caps. ▪ Setting a maximum rate implicitly requires an assessment of what constitutes a reasonable margin. From an economic point of view, this is a delicate issue, which the government in market sectors is basically left out of.	–
Administrative burdens	▪ Providers will have to clarify which aspects fall under the price. That comes with administrative burdens.	–
Execution costs	▪ The implementation costs of such a system (with regional differentiation and updating of rates) can be high in a fragmented market.	–
Organizational	▪ An organization designated for this purpose must take over the implementation.	-/=
Verdict: setting a maximum rate is in principle feasible, but it comes with points for attention		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ A price cap can hinder existing niche players in the more expensive segment.	–
Expansion offer	▪ No substantial effect foreseen.	=
Accessibility	▪ The price for childcare remains limited, making childcare accessible for all incomes.	+
Diverse offer	▪ Niche players in a more expensive segment are limited in their supply when they are bound by a price cap. ▪ Childcare companies can use space above the maximum rate to be reimbursed for offering ' plus packages ' . This means more freedom of choice for parents. A price cap limits this space.	–
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure comes with an impoverishment at the top end of the market.		

C2: Solvency requirements

To impose a minimum solvency level on providers.

Objective : promoting continuity by preventing interest costs in addition to normal operation.
NB A restriction on the credit limit can also be aimed at preventing (high-yield) 'shareholder loans' (see chapter 2). Such loans are now tax-unattractive. In that respect, this measure defeats its purpose.

Summary judgment
The measure has the desired incentive and has an impact under the right conditions. Legal and practical feasibility are questionable. May only be imposed above a certain size threshold.

Intended effect
Solvency shows how an organization's equity compares to total assets. With a high solvency, the company is able to meet its obligations (including the repayment of loans). The company is not dependent on external lenders and is therefore more resistant to economic headwinds.

effectiveness		Effect
Incentive	▪ By setting a lower limit on solvency, companies can only take out loans on a limited basis. A lower solvency limit restricts the use of leverage *from* external investors.	+
Impact	▪ Investments in the sector are becoming less attractive for risk investors such as *private equity* parties. ▪ Banks are already making a risk assessment in their loan portfolios, with the Basel accords forcing them to be critical. In that context, an additional solvency requirement is somewhat redundant.	–/+
Judgment: the measure provides the right incentive and has an impact if a lower rate is applied than banks do		

practicality		Effect
Legally feasible	▪ A generic approach for *private equity* parties is legally dubious (in the light of European directives and tax standards) and difficult to implement in practice. Combining this with a size threshold could possibly offer solace in this regard.	–
Objective, transparent	▪ A solvency requirement is difficult to specify for companies in childcare: companies can shift legal entities to avoid requirements. ▪ In small service companies, the balance sheet total is often small compared to the annual turnover. Solvency is then a volatile workable measure.	–
Administrative burdens	▪ Supervision of compliance requires a supervisory infrastructure, which comes with administrative burdens.	–
Execution costs	▪ A testing body will have to be set up. Her work comes with implementation costs. In regulated sectors (utilities, health care, housing corporations) there are regulators who keep track of such key figures, generally for smaller numbers of larger organizations.	–
Organizational	▪ Requires supervision by a designated organization.	=
Judgment: the measure may be feasible, but has points for attention		

side effects		Effect
Quality	▪ In a sector with limited margins, investments in quality improvement require external money. Restrictions on the possibilities to attract money therefore have an inhibiting effect on such investments.	–
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ In a sector with limited margins, investments in growth require external money. Restrictions on the possibilities to raise money have an inhibiting effect on such investments. ▪ For start-up companies that rarely qualify for bank credit, a limit on loans can form a barrier to entry and thus distort market forces.	–
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has negative side effects		

C3: Recalibrate the maximum reimbursable rate to operational costs only

Childcare providers are only compensated based on an operational cost standard and a reasonable margin.

Objective : promoting continuity by preventing extra costs over and above normal operation, such as interest costs.

Summary judgment

The measure provides the desired incentive, is feasible and effective in discouraging borrowing. The effectiveness lies more in efficiency than in keeping the price down. The measure limits the borrowing capacity of the sector. This makes childcare less attractive to external investors, including *private equity* parties. Such a restriction has an inhibiting effect on the desired scaling-up capacity of the sector.

Intended effect

This measure is related to setting a minimum solvency requirement (measure C2). The operational management of childcare companies is relatively homogeneous: partly thanks to the standard collective labor agreement, the relationship between labor costs, housing costs and other costs is more or less fixed in financial operations. The maximum rate to be reimbursed is based on an average cost price and a reasonable margin. By not basing the compensation on the integral cost price, but only on the operational costs, *without interest and depreciation* , it becomes more difficult for childcare companies to take on other, potentially more risky obligations.

effectiveness		Effect
Incentive	▪ If the interest is taken out of the fee rate, providers can benefit less from the leverage effect.	+
Impact	▪ Debt capital not only serves as a source of growth financing, but also acts as a liquidity buffer. If the interest is deducted from the turnover payment, the borrowing capacity is limited and normally bridgeable continuity problems are less easily solvable.	–/+
Verdict: the measure discourages taking financial risks but restricts solving smaller problems.		

practicality		Effect
Legally feasible	▪ The measure is an adjustment of the existing reimbursement system . Therefore, no substantial obstacle is foreseen. Discussions may arise about the legality of all kinds of costs that serve as input for determining what operational costs are.	=
Objective, transparent	▪ Under the measure, housing costs are given relatively more weight in the structure of the reimbursed rate. R egional differences are therefore also becoming more important. It is therefore obvious that the price cap should be differentiated regionally , otherwise providers in low-cost areas will still be able to charge relatively high prices. R egionally differentiated _ _ however, policy always comes with 'border disputes', which disrupt local market forces. ▪ One option is to combine the measure with transferring the housing task to municipalities. However, we already concluded from this measure that feasibility is an obstacle.	-/=
Administrative burdens	▪ The measure requires a reassessment of the existing calculation, with insight into the existing cost structure of providers.	-
Execution costs	▪ No substantial obstacle foreseen.	=
Organizational	▪ No substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ A fee based on a standard cost structure hinders the scope for investments for providers with relatively high costs , but increases the scope for providers with relatively low costs.	-/+
Expansion offer	▪ This discourages borrowing to finance growth.	-
Accessibility	▪ A fee based on a standard cost structure leads to standardization of the offer. It is in line with a clearer distinction between basic childcare (paid) and childcare with a plus package (to be adjusted by the parents). This can lead to a restriction of accessibility for parents with a limited budget. *Cherry picking* is encouraged with it .	-
Diverse offer	▪ A fee based on a standard cost structure leads to standardization of the offer. It is in line with a clearer distinction between basic childcare (paid) and childcare with a plus package (to be adjusted by the parents). This means more freedom of choice for parents.	-/+
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure may have side effects		

C4: Standardization of the annual accounts by imposing accounting standards

Private equity - Childcare providers are bound by accounting standards, such as limiting certain balance sheet items such as *goodwill* and setting requirements for the valuation of tangible assets.

Purpose : to limit the achievement of tax benefits through *earnings stripping.*

Summary judgment

In terms of impact and feasibility, this measure has the same characteristics as imposing a solvency ceiling C2), i.e. legally and practically dubious. Moreover, the impact mainly lies with the tax profit and not with the practice of childcare.

Intended effect

Tax benefits can be achieved by (accelerated) depreciation of intangible (*goodwill*) or tangible assets. These benefits can help reduce tax payments.

effectiveness		Effect
Incentive	▪ The measure limits the possibility of influencing the taxable profit through financial constructions.	+
Impact	▪ The measure does not affect business operations but is administrative, aimed at curbing *fiscal engineering* .	=
	▪ As a rule , tangible assets do not carry much weight in service companies . The impact of the measure will therefore be very limited.	
Judgment: the measure provides the right incentive, but has no impact		

practicality		Effect
Legally feasible	▪ Requirements for the annual accounts are laid down in European directives and tax standards. These are difficult to adapt specifically for certain sectors or companies. A combination with a size threshold or a transition phase could offer some scope.	–
Objective, transparent	▪ Companies have the option to shift between legal entities, so that the measure is relatively easy to circumvent.	–
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ G foresee a substantial obstacle.	=
Organizational	▪ This is for the tax authorities, no substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ The sector is becoming financially less attractive for *private equity* parties. This may limit expansion ambitions.	–
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has no substantial side effects		

C5: Restriction on authorized forms of financing

Curtailing shareholder loans and forms of loans that can lead to continuity problems in an economic downturn, for example loans where interest is credited to the principal. The curtailment would lie in further easing of the tax treatment of such loans. Examples include maximizing the interest rate, a limit on the term and an obligation to pay interest on an annual basis.

Objective : to prevent the withdrawal of funds, to guarantee continuity by limiting interest rate risks.

Summary judgment
Shareholder lending is already heavily curtailed by tax regulations. Measures can help to limit continuity risks, but can also lead to problems in capacity scaling. A generic restriction limits the parties' clout.

Intended effect
The leverage effect is limited. Parties will borrow less, and/or on conditions that make them less sensitive to rising interest rates or falling turnover. Investors cannot extract funds from high interest rates on shareholder loans.

effectiveness		Effect
Incentive	▪ Parties are deprived of an instrument to take many risks or to extract resources.	+
Impact	▪ Shareholder loans have already been made fiscally unattractive. Additional regulations contribute little.	=/+
	▪ A limitation (on the term, the interest rate level, the possibility to add the interest to the debt) can help to limit continuity risks.	
Verdict: the measure may be effective		

practicality		Effect
Legally feasible	▪ Fiscal compatibility is a point of attention. The Tax and Customs Administration has already taken restrictive measures.	– /=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ No substantial obstacle foreseen.	=
Organizational	▪ This is for the tax authorities, no substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ A ban may limit the financial strength of parties with expansion ambitions .	–
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has negative side effects		

C6: Profit norm / profit prohibition

The asking price may only exceed the cost price by a predetermined amount. In its most extreme form, it is a prohibition on profit, whereby the asking price must be equal to the cost price. Profit standardization is used as an instrument for utility companies with a regional monopoly, such as drinking water companies. The allowable rate of return is determined independently, and companies set their prices based on expected costs, the retained earnings needed to meet solvency requirements, and the allowable rate of return.[45]

Objective : preventing 'excess profits'.

Summary judgment
The measure has limited effectiveness, is not feasible and has substantial negative side effects.

Intended effect
This measure is aimed at preventing hoarded free floating capital from profits, not at standardizing or prohibiting profit distribution. Potential profits arise because providers demand higher prices than they actually need. Profit standards should ensure that providers do not charge disproportionately high prices just because they have market power. By standardizing profits, excessive profits are therefore prevented. A step further is a complete ban on profit. Then the market price must be equal to the cost price. Therefore, no profits can be reinvested or kept as a buffer for bad times.

NB this measure resembles a hard price cap. The price cap restricts excessive profits by maximizing the price. Profit can still be maximized against this price cap by working efficiently. With a profit standard, the maximum profit that can be made is fixed and there is no price cap. The efficiency incentive is limited here.

effectiveness		Effect
Incentive	▪ No (excessive) profits can be realized in the sector with profit standards or a profit ban.	+
Impact	▪ From an economic point of view, the right to profit is not an end, but a means to promote that entrepreneurs work efficiently. Limiting the ability to cash in profits removes the incentive to work efficiently. ▪ It is the entrepreneur's responsibility and right to weigh up the trade-off between profit withdrawal and holding funds as a buffer or for investment purposes. Resources that remain in a company without such a function provide incentives for entrepreneurs and management to waste costs and are a waste of capital.	–
Judgment: the stimulus is in the right direction, but the impact is questionable		

45 Dijkgraaf, van de Geest & Varkevisser (2007), *Profit regulation as a guarantee for reasonable rates*

practicality		Effect
Legally feasible	▪ A profit restriction concerns a very large part of the sector. Restrictions on generic rights for private limited companies will (presumably successfully) be challenged legally.	–
Objective, transparent	▪ Setting a maximum rate implicitly requires an assessment of what constitutes a reasonable margin. From an economic point of view, this is a delicate issue, which the government in market sectors is basically left out of. ▪ Experiences in the care sector show that commercial providers can easily circumvent a profit ban, for example by legally separating care and accommodation from permits and implementation.	–
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail high costs.	–
Organizational	▪ Requires active supervision as in healthcare by the NZa.	-
Verdict: the measure is difficult to implement		

side effects		Effect
Quality	▪ Profit regulation restricts reinvestment in quality.	–
Availability	▪ A considerable shake-out among existing providers can be expected.	–
Expansion offer	▪ Profit regulation restricts reinvestment in growth. ▪ Restrictions on making a profit (and thus paying dividends) make the sector unattractive to investors. As a result, the hybrid character of the sector will be lost and an important engine for upscaling will disappear.	–
Accessibility	▪ By excluding players with growth potential, accessibility can be compromised.	–
Diverse offer	▪ A restriction on (or, in the ultimate form, a prohibition on) profit realization directly affects parties paying out dividends. Switching to a foundation form offers limited solace, because the company becomes transferable. A considerable shake-out can be expected.	–
Business climate	▪ Restrictions on profit realization can be seen as undermining the business climate in the Netherlands. It could deter foreign investors and make venture capital and private equity providers reluctant to invest in Dutch companies.	–
Verdict: the measure leads to substantial negative side effects		

C7: Dividend norm / dividend prohibition

The dividend that may be distributed is regulated, with a dividend ban in the extreme case. Norms can be based on the profit achieved or on the invested capital.

NB There is already a limit for private limited companies: dividends can only be distributed if there is sufficient profit and the continuity of the BV is not at stake.

Objective : To reduce the focus on profit and drain money from the industry.

Summary judgment
The measure apparently provides the right incentive, but is difficult to implement and has more negative than positive side effects. The measure only seems workable as a standard (and therefore not a prohibition) and with exceptions (for example, under certain combinations of size threshold and legal form).

Intended effect
With a dividend standard, companies can – in principle – make as much profit as they want or can, but the part that can be paid out is limited. This means that extra money remains in the company as a buffer for bad times or for investments.

effectiveness		Effect
Incentive	▪ With dividend standards or a dividend ban no (excessive) profits can be withdrawn from the sector.	+
Impact	▪ Entrepreneurs make the trade-off between profit withdrawal and holding resources as a buffer or for investment objectives. Resources that remain in a company without such a function are a waste of capital. ▪ Reinvestment is not an obligation. Dividends can be paid later via profit reserves . ▪ Certain providers, such as sole proprietorships, are themselves sole shareholders and pay themselves relatively large dividends and keep their own wages low. These providers will be hit particularly hard. ▪ Dividends do not play a role for private equity investors. However, it cannot be ruled out that in the future investors who follow other, more short-term-oriented financial strategies will also join, in which periodic profit distribution may play a role.	–/+
Judgment: the measure has the right incentive, but does not have to be effective		

practicality		Effect
Legally feasible	▪ Restrictions on generic rights for private companies will (presumably successfully) be challenged legally. A total dividend ban therefore seems out of the question; there is more room for dividend standardization.	–
Objective, transparent	▪ There is a lot of room for accounting to circumvent a dividend limitation. Shareholders can charge *fees for management services, profit distributions can be spread over a longer period of time, etc.*	–
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ Foreseen legal proceedings will entail costs.	–
Organizational	▪ Requires active supervision as in healthcare by the NZa.	-
Verdict: the measure is difficult to implement		

side effects		Effect
Quality	▪ When profits are allowed to be realized, but not withdrawn from the sector, profit remains to invest in quality.	+
Availability	▪ A restriction on (or, in the ultimate form, a prohibition on) profit withdrawal directly affects parties that distribute dividends. This may be reason for them to leave.	–
Expansion offer	▪ When profits are allowed to be realized but not withdrawn from the industry, profits are left over to invest in growth. ▪ The *private equity business model* is not based on paying dividends, but on capturing an increase in value. This is in the profit potential of the company at the time of sale and which a buying party will want to capitalize on. A restriction on profit withdrawal deprives *private equity investors* of the exit option . This makes investing in the sector unattractive for these parties.	–/+
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ A limitation on dividend payments (or in the ultimate form a prohibition) directly affects parties that do pay dividends: shareholders of small private companies and large chains that are owned by listed companies or an institutional investor. In essence, such a measure puts a stop to the entry of parties other than foundations and IB entrepreneurs in the sector. That is not in keeping with the ambition to have a hybrid sector .	–
Business climate	▪ Restrictions on profit withdrawal can be seen as undermining the business climate in the Netherlands. It could deter foreign investors and make *venture capital* and *private equity providers* reluctant to invest in Dutch companies.	–
Judgment: the measure has stronger negative than positive side effects		

C8: Standardization of executive pay

Standardize the remuneration of entrepreneurs/managers.

Intent : To prevent the diversion of resources by executives / minority shareholders.

Summary judgment

There's no incentive to influence investor attitudes. Managers themselves are often still minority shareholders, for them this standardization is a matter of deferred income. It is a signal to society that parties in the sector recognize the social importance of controlled business operations , but the impact is negligible.

Intended effect

Childcare can be seen as a semi-public sector. In order to curb costs, the remuneration of managers can be standardized. It can be examined whether the sector can be brought under the regime of the Standardization of Top Incomes Act. This previously proved legally impossible [46], but the new system may offer scope for this.

effectiveness		Effect
Incentive	▪ The measure has no incentive for outside investors	=
Impact	▪ This measure concerns only a few individuals. Apart from signaling in the context of 'recognized social importance', the impact is not great.	=
Verdict: the measure is not effective		

practicality		Effect
Legally feasible	▪ No substantial obstacle foreseen.	=
Objective, transparent	▪ No substantial obstacle foreseen.	=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ No substantial obstacle foreseen.	=
Organizational	▪ Requires supervision from a designated organization, no substantial obstacle foreseen.	=
Verdict: the measure is feasible		

side effects		Effect
Quality	▪ No substantial effect foreseen.	=
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ No substantial effect foreseen.	=
Accessibility	▪ No substantial effect foreseen.	=
Diverse offer	▪ No substantial effect foreseen.	=
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has no side effects		

[46] See Ministry of SZW (2011)

C9: An extension of the collective labor agreement

Expanded options in the collective labor agreement should make the sector a more attractive employer. We see two possibilities:

- Improve working conditions within the applicable standard collective labor agreement;
- Change the standard CLA into a minimum CLA.

Objective : simplifying personnel recruitment to facilitate growth and quality improvement.

Summary judgment

The measure may be indirectly effective and may have a number of positive side effects.

Intended effect

In a tight labor market, as is the case in 2023, it is a challenge for companies to recruit and retain staff. Sector parties indicate that many personnel are leaving the sector and moving on to education. There is currently a standard collective labor agreement from which employers may not deviate positively. Better employment conditions within this standard collective labor agreement could bind more staff to the sector. A minimum collective labor agreement can also offer a solution. In a minimum CLA, employers are allowed to deviate positively from the CLA.

The sector will have to become a more attractive employer. Easier entry through improved personnel recruitment limits the possibilities for realizing disproportionate profits and also ensures the desired expansion of capacity. It is likely that labor costs will go up. If the turnover does not increase, then the profit will be depressed. [47]We see two objections:

- An objection to higher wages as part of improved working conditions in a standard collective agreement is that it leads to a higher cost price and therefore higher system costs. In that case, 96 percent of a higher hourly rate must be reimbursed.
- One objection to a minimum collective labor agreement is that it can lead to accessibility problems. Labor market competition may arise between providers who are mainly active in segments and/or locations where childcare can be offered cheaper and providers who offer childcare in segments and/or locations where it is more expensive to offer childcare. This encourages a practice of cherry *picking* .

Outside the scope of this report: because the capacity in childcare depends directly on the number of employees due to the regulated child/caregiver ratio, childcare cannot or can hardly grow without additional employees. If the sector becomes an attractive employer, there is room for growth. This promotes market forces and is in principle good for achieving the objectives of labor market participation and educational quality.

effectiveness		Effect
Incentive	▪ Less scarcity on the labor market makes entry easier and increases competitive pressure.	+
Impact	▪ When the supply of qualified personnel lags behind, there is a price-increasing effect. A minimum collective labor agreement can also lead to competition for scarce personnel, which may benefit large organizations and promote market power.	–/+
Judgment: the measure indirectly provides the right incentive and has an impact if (cheaper) providers enter the market		

[47] This is related to the redistribution of value as described in chapter 2, in this case between shareholders and employees.

practicality		Effect
Legally feasible	▪ No substantial obstacle foreseen.	=
Objective, transparent	▪ It is up to the parties in the Collective Labor Agreement consultations and not to the government to decide on this. ▪ The government can indirectly exert influence by threatening with more negative measures for the sector parties, such as a profit ban or a price cap.	-/=
Administrative burdens	▪ No substantial obstacle foreseen.	=
Execution costs	▪ System costs rise when cost prices are forced to rise because employers are bound by a standard collective labor agreement with improved working conditions.	-/=
Organizational	▪ No substantial obstacle foreseen.	=
Judgment: the ministry only has indirect options to implement the measure		

side effects		Effect
Quality	▪ The sector can attract more highly skilled personnel than is currently the case, which will benefit quality.	+
Availability	▪ No substantial effect foreseen.	=
Expansion offer	▪ According to sector parties, the staff shortage is the biggest obstacle to entry or expansion. When providers must/be able to offer higher wages, working in the sector becomes more attractive. The personnel that is drawn to the sector as a result makes capacity scaling possible.	+
Accessibility	▪ With substantial entry and capacity scaling up, accessibility problems will be minor. ▪ With a change to a minimum CLA, labor market competition can arise between providers who are mainly active in segments and/or locations where childcare can be offered cheaper and providers who offer childcare in segments and/or locations where it is more expensive to offer childcare. This encourages a practice of cherry *picking* .	-/+
Diverse offer	▪ More room for differentiated remuneration can help to realize a more differentiated offer.	+
Business climate	▪ No substantial effect foreseen.	=
Verdict: the measure has positive and negative side effects		

Appendix B . Demand-supply analyses

This appendix describes the effects of government intervention with a maximum rate and with means-tested subsidies, given certain combinations of supply and demand factors in a number of variants:

1. *No intervention* : a free market in which there is no intervention by the government.
2. *Income-dependent subsidizing of demand* : parents receive a subsidy that depends on their income. This variant approximates the current situation. If the price for childcare is higher than the subsidy, the parents will have to make up this difference.
3. *Income-independent subsidizing of demand with a maximum rate* : parents receive a subsidy that does not depend on their income. There is a maximum rate that the government reimburses. If the price for childcare is higher than the maximum rate – and therefore the subsidy – the parents will have to make up this difference. We approach this variant as proposed policy.
4. *Income-independent subsidizing of demand with a higher maximum rate* : the same situation as the previous one, but with a higher maximum rate.
5. *Maximum and income-independent subsidization of demand with a price cap:* parents receive a subsidy that does not depend on their income. The subsidy is also maximum; parents pay nothing. A price cap will be set. The providers may therefore not charge a higher price than this maximum price.

These variants cannot be directly related to the measures in the study. They mainly illustrate the incentives and possible outcomes with a different system design, given supply and demand. The purpose of the analyzes is not to provide a definite answer about all the effects of the measures, but to show qualitatively the consequences of system changes as an interaction between supply and demand. This provides insight into possible effects on prices, on the costs for the government and the consumer and whether risks arise on waiting lists, for example. The conceptual models are abstractions, without the pretense of including all aspects of the childcare market.

Supply and demand

Supply and demand analysis in algebraic and graphical models provides a simple theoretical framework for studying the effects of government intervention in markets. First, we work out the graphical model. The simplifying assumptions are:

1. the market is competitive, suppliers are price takers;
2. the quality of the product is uniform;
3. all players in the market have rational preferences.

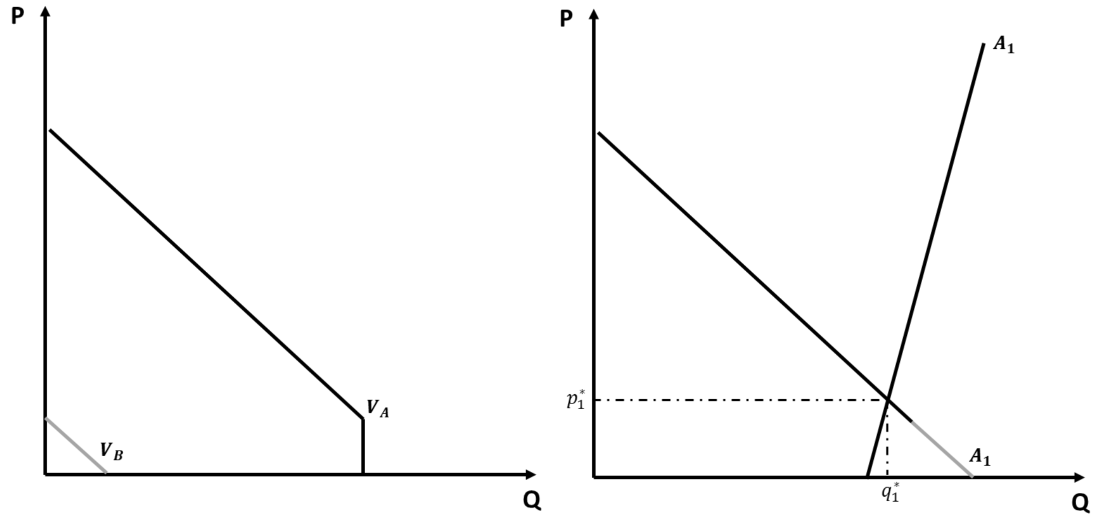
The figures in this appendix always show price on the vertical axis $P$and quantity on the horizontal axis Q. The slope of the demand curves $V$is negative: with a lower price, the demand for childcare increases. More consumers experience a positive benefit when the price decreases. The slope of the supply curve $A_1$is positive: with a higher price, the supply of childcare increases. It will become more attractive for new parties to enter, and for existing parties it will become more attractive to increase the supply.

The supply curve as shown in the figure is 'relatively vertical; indicating a weak relationship between price and supply. In other words, supply is relatively price inelastic. This is a reflection of the current situation of the childcare market, in which there are staff shortages. As a result, an increase in the price can only lead to a limited increase in supply in the short term.

In the analysis, the purchasers of childcare are divided into two groups, A and B. Group B, with low incomes, has little money left over to purchase childcare compared to group A.

In the left panels of the figures, the demand curves are split into a curve for group A and a curve for group B. In the right panels, these demand curves are combined and the supply curve is also shown. The demand curves are aggregated by adding them together horizontally. That means that at each price we add $P$the quantity demanded Q of group A and B (V_a and V_b). The point at which supply and demand are equal determines the equilibrium price p^* and the equilibrium quantity q^*.

Figure B.1 Baseline scenario



Variant 1. Basic scenario: a free market without subsidies

Figure B.1 shows the basic scenario: the government has not intervened in the market in any way. There are no subsidies for either group A or group B. This basic scenario can be used as a frame of reference to clarify the possible consequences of measures.

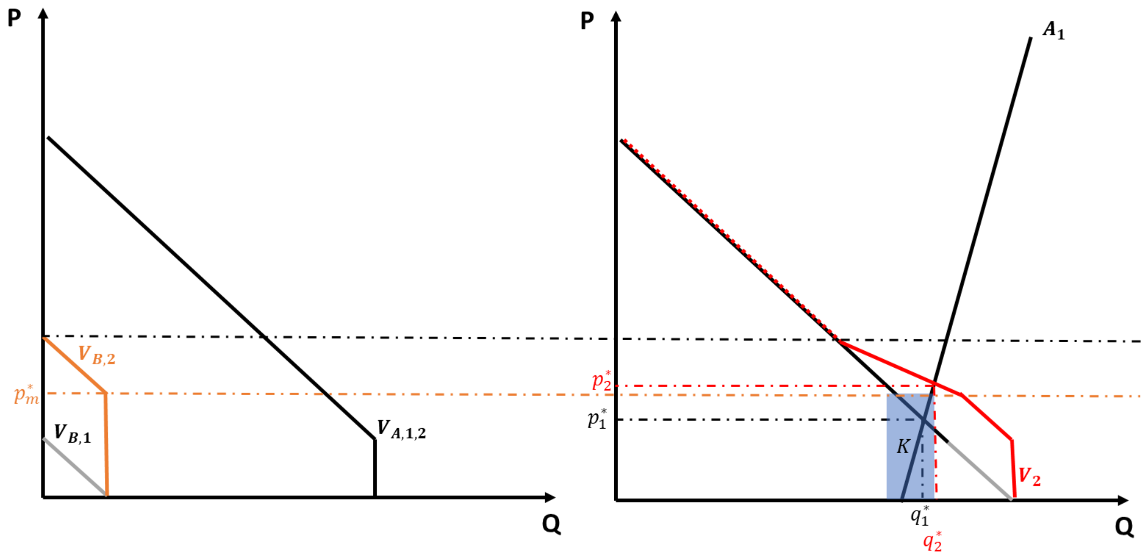
The figure outlines the problem facing the government: for parents in group B, the equilibrium price in the market is too high to purchase childcare. This can be seen as undesirable for several reasons (see argumentation in the main text, where childcare is qualified as a semi-public good).

Variant 2. Current situation: Compensate Group B up to a maximum rate

Figure B.2 shows the situation which essentially resembles the current policy. There is an income-related subsidy up to a certain maximum rate. The sector itself is free to set a rate. There is more demand for childcare from group A (higher incomes) than from group B (lower incomes). Demand for childcare from group B only arises at a low price, otherwise the childcare is too expensive.

The government wants to make childcare accessible to parents from group B. In scenario 2, the government does this by subsidizing childcare up to a maximum rate. If the price asked by providers is higher than the maximum rate, the parents must make up the difference themselves. Demand in group A does not change because they are not compensated, but aggregate demand does increase because demand in group B increases. Due to the increase in demand, providers can charge higher prices and more providers will enter the market.

Figure B.2 Compensate Group B up to the maximum rate



This action causes the equilibrium price and quantity to rise. The higher quantity therefore arises because group B purchases more childcare because the government enables them to do so with a subsidy. The demand of group A, on the other hand, decreases. The equilibrium price rises and this group does not receive a subsidy because their income is too high. This makes childcare too expensive for the parents in group A with the lowest willingness to pay. The increase in demand from group B is greater than the decrease in demand from group A. All things considered, government intervention means more children go to childcare in this scenario. This growing demand is accompanied by government spending.

Figure B.2 shows the essence of this policy. Group B is fully compensated up to the maximum rate p_m^*. Group A is not compensated. That results in the demand curves V_2. Below the maximum tariff, p_m^*demand from group B is completely price inelastic: changes in the price below p_m^*have no influence on demand. After all, the costs are fully reimbursed. Above, $p_m^*$the demand curve is equal to the base situation, except that the actual price that group B pays is equal to $p - p_m^*$. The demand curve for group B is therefore increased by p_m^*.

The right panel of Figure B.2 shows the shift in market equilibrium. Demand increases from the black dotted line. The result is an increase in the equilibrium price $p_1^*$to $p_2^*$and a limited increase in the equilibrium quantity: from $q_1^*$to q_2^*. Group B is largely served. The demand from the uncompensated group A is lower due to the higher equilibrium price. So there is some displacement.

The costs for the government are shown as flat K. It equals fulfilled demand from group B multiplied by p_m^*.

This analysis differs from the actual situation in two aspects: (i) in the current policy there are more than two income groups. The compensation percentage decreases as the income is higher. For the analysis, that would mean a stepwise rise in the demand curve. (ii) Parents can spend the current subsidy (with a surcharge) on several services. The fact that childcare costs can be paid with it does not necessarily mean that the demand for this group is price inelastic. There remains an incentive to opt for childcare with a lower price. For the analysis, this means that the demand does not become completely vertical under the maximum tariff, but it does become more vertical than in the base scenario.

These comments have no effect on the essence of the analysis: current government policy helps lower income groups to use childcare in a targeted manner. A possible disadvantage is that it can make childcare less attractive for the higher income groups because the price rises .

Variant 3. Group A and group B compensate up to maximum rate

The government can also make childcare more accessible for parents from group B compared to the base scenario by subsidizing both groups A and B up to the maximum rate. The advantage of this is that no parents from group A are displaced by the price increase as a result of a subsidy that only parents from group B receive. Again, if the price asked by providers is higher than the minimum rate, the parents must pay the difference themselves.

Because demand in group A is also rising, total demand is now rising faster than in the previous scenario. As a result, the providers can also charge even higher prices than in the previous scenario. The higher price increases in turn mean that childcare (even with the subsidy) becomes too expensive for a large part of group B.

What happens is that more demand quickly leads to a higher price. This is because the supply does not react as quickly to price changes. The sector is faced with staff shortages, which means that a higher price in the short term does not lead to much more supply. The staff simply isn't there for that. Nevertheless, many parents (with the subsidy in their wallets) are only too happy to fill the available childcare places, so in the end the person who pays the most for it pays. This remains the parents from group A. They were already willing to pay more than group B and because both groups receive the same amount of subsidy, they remain willing to pay more for childcare.

There will therefore be slightly more room in childcare, but the lower incomes from group B are still being pushed out. In addition, government expenditure will increase because not only parents from group B, but all parents will be subsidized.

Figure B.3 Groups A and B compensate 100% with a maximum rate

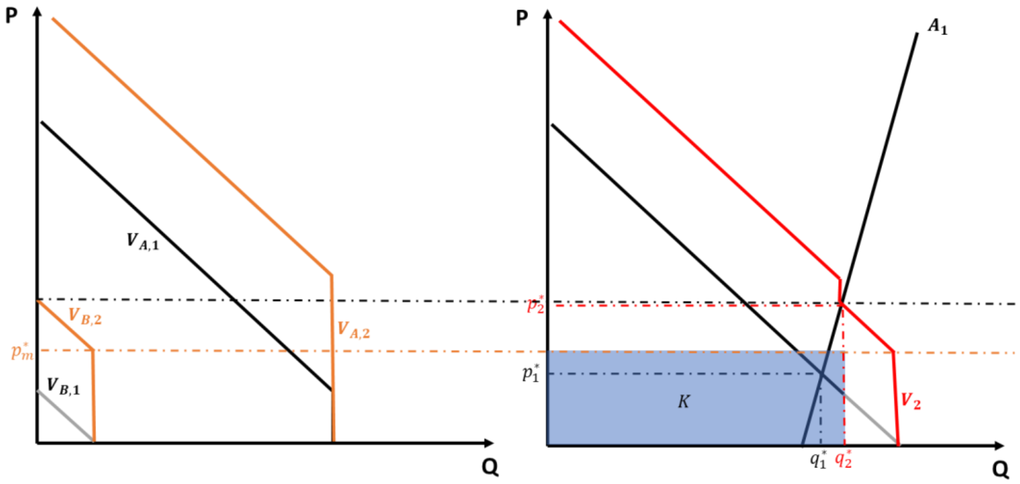


Figure B.3 shows the situation in which groups A and B are fully compensated, up to a maximum rate p_m^*. This roughly corresponds to the proposed policy. For group B, this means that if the price is below the maximum rate, the demand curve is inelastic. For group A, demand is still inelastic even at a price slightly higher than the maximum rate. The price paid is then so low that all parents in this group want to purchase childcare.

Merging the demand curves $V_{B.2}$and $V_{a.2}$results in demand curve in the right panel V_2. $V_2$is higher than , for all price levels V_1, but is elastic at a high enough price. We arrive at an equilibrium price p_2^*that is higher than $p_1^*$and an equilibrium quantity q_2^*that rises compared to the reference scenario q_1^*. The costs to the government $K$are equal to $p_m^* * q_2^*$.

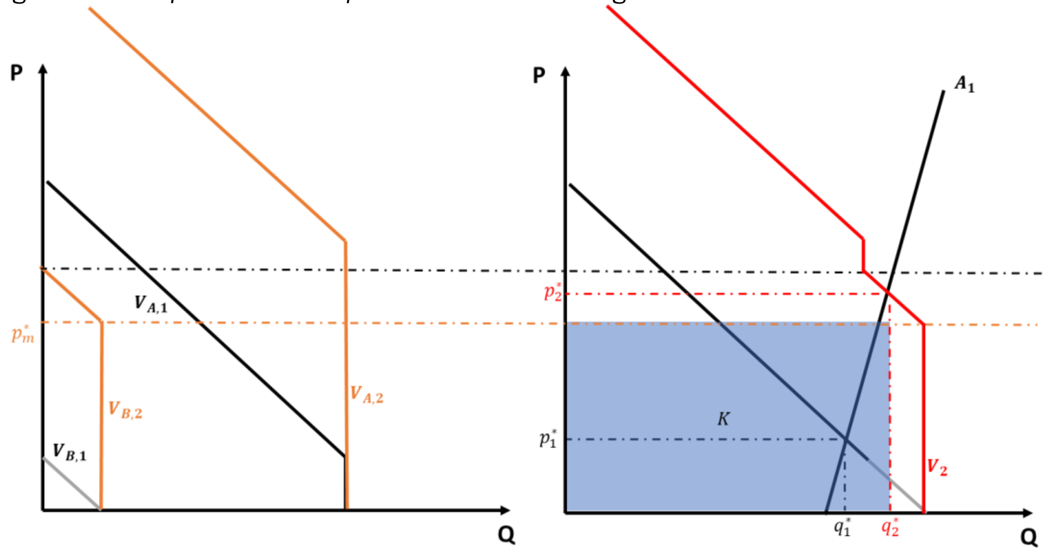
Due to the increased demand from both group A and group B, there is a difference between the maximum rate and the equilibrium price. This difference is too great for most parents in group B. Many parents in group B can therefore no longer afford childcare and the costs for the government $K$are greater than in Figure B.2, in which the same maximum rate applies, but only group B is compensated .

Variant 4. Group A and group B compensate up to a higher maximum rate

In the previous scenario, childcare should have become more accessible for group B. Price inelastic supply, however, caused the equilibrium price to rise sharply, but not the equilibrium quantity. The result: the parents from group A were the ones who filled the extra childcare places for the most part.

The government may also consider increasing the subsidy. The maximum rate up to which the subsidy is granted will then increase. Because the subsidy is higher than in the previous scenario, the increase in demand in groups A and B is higher than in the previous scenario. Total demand will therefore also rise faster than in the previous scenario. As a result, the providers can also charge even higher prices than in the previous scenario. The purpose of this change compared to the previous scenario is that the extra supply that arises due to the rising demand is not taken up by group A.

Figure B.4 Groups A and B compensate 100% with a higher maximum rate



However, the previous example taught us that this is the expectation given equal subsidies for groups A and B. If the subsidy is increased far enough, and the demand and therefore the price rise far enough as a result, and the supply subsequently increases again, everyone will from group A ultimately purchase childcare. Every euro of subsidy that is subsequently added will end up in group B via this mechanism. This approach involves major expenditure: the maximum rate must be increased significantly.

In Figure B.4, almost all of group B is displaced because demand in group A also increases, causing the equilibrium price to rise well above the maximum rate. This can be solved by p^*_mincreasing the maximum price. The result is higher costs$K$ for the government.

With the merging of the demand curves $V_{B,2}$and $V_{a,2}$we see demand curve again in the right panel V_2. $V_2$is considerably higher than V_2in Figure B.3 due to the higher maximum rate for all price levels. We arrive at an equilibrium price p^*_2that is even higher p^*_1than p^*_2in Figure B.3. Due to the predominantly price-inelastic supply, the equilibrium quantity increases $q^*_2$to a limited extent compared to the reference scenario and q^*_2in figure B.3. The costs for the government $K$are again equal to $p^*_m * q^*_2$, and due to the higher maximum rate are considerably higher than in Figure B.3.

Variant 5. Compensate Group A and Group B in full + price cap

Another option for the government is to fully compensate both groups and also set a price cap. Full compensation means that the government makes childcare completely free for both groups. This means a very high demand, which does not depend on the price the provider gets for it. This very high demand ensures that the supply increases to the point that as much childcare is demanded as is offered. As mentioned earlier, providers cannot react so quickly to the higher price they can receive. Due to staff shortages, it is simply difficult to offer more childcare. This means that it also takes a very high price for providers to offer as much as is demanded.

For a government that offers free childcare to all parents, this means that expenditure will be very high: there is both a high demand and a high price. To prevent this, the government can set a price cap. Providers may not charge a higher price than that amount. This price cap affects the quantity supplied. For the price determined by the price cap, providers want to offer less childcare. The parents are still reimbursed for everything, so the demand remains as high.

The result is that a childcare market is created in which there is more demand than there is supply. This leads to absolute scarcity, which in practice translates into waiting lists. Parents from group A have the same chance of being placed on the waiting list as parents from group B. The government itself decides at what price it will set the ceiling. A higher ceiling comes with more government spending (higher equilibrium price and quantity) and shorter waiting lists. A lower ceiling will limit government spending, but will lead to bigger shortages and therefore longer queues.

Figure B.5 Groups A and B compensate 100% with a price cap

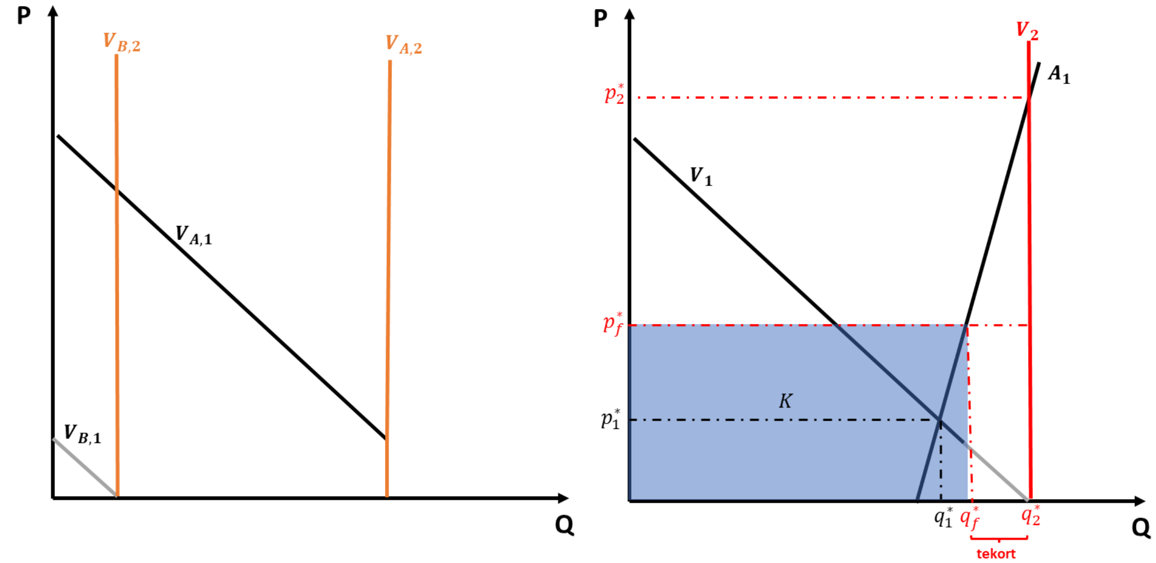


Figure B.5 describes the situation in which group A and group B are fully compensated and in which childcare providers are bound by a price cap p_f^*.

The aggregated demand V_2becomes perfectly inelastic again in this situation. Without a price cap, the equilibrium price and quantity would be equal to $p_2^*$and q_2^*. However, the price cap p_f^*ensures that the price is (logically) lower than the equilibrium price p_2^*without a price cap. The price cap also causes the equilibrium quantity with price cap $q_f^*$to be less than the equilibrium quantity without price cap q_2^*.

The costs for the government $K$are the same $q_f^* * p_f^*$. These costs for the government would be a lot higher if there was full compensation without a price cap. Then they would end up with $q_2^* * p_2^*$.

By combining full compensation and a price cap, the government creates a situation with lower costs than without a price cap, and a market that is equally accessible to parents in different income groups. However, there is a shortage between $q_f^*$and q_2^*. In practice, this can translate into waiting lists or regional differences in the provision of childcare.

Appendix C. Persons and organizations consulted

We would like to thank the members of the sounding board group. They critically read and commented on the research results in various phases of the research. In doing so, they have provided us with relevant insights. The conclusions that we subsequently attached to this are the conclusions of the authors. This means that said persons do not necessarily have to endorse the conclusions of the study. The table below lists the academics from this sounding board group.

Sounding board group member	affiliated organization
Dr. Jurre Thiel	Central Planning Bureau (CPB)
Dr. Pauline Slot	University of Utrecht (UU)
Prof. Dr. Marcel Canoy	Netherlands Authority for Consumers and Markets – Free University of Amsterdam (VU)
Prof. dr. Peter Roosenboom	Erasmus University Rotterdam (EUR)

In the same light, we would like to thank all organizations and representatives of these organizations for their contribution to this report. They have also provided us with relevant insights, whereby it should also be noted that it is not self-evident that the persons and organizations mentioned below endorse all conclusions.

Organization	Represented by
Interest Association of Parents in Childcare (BOINK)	Mr. Gjalt Jellesma
Bencis	
Childcare branch organization (BK)	Mrs. Emmeline Bijlsma
Sector Association for Social Childcare (BMK)	Mrs. Loes Ypma
Childcare Entrepreneurs Branche Association (BVOK)	Mr. Ben Schnieder
Bureau Buitenhek	Mr. Ed Buitenhek
Federation of Dutch Trade Unions (FNV)	Mr. Frank Jansen
Federation of Dutch Trade Unions (FNV)	Mrs. Ilze Smit
Kindergarden	Mrs. Nicole Krabbenborg
Kindergarden	Mr. Walter Jansen
Childcare group	Mr. Gert de Wit
Kober Childcare	Mr. Robert Singer
Dutch Association of Private Equity Companies (NVP)	Mr. Marc from Voorst to Voorst
Dutch Association of Private Equity Companies (NVP)	Mrs. Tjarda Molenaar
Partou	Mrs. Jeanine Lemmens
Pedagogical Professionals in Childcare (PPINK)	Mrs. Myrte van Gurp
Collaborative Childcare	Mrs. Corona Koek
For Working Parents (VWO)	Mrs. Marjet Winsemius
Childcare Guarantee Fund	Mr. Martin van Osch
Waterland	Mr. Thomas Simons

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