UCL Social Research Institute

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Acquisitions, Mergers and Debt: the new language of childcare

TECHNICAL ANNEX

Antonia Simon, Helen Penn, Atul Shah, Charlie Owen
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January 2022

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AIMS AND METHODS OF EACH WORKSTREAM

The overall aim of this study was to provide a more detailed picture of the operation of the private childcare market, in order to inform policy making. In particular, we wanted to provide evidence and critically scrutinise publicly held information about the fiscal, planning and other regulatory frameworks that govern the childcare market. We achieved this through undertaking work within the four workstreams described in the main report:

- Workstream 1 – A review of market reach, social impact and accountability
- Workstream 2 – Financial analysis
- Workstream 3 – Location and deprivation
- Workstream 4 – Accounts of frontline managers.

The key findings for these workstreams are detailed in our accompanying main report, where we also provide a brief account of the research questions and methods. Below are some additional technical details about the methodology not supplied in the main report.

Additional technical details about the methods

WORKSTREAM 1: A REVIEW OF MARKET REACH, SOCIAL IMPACT AND ACCOUNTABILITY

This workstream aimed to provide an overview of the reach and impact of the private sector. An important source of information has been the narrative presented by the corporate company sector about itself which we have examined by reviewing market research data, reports from within the sector and relevant commercial literature.

The key activities we carried out for this workstream were as follows:

1. **Reviewing key trade publications**. We first examined the LaingBuisson Childcare UK Market Report 2019 (LaingBuisson, 2019). This report provides an overview of the main trends in UK childcare provision over the past year, drawing their statistics from a variety of sources including the Department for Education (DfE) Childcare and Early Years Providers Survey (Department for Education, 2019b). We also attended the conference for the 2019 publication and refer to the materials from this conference in our findings. We also reviewed the Christie & Co report on early childhood education and care

(Christie & Co, 2019), which provides a global map of investments in the private childcare sector, and which illustrates international flows to and from the UK. We used these sources to examine trends of acquisitions, mergers, growth, location decisions and self-assessments of the sector. We also assessed the sources for mentions of ‘social impact’. For example, how these sources referred to the access of vulnerable and marginal groups, to concepts of fairness, and to issues of participation and accountability, what if any rationales for infrastructure development and location of services are provided, how the concept of quality is integrated (if at all) into business ethics.

2. **Reviewing key published information about the sector about staffing and conditions of childcare workforce.** To inform our study about the staffing and employment conditions of sector workers, we aimed to get a high-level overview of the current situation using key published data. We drew on key industry reports such as *Nursery World*, its supplement *Nursery Chains,* and the *LaingBuisson Childcare UK Market Report 2019*, as well as information on the websites of selected companies (see main report) and also key (and recent) academic publications from the Education Policy Institute (Bonetti, 2019; Bonetti, 2020).
3. **Interviews with senior managers/CEOs in selected companies**. We attempted to conduct interviews with key persons within the sector. Our initial strategy was to approach the same companies we had selected for workstream 2 whose finances we were also scrutinising, but we found many of these companies were hard to reach or reluctant to take part. We then approached several other large companies directly, asking for interviews from senior personnel, using known contacts. That is, speakers at the LaingBuisson conference to launch their 2019 childcare report mentioned above (LaingBuisson, 2019), or who had been recommended to us. We approached ten companies, and two senior figures in the industry over a three-month period, contacting each by email two or three times, and leaving phone messages. One nursery chain gave an interview but then retracted it; and the other nursery chains simply did not answer. One of the senior industry figures we interviewed, after arranging and rearranging the interview more than four times, also retracted his interview, although the other interviewee

was happy for the material to be used. In the end, we conducted two other interviews – one with an ex-senior executive of a very large, financialised company in England, and another with a senior executive of a large social enterprise company in England – we have permission to use the material from these interviews in our study.

4. **Reviewing websites of selected companies**. In considering sector descriptions of itself, we also examined the websites of two companies who are also examined in workstreams 2 and 3. We examined the websites of the 'Monkey Puzzle' nursery group, Just Childcare and Childbase. Some of these are companies whose accounts we scrutinised or commented on in workstream 2.
5. **We carried out a content analysis (Mayring, 2000) of selected trade press publications**. We examined the *Nursery World* annual report *Nursery Chains* publication and *Nursery Management Today* (searching publications available online in their websites: https://www.nurseryworld.co.uk/special-report-nursery-chains and http://nmt-magazine.co.uk/). We searched for the frequency and use of keywords expressed with the UN report on privatisation (Alston, 2018) including equal access, fairness, accountability and representation. We searched for articles post-2010 that contained any of the following keywords or phrases: 'social impact' or 'social responsibility', 'access' (for 'marginalised/vulnerable/disadvantaged groups'), 'fairness', 'participation', 'accountability', 'profit/profitability', 'disadvantaged/vulnerable', 'merger', 'acquisition', 'consolidation', 'expansion', 'staff/staffing', 'unions/unionisation'. We also carried out a content analysis of the websites and most recent annual report, if available, of (1) Key organisations for example, National Day Nurseries Association (NDNA), Early Years Alliance, Pacey, and (2) 25 largest childcare chains as listed in *Nursery World* as of Autumn 2018, for information on intended audience, predictions for the sector, kind of language used, rationales for location setting and infrastructure development and any mention of any of the keywords/phrases listed above.

In reviewing the reach of the private childcare sector, one of our aims was to establish a robust estimate of both the size and composition of private childcare provision, and to track how this has changed over time. This has proved very difficult. This is because one of the major sources of data, Ofsted (the Office for Standards in Education, Children's Services and Skills) does not even record the status of registered owners as private, voluntary or other. Our own analysis of Ofsted registration data between August 2014 and March 2018 found a slight decline in the number of providers, but an increase in the number of places by less than 1% (Simon et al., 2020: WS3, Figure 1). However, Ofsted data cannot be used to get an accurate estimate of the number of privately-owned childcare providers: we used the presence of 'Limited' or 'Ltd' in the name of the provider as a proxy for privately-owned. On this basis, for 2018, 11,537 (47%) providers were identified as owned by limited companies. There was a total of 1,036,206 registered places, and of these 587,666 (57%) were in these limited company providers. However, the field for Registered Person Name has only been included in the Ofsted published dataset since August 2018, so it is not possible to examine a change in the proportion of private providers over time.

Another key source is the DfE Childcare and Early Years Providers Survey (CEYPS)[1]. This includes a specific question on ownership, but, unlike the Ofsted data, it is a sample survey, using the Ofsted data as the sampling frame. The most recent published survey, for 2019, had a response rate for group-based providers of 48% (Marshall et al., 2019: table 13) and the achieved sample was 6,599, out of 27,500 providers registered with Ofsted for childcare on non-domestic premises on 31 August 2019 (Ofsted, 2019a). For 2019 the survey estimated there were 24,001 providers: 14,658 were privately-owned and 8,558 were voluntary (Department for Education, 2019b: Main tables: Table 1). This was reported as a slight increase on 2018: 23,633 total group-based providers, 14,290 private and 8,619 voluntary. This means the private providers were 61.1% of all providers in 2019 and 60.5% in 2018: this is higher than our estimate of 47% from the Ofsted data. This suggests our method of identifying private providers (i.e. using 'Limited' in the provider name) underestimated the number of private providers. This implies that Ofsted should collect and publish information on the type of ownership, just as does the CEYPS.

Unfortunately, the CEYPS does not report its data in a consistent format year on year, which makes examining change over time very difficult. The report for 2018 did

[1] This survey began in 1998. It is now annual, but has been more irregular in the past.

not include any mention of type of ownership (Department for Education, 2018). However, the report for 2019 (Department for Education, 2019b) did include some information on type of ownership for 2018, as well as details for 2019. For 2016 the breakdown of ownership was not reported, neither in the main report nor in the accompanying tables. For 2013 there was not a breakdown by ownership for all providers, but there was for providers offering full day care and sessional care.

For most years of the survey the reports subdivide providers into full day care and sessional: these figures were not reported for 2018 or 2016. Since a single provider might have both types of provision, it is not possible to add full and sessional together to get a total. Furthermore, in 2019 sessional provision was itself subdivided, into fixed sessional and flexible sessional. Again, since a single provider can include both, it is not possible to add these to get a total of sessional providers. These changes make it difficult to establish a consistent time series. The longest series is for full day care: this is shown in table 1 below.

Table 1: Ownership of full day care group-based providers from the DfE Childcare and Early Years Providers Survey

	2019	2013	2011	2010	2009	2008	2007	2006
Private	10,366	11,000	10,736	9,853	9,306	8,970	8,976	8,255
Voluntary	3,217	5,400	5,456	5,010	3,102	3,036	2,856	3,048
Total	14,078	17,900	17,600	16,700	14,100	13,800	13,600	12,700
% private	73.6	61.5	61.0	59.0	66.0	65.0	66.0	65.0

This series has been derived from separate CEYPS reports. However, the report format is not always consistent and the same tables are not presented every year. There also seems to be a discontinuity in the series between 2009 and 2010, when the number of voluntary providers shows a big increase, and the percentage of private providers consequently drops. The basis for this discontinuity between is discussed in the report for the 2010 survey (Brind et al., 2011):

> Changes to the way in which Ofsted classifies providers have meant that the 2010 surveys had to employ a different sampling method to that which had been used previously. (p.25)

> In so far as full day care providers are concerned, there was a significant increase in the total number of settings recorded in 2010 compared to 2009. This difference would also seem to be at least partly attributable to changes in the sampling approach, with the 2009 data perhaps underestimating the total number of providers at that time and the 2010 data picking up more full day care providers than would have been the case using the former sampling approach. (p.29)

There was another change in the sampling procedure from 2016 onwards, which affects continuity (McGinigal et al., 2017): ‘This change in sample approach means that the group-based data is not comparable to previous waves of the survey.’ (p.5) The data for 2019 also look discrepant with earlier years, as numbers for both types of ownership show a drop, especially for voluntary providers. This may be related to the change in sampling procedure in 2016. (Data was not presented in this format for 2016 and 2018.)

For each of the two shorter periods with consistent sampling methods – 2006-2009 and 2010-2013 – private providers show an increase in number, but very little change as a percentage of total providers. (2019 is an exception, with a big jump in the percentage. This may be another sampling issue, or it may reflect a real change in the sector.)

It is not entirely satisfactory to only include full day care and exclude sessional care, and so table 2 below also shows the pattern for sessional care. Although the number of sessional providers has declined, the percentage of private providers has increased. The last row shows that full day care has been an increasing proportion of the sector: in 2006 there were 1.31 times as many full day care providers as sessional, but this had increased to 2.52 in 2013. (The surveys for 2016 and 2018 did not publish their data in this format; for 2019 sessional providers were presented separately for fixed sessional and flexible sessional: as one provider can offer both kinds, it is not valid to add these to get a total.)

Table 2: Ownership of sessional care group-based providers from the DfE Childcare and Early Years Providers Survey

	2013	2011	2010	2009	2008	2007	2006
Private	2769	2700	2600	2200	2500	2500	2619
Voluntary	3692	4800	5300	5200	5400	5700	6596
Total	7100	7900	8300	7800	8500	8700	9700
% private	39.0	34.2	31.3	28.2	29.4	28.7	27.0
Ratio full/ sessional	2.52	2.23	2.01	1.81	1.62	1.56	1.31

There is a similar pattern in the number of registered places in full day care as for the number of providers (see table 3: these figures were not given for 2019). Over the period 2006-2013 there has been a steady increase in the number of registered places in private full day care providers, and the percentage has slowly increased (with a discontinuity between 2009 and 2010).

Table 3: Registered places in full day care group-based providers from the DfE Childcare and Early Years Providers Survey

	2013	2011	2010	2009	2008	2007	2006
Private	533,900	497,600	464,200	466,900	436,700	417,300	379,400
Voluntary	194,400	160,100	162,300	100,600	98,900	92,900	99,700
Total	796,500	721,500	716,700	647,800	620,700	596,500	544,200
% private	67.0	69.0	64.8	72.1	70.4	70.0	69.7

Comparable data for sessional care is shown in table 4. This shows a growth in both the number and percentage of places with private providers. The final row shows the ratio of full day to sessional providers. This shows the growth of full day registered places relative to sessional has increased even more than for providers. Whilst the ratio was just below two in 2006, it was over three in 2013.

Table 4: Registered places in sessional care group-based providers from the DfE Childcare and Early Years Providers Survey

	2013	2011	2010	2009	2008	2007	2006
Private	108,200	93,700	91,200	67,900	71,400	69,468	83,490
Voluntary	112,600	144,100	147,300	148,800	155,400	161,265	183,678
Total	249,900	251,000	251,000	227,900	243,500	248,100	278,300
% private	43.3	37.3	36.3	29.8	29.3	28.0	30.0
Ratio full/ sessional	3.19	2.87	2.86	2.84	2.55	2.40	1.96

In summary, based on our analysis of Ofsted data, there has been very little growth in either the number of childcare providers since 2013 or in the number of registered places. From the DfE Childcare and Early Years Providers Survey, despite some variations in the way the data are collected and presented, it would appear that, between 2006 and 2013, there has been some increase in the number of privately-owned providers, in their percentage of all providers and in their number of registered places. However, these increases are modest. This conflicts with the situation described by market analysts. For example LaingBuisson (2019) said 'corporatisation of the sector (proportion represented by corporate nursery groups) is increasing over time… the rate of consolidation has increased dramatically' (p.23). One possibility is that there has been a growth in private ownership, but that it has happened since 2013, and so has been missed by the Childcare and Early Years Providers Survey, which last presented data on the size of the privately-owned sector in 2013. (Their more recent figures, for 2019, are not comparable with earlier surveys.) An alternative possibility is that small private providers are being acquired by larger ones, leaving the total number of private facilities (and their places) unchanged, but with a smaller number of owners, each of a larger chain. This is the scenario we suggest in this workstream.

WORKSTREAM 2*:* FINANCIAL ANALYSIS

The aims of this workstream were to analyse the operating performance of companies through concepts of profit and return on capital in the private childcare sector and to chart income, borrowings and investment in the sector. Financial ratios provide a way of comparing performance within a company from one year to the next, and across companies to compare relative values and performance.

In consultation with our project advisory group, we compared and contrasted two types of financial models – those operating ‘for profit’ and those ‘not for profit’, or social enterprise. According to LaingBuisson, the for profit sector accounts for more than 80% of nursery settings in the UK (LaingBuisson, 2019).

Different ownership structures result from different cultures and values about childcare, potentially leading to different outcomes in terms of quality, employee wages and loyalty and the effects of size and scale (for example, Penn, 2009; Sosinsky, Lord, and Zigler, 2007). Distance between ownership and management may also influence operating culture and outcomes (Penn, 2009).

Given that the for profit and not for profit are the two major nursery ownership structures prevailing in the sector, we compared them in order to better understand financial performance across the childcare sector. In this way, we aimed to cover both breadth and depth within childcare operations. Our approach was to carry out detailed case study analysis of the financial performance of a set of selected nurseries that we could categorise under each of these two financial models.

Forensic analysis of financial methods, performance and structures can reveal ways in which childcare companies manage their operations, and the relative emphasis they give to different stakeholders like employees, shareholders, donors, customers, lenders and government, through the payment or non-payment of taxes due. A case study approach allows a detailed, multidimensional examination of complex structures (Crowe et al., 2011). It was felt that looking at a few groups in greater depth would be revealing in terms of financial performance and provide insights about how the sector is transforming itself.

The nursery companies selected for analysis were five for profit chains: Busy Bees, Bright Horizons Family Solutions, Just Childcare, All About Children and Les Petits Chaperons Rouges. We also examined six ‘not for profit’ case studies which were social enterprises and charities: The London Early Years Foundation, Child Dynamix, Childcare and Business Consultancy Services, Community Childcare (Growing Places), St. Bede Childcare, and York Childcare (see findings for further details). The selection for all of these case studies was purposive: we aimed to get a cross-section of size, profitability, and social enterprise and other not-for-profit organisations.

The research method applied for this workstream was forensic accounting and an analytical review of the reported financial performance in their audited accounts. Forensic accounting enables the unravelling of complex financial structures (Chew, 2017) and ratio analysis can show the relative levels of wages, leverage and goodwill across companies. By UK law, all limited companies have to produce a financial report, and file this with Companies House annually, information which is then publicly available on the Companies House website (Gray et al., 2019). Registered charities often have a company limited by guarantee – so their accounts have to comply with both company law and charity regulations.

Auditors are independent expert professionals whose primary role is to assess whether the reported financial performance by company directors provides a true and fair view of the actual state of financial affairs – the audit can be seen as an independent assessment of the financial affairs (Gray et al., 2019). In particular, where an audit shows that the company is making losses and its future viability is in question, auditors are duty-bound to 'qualify' their report and warn shareholders and the creditors of the company that the accounts *do not* give a true and fair view of the financial performance, and that the company's (or group's) future survival is seriously in doubt (McBarnet and Whelan, 1999). Large companies are often organised in groups comprised of a number of subsidiary companies performing different functions or located in different countries. There would typically be an overall holding company which produces group accounts to reveal the summated performance of the entire group of companies. In our research, we tried to focus on group accounts, but sometimes had to look at subsidiary companies for further detail. The choice of when and how was made based on the judgement of the researcher.

Research in financial accounting and reporting shows that it is common to manipulate the reported numbers (Mitchell and Sikka, 2011; Shah, 1996). This can make the data incomplete or unreliable and can be a huge limitation for this kind of research. However, with good quality forensic accounting, it is possible to examine some of the financial manipulation to understand the business and its financing (Chew, 2017). Training in auditing, and in reading and interpreting large sets of accounts and accounting policies helps in unravelling the reported numbers and transactions.

For our analysis, we calculated selected financial ratios to examine profitability and performance over time. We carefully examined the reported numbers within each company's annual report in order to understand trends and specific aspects of performance. For each case study, we examined the annual audited accounts over several years, their ownership structures, levels of borrowing and debt, and financial ratios, such as wages relative to sales, to understand the proportion of staff costs etc. Examples of these ratios are goodwill to total assets; debt to total assets; equity to total assets; cost and earnings ratios relating to wages, interest and sales. Graphs and charts of these were plotted to visualise and analyse trends over time. Reading the financial reports also helped in understanding management priorities and strategy, and a forensic evaluation of the numbers was done with the help of experienced researchers who would know how to examine thoroughly and how to probe deeper than a surface reading. In this sense, the methodology drew upon analytical, audit skills.

Detailed case studies of the financial analysis of each of the sample companies are in the Appendix (appendices 1a - 1e and 2a - 2f), together with a glossary of terms (appendix 3) and details of financial ratios used in the analysis (appendix 4).

WORKSTREAM 3: LOCATION AND DEPRIVATION

The aim of this workstream was to do three things. First, to 'map' (assess statistically the location of) ownership of provision throughout England. Second, to assess if nurseries are available equally for all levels of deprivation. Third, to assess whether the quality of nurseries in the more deprived areas is on average equivalent to that in less deprived areas.

This part of the project analysed administrative data held by Ofsted on childcare providers in England. The main dataset analysed was the Ofsted Freedom of Information (FOI) dataset[2]. These datasets are a complete record for all childcare providers registered on a particular date. This data was first released for 31 August 2014 and in subsequent years have been issued in March, August and December. For this study we have used data for 31 March 2018. We have only analysed data for childcare providers on non-domestic premises (sometimes called group-based care). They were also on the Early Years Register (EYR), and so eligible to take children under five years of age.

Providers on the EYR are inspected on a four-year cycle. At each inspection they are rated on a number of quality criteria, including a rating for 'overall effectiveness'. This rating is on a 4-point scale: 1 = outstanding, 2 = good, 3 = requires improvement, 4 = inadequate. These ratings are also included in the FOI datasets. There was some change in how inspections have been carried out following the introduction of the new 'Common Inspection Framework' in September 2015 (Ofsted, 2019b), but the four grading categories have not changed. We acknowledge this rating has been criticised (for example, Mathers, Singler & Karemaker, 2012). However, it is the only quality measure we have available in public data for all providers. We therefore have used it in our analysis for this workstream to assess quality of settings.

As we go on to discuss in section 3.3, the Ofsted dataset does not indicate whether a provider is private for profit or if it is another type of ownership (for example, community nursery or social enterprise). However, an approximation can be made by looking at the nursery name and the name of the registered owner, which might be a company. If either of these names included Ltd or Limited (in any combination

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

of case), this has been taken to indicate that the nursery is a limited private company. However, some private companies may not use Limited in their name, so this method might provide an underestimate of the actual number.

The Ofsted database includes a postcode for each provider. We have linked these to the Indices of Multiple Deprivation dataset (Department for Communities and Local Government, 2015). These indices provide a set of relative measures of deprivation. The version for 2015 was current when this data was collected. The index used in this analysis was the Income Deprivation Affecting Children Index (IDACI), which is the proportion of all children aged 0 to 15 living in income deprived families. The ranking has been grouped into five quintiles, with the same number of nurseries in each. Following Ofsted, these quintiles were designated Most Deprived, Deprived, Average, Less Deprived and Least Deprived.

We have only been able to include childcare providers who have linked data in the Indices of Multiple Deprivation. Consequently, the total number of cases reported in our figures in this report (23,614) is slightly lower than in Ofsted's published reports.

Ofsted includes the number of registered places for each provider. This is not the same as the number of children attending the provision: some places may be used by different children, at different times of day or different days of the week, making the number of places an underestimate of the number of children attending. Conversely, registered places may not all be used: the 2019 Survey of Childcare and Early Years Providers (Department for Education, 2019b: 8) reported that 73% of group-based providers had spare capacity, and the average spare capacity per provider was 19% for full day places and more for sessional places. Where places are not used this gives an overestimate of the number of children.

WORKSTREAM 4: ACCOUNTS OF FRONTLINE MANAGERS

This workstream involved a survey of a sample of managers working in childcare. We wanted to examine how nurseries may be providing access to vulnerable families (for example, low income and/or families in poverty). Given the importance of accountability, emphasised in the UN report (Alston, 2018), we wanted to examine to what extent childcare nurseries involved staff and parents/carers in the operation of the nurseries.

In order to try to investigate these questions, we set out to conduct in-depth interviews by telephone with a random sample of 100 nurseries across locations of differing levels of deprivation across ten local authorities (Simon et al., 2020) to ask nursery managers questions about the nurseries' procedures and operations. A total of 80 nurseries completed responded to our enquiries about the above. Three quarters of nurseries who took part described themselves as 'well established organisations (operating for over 10 years)'.

There was an even spread of nurseries across all bands of the IDACI measure of deprivation. This is consistent with what we found in our analysis of Ofsted data reported earlier about location and deprivation. Consequently, although our survey responses represent a self-selected sample, they do at least represent nursery managers from a range of different areas.

Just over half of the nurseries reported that they had a policy to support 'hard up' parents, whilst more than three-quarters said they had a policy to offer flexible payments to parents. The nursery managers cited a range of specific measures that had been taken by settings to support parents/carers in financial difficulty,

Whilst many involved staff in decisions about the operation of the nursery, such as staffing and timetabling, there was little evidence for the involvement of parents/carers.

Nearly all of the managers said the 30 hours 'free funding' was insufficient to meet the costs of operating their nursery. As a consequence, almost three-quarters of said they were working some of their time for free and 65 percent said they had to charge extras or make additional charges to parents. These typically cover special activities, play/learning resources, snacks and/or meals, waterproofs, nappies, sun cream.

More than half reported recruitment difficulties, especially in finding experienced staff. They also reported problems with retention, for example, one said, "*Staff have left for higher paid jobs in supermarkets, higher pay and a less demanding job*".

DETAILED ANALYSIS FOR WORKSTREAM 1

Key Findings.

- According to the LaingBuisson report (2019), in the last ten years the private-for-profit market has expanded by over 50% in the UK. The LaingBuisson 2019 report does not cite sources but states that 53% of all UK childcare settings (8,265 nurseries) are now provided by companies; 29% (4,468 nurseries) are provided by sole traders or partnerships; 11% (1765 nurseries) are provided by charities and 7% (1,125) are in the public sector. The UK childcare market as a whole is worth an estimated £5.5 billion, with corporate players worth an estimated 57% of the total worth (LaingBuisson, 2019: 23).
- LaingBuisson also maintain that another feature of the contemporary childcare market is its international complexion – an estimated 13% market penetration. Two of the largest chains in England areBusy Bees and Bright Horizons, which are located outside of the UK and also engage in non-nursery activities, so that it is hard to track their undertakings. Busy Bees, for example, as well as operating in 120 local authorities in the UK, has expanded throughout Asia, in China, Vietnam, Singapore, Malaysia and Hong Kong, as well as in Canada and Australia, and in other European countries. The parent company of Bright Horizons is located in the USA, and has nurseries in Canada, Ireland and other European countries. Conversely, as LaingBuisson have shown, there is inward investment by foreign companies. The most rapidly expanding of these companies is Les Petits Chaperons Rouges, a French company buying into the UK. A Chinese company has recently acquired a nursery chain based in and around Portsmouth. These acquisitions and mergers are frequently handled by various middlemen such as property advisers specialising in nursery sales, most notably Christie's, whose own views about the viability and profitability of the market also shape purchases (LaingBuisson, 2019). In the view of the Christie's representative, speaking at the LaingBuisson conference, at the time the market was regarded as buoyant, and there was a brisk trade in nursery sales and purchases. The emphasis in sales is profitability. As well as the Christie's representative at the LaingBuisson conference, speakers from the platform, mainly from private equity companies and banks, continually emphasised the

importance of investing in "better areas" and in restricting admissions to parents/carers who can pay more than the standard government subsidy for places. In this context, quality, in terms of Ofsted ratings, and a range of additional services such as extra-curricular activities or company specific computing or monitoring technology, is seen as an asset which can further enhance the profitability of the business. As well as this conference discourse, our results below, suggest that quality does not include flexibility in relation to vulnerable children or low income families.

- The case for nursery care originally put forward by the DfE and others stressed the importance of learning and social integration for vulnerable children, and for childcare facilities for working mothers, especially for those whose families were dependent on maternal earnings (Department for Education, 2013). In this context of profitability as a main goal of the business, it was important to explore to what extent company nurseries acknowledged the goal of supporting marginalised or vulnerable children or low income families. LaingBuisson (2019) estimated 72% of nurseries admit at least one child with special needs, but except in the case of the social enterprise nursery, the London Early Years Foundation (LEYF), company nurseries rarely, if at all, mentioned catering for the needs of vulnerable children or families. Our keyword search did not pick up any examples of social impact/responsibility, access for vulnerable/marginalised groups, fairness, participation, accountability, or support for disadvantaged/vulnerable children amongst company websites, or amongst leading sector representatives and players.
- Staffing is now regarded as a key issue in maintaining quality. In 2019 there were 261,449 people employed in group-based providers (Department for Education, 2019b: table 12b). Most nurseries now report staffing shortages. Our interviewees suggest that this has had a knock-on effect on costs as well as quality, since hiring temporary staff also costs more. Our interviewees suggested that for big companies, the model of staffing tends to be very low-paid staff doing basic caring tasks, accompanied by a policy of recruitment within the company, leading to managerial positions where rewards are offered for achieving company goals, in particular meeting expenditure goals.

For instance, the social enterprise company said that they experienced acute staffing shortages, and were keen to offer promotion within the company, but were unable to match the managerial salaries of big operators. The historical divide between childcare and education and the feminisation of childcare work have contributed to the development of a workforce that is less skilled, lower paid and has lower status, and is less unionised than other workers across the education system (Andrew & Newman, 2012)

- The interviews with senior company officials were intended to mirror the sample selected for the financial analysis. In the event, despite several tries with each company, only two of those contacted offered an interview, and one then withdrew after scrutinising the interview data. Mostly the requests, although carefully targeted – for instance at representatives who attended the LaingBuisson 2019 conference – were simply ignored. Market research which focuses on financial viability and commercial sales is a booming business, but more general accountability by companies to the public, or interest in independent academic research, is now highly problematic (Corporate Watch, 2019). Two additional interviews were held with ex-company directors of big companies, both of whom were scathing about current company practices with regard to vulnerable children or low income families, or about accountability for current practices.

The table below provides evidence of the aims of the for-profit and not-for-profit sector from the websites of the nurseries we selected for our case studies for our financial analysis in workstream 2.

Table showing website analysis of the case study nurseries

NAME	STATED AIMS	STATED VALUES	CONSIDERATION OF SOCIAL IMPACT AND ACCOUNTABILITY	COMMENTS ABOUT BUSINESS AND DEVELOPMENT
Private-for-Profit				
Busy Bees https://www.busybeeschildcare.co.uk/our-story, accessed 18.06.2021	We wanted to give our children the best start in life, which to us meant better, more exciting care, stimulating environments, and lots of opportunities for play, interaction and development, at their own pace and in their own space. Our mission is to deliver high quality childcare and exciting opportunities for learning that give every child a head start as they prepare for school.	Our values are fundamental beliefs and they form the foundation on which to perform and conduct ourselves, we would like to invite everyone to live our values every day." These are: • We take care of the children entrusted to us and our dedicated staff. All are appreciated and diversity is valued • We maintain the highest standards in care and safety and provide exceptional early years education • We provide exceptional service and are integral to supporting parents bringing up children • We provide outstanding value for our families. The needs of the individual child are paramount in all our childcare facilities, and Busy Bees work together to create initiatives, supply resources and provide outstanding care to ensure every child's interests, safety and	Busy Bees has become synonymous with quality care, and adopts a practical child-centred approach, where children are respected as individuals and encouraged to learn and develop at their own pace within a home from home environment. No specific mention of SEN or vulnerable children	Whether it's a nursery in the United Kingdom, Ireland, North America, Asia, or beyond, the Busy Bees name has come to represent the same ideals and values that made our very first venture so special. Two brands: • Montessori – We fill our teams with the kindest, most passionate, and most highly trained people we can find, because the best education comes from the best teachers. It's their job to teach and care for your child, providing the guidance they need to express themselves and grow as individuals. • Kids First – Each Centre is managed by an experienced Centre Director. Each Centre

		happiness is central to everything we do.		has a dedicated staff team who provide high standards of care and education on a day-to-day basis, helping children to grow and develop in an environment which is both safe and stimulating. Continuous professional development is of utmost important to us, and our staff teams are fully invested in this.
Bright Horizons Family Solutions https://www.brighthorizons.co.uk/about accessed 18.06.2021	It is our mission to continue to make a difference to children, families and employers, and to provide the highest quality early care and education for each child in each nursery, every day. We strive to: • Nurture each child's unique qualities and potential. • Support families through strong partnerships. • Collaborate with employers to build family-friendly workplaces.	Throughout every aspect of our business, we are guided by our HEART Values: • Honesty • Excellence • Accountability • Respect • Teamwork. At Bright Horizons we provide babies with what they need: a safe world, rich with opportunities to actively explore, with books, songs, and a lot of listening and responding to their vocalisations and words." At Bright Horizons we provide the manageable challenges and relaxed environment that two to	SENDI* is a key focus within all our nurseries and we are proud to have a dedicated early childhood director who ensures that SENDI is an integral consideration in all decision making. * Special Educational Needs, Disability and Inclusion	As well as developing purpose-built stand-alone day nurseries, Bright Horizons will convert existing buildings such as offices, public houses, churches, medical centres or hotels, and will take space in residential or mixed use developments. Bright Horizons target locations easily accessible to good quality residential areas, our priority areas can be viewed on our target locations document

	• Create a work environment that fosters professionalism, growth and diversity. • Grow a financially strong organisation.	three year olds need. Staff understand the frequent changes in moods, interests, and capabilities and provide calm, consistent care and supportive teaching. The Bright Horizons programme for learning is designed to lay the pedagogical foundations that prepare every child to: • Be ready to read confidently equipped with the desire, vocabulary, and language-deciphering skills they have developed through experiences that are meaningful to them. • Approach the world with curiosity and the knowledge and skills that lead to success in maths and science: a growing interest in the properties of things and the relationships and forces that exist in the natural world. • Use their social skills: listening skills, self-discipline, patience, and discipline for the task, ability to work with others, and ability to solve problems."		linked to above and cover London and Inner M25, Berkshire, Buckinghamshire, Cambridgeshire, East/West Sussex, Essex, Hampshire, Hertfordshire, Kent, Oxfordshire and Surrey.
Just Childcare https://www.justchildcare.co.uk/	We're trusted by thousands of families to provide childcare that's led by a simple guiding principle…to nurture, to	We nurture our children in a million little ways; from providing a safe and loving environment, to feeding them nutritious homemade food. With cuddles,	No specific mention of SEN or vulnerable children	With 65 years of childcare and education experience between us, we decided to set up a

Accessed 18.06.2021	inspire and have fun every day!	support and a positive approach to care and education, we're constantly working to provide our little ones with a nurturing environment where they can thrive. By inspiring a love of learning at a young age, we lay the foundations of a fantastic start to our children's education. Our team inspire our children with magical learning experiences every single day, with the aim of creating the curious thinkers and doers of the future. Being carefree and having fun is what childhood is all about, and we consider it our job to make sure our children can do just that. Despite our size, we're still very much a family orientated group. We've built a fantastic reputation as one of the UK's leading childcare providers; have been named a 'Top Recommended Large Nursery Group'; and are proud to say that all of our settings are either Ofsted 'Outstanding' or 'Good'. The fact that we're a group doesn't mean that all of our		family of nurseries that parents could trust. We're parents ourselves so we know how important it is for families to know their children are being cared for in a safe, positive environment. One where they can play outdoors and eat nutritious food under the care of experienced staff who have been carefully chosen for their kindness, professionalism and passion for childcare. Over the years our family has grown larger and we now provide nursery care across the North West, Yorkshire and South West.

		nurseries are the same. In fact they're all very different with their own personalities, resources and teams. By being a part of our group, they benefit from a wide range of high-quality support in all areas, from safeguarding and training, to resources, apprenticeships and quality support. Our nurseries are all unique in their own way, but are united by our goal: to nurture, inspire and have fun every day.		
All About Children https://allaboutchildren.co.uk/about/ Accessed 18.06.2021	Children are at the heart of our approach, in everything that we do and everything that we aspire to. One of our ethos statements is "We have the courage to put children before anything else", and this truly sets the tone for how we value the children that we care for. And "We have always believed in prioritising the development of a love of learning in children,	Back in 2010, All About Children's journey began with the belief that nothing was more important than delivering outstanding outcomes for children. This is a belief that our work family of over 900 members still strongly stand by today.	No specific mention of SEN or vulnerable children.	All About Children was established in 2010, by three colleagues who had worked together previously. All of the settings across our bespoke nurseries are designed to offer exciting, stimulating and engaging spaces for our children (and our teams) to grow and develop in, with lots of resources to utilise and natural light. These environments provide fantastic opportunities for the children in our care to explore, play and learn.

	and believe that children who gain confidence and are encouraged to be curious, to explore, to challenge, to ask questions and to experiment will be better prepared for school and a life of learning."			This working environment provides all of our team members with a warm, positive and friendly atmosphere. We like to view our nursery teams as 'work families.' Whilst our nurseries are all individual in their own right, we are inspired by many amazing early childhood pioneers. This is evident through our approach, policies and training practices. We choose not to have a Head Office which means that all of our Senior Team spend their time in our settings. As a result, both our Childcare and Education and Operations Managers know each team member really well and have the opportunity to mentor, train, develop and support them according to their individual needs.
Les Petits Chaperons Rouges	Les Petits Chaperons Rouges ('LPCR') is a leading childcare	No information	No information	The company either operates its own nurseries, for

https://www.rothschildandco.com/en/what-we-do/merchant-banking/corporate-private-equity/fapi/portfolio/les-petits-chaperons-rouges/ Accessed 18.06.2021	provider in the French privately-managed nurseries market, operating a network of more than 140 nurseries in France.			corporations ready to sponsor cradles for their employees (private nurseries), or manages nurseries on behalf of local authorities (outsourced nurseries). Created in 2004, LPCR opened its first nursery in 2005 and now has more than 2,200 employees with over 6,000 cradles nationwide. LPCR is headquartered in Clichy (Paris area), France.
Not-for-profit				
London Early Years Foundation https://leyf.org.uk/about/ Accessed 18.06.2021	Every child has a right to the rich interwoven learning opportunities vital for their development and key to extending their potential.	Underpinning all we do at LEYF is our unique pedagogy, by which we mean leading to learn. It is based on a wide range of research and enables our children and teachers to experience learning that is really engaging. Part of this is building children's social and cultural capital so that they develop a love of learning and confidence in their place in the world.	Many of the LEYF nurseries include a mix of children from different socioeconomic backgrounds. This is proven to have a positive effect on the development of all children, but particularly those from poorer backgrounds. Where possible, LEYF employs local staff and recruits apprentices which brings an economic benefit to disadvantaged communities.	London Early Years Foundation (LEYF) is one of London's largest and most successful charitable social enterprises, operating 42 award-winning nurseries, including some in London's most disadvantaged areas. We are committed to giving all children access to high quality childcare, and LEYF invests all profits back into the business.
Child Dynamix, Childcare and Business	Formerly known at Wandsworth Primary Play Association we	Each of the group's members have their own mission statement and ethos. Most of the group	No specific mention of SEN or vulnerable children.	The Charity was established in 1963 and was initially funded by a

Consultancy Services	have over 40 years experience of working with childcare settings in and around the Wandsworth area. We offer unique and high-quality childcare for children aged two to five years.	members speak about children being at the centre of their care and wanting to foster good relationships with parents.		grant from Wandsworth Council for its central administration as well as a separate amount to administer grant funding to individual Playgroups and childcare settings in Wandsworth. In 2011 the Charity took the decision to become independent from the local authority funding and to continue its operation funded entirely by its own income generation. Our Board of Directors meet on a regular basis to review the work of the organisation and to plan for future developments and strategic direction of the organisation.
Community Childcare (Growing Places) https://growingplaces.org.uk/ Accessed 18.06.2021	Together we develop sociable, articulate, responsible, caring children with a tolerance, understanding and respect for each other and their community.	Our Growing Places approach is inspired by the values of the Reggio Emilia nurseries and pre-schools in Italy. This is an inspirational approach that builds a culture that respects childhood and allows each child to have daily opportunities to play, explore, discover, communicate and develop tolerant, understanding relationships.	We accept all 2, 3 and 4-year funding, tax-free childcare and childcare vouchers.	We currently have seven childcare settings, all registered with Ofsted, providing nursery and out-of-school provision for children aged up to, and including, 11 years of age, within the boroughs of Havant and Fareham.

		Bringing together, children, parents and staff in a journey of education.		
St. Bede's Childcare https://stbedechildcare.org/ Accessed 18.06.2021	At St Bede's we are proud to deliver childcare that is built on care, passion and excellence as it brings together the expertise of our multi academy trust and our experienced senior team with early years in abundance. Our former Chief Executive Officer, Mr Jack Hatch was awarded an OBE for his services to Education and we are extremely proud to support our children through their life transitions as we prepare them for their next journey on to school.	As a charity, our aim is to ensure that all children are ready for each transition in their life whether that be to a new room in the nursery or to begin their journey to school. Our approach of individualised learning ensures that we can do this in a way which is age and developmentally appropriate for that child. Each child is viewed as an individual and the learning intentions are planned purposefully around your child's interests.	Each venue has a fully trained Special Educational Needs Co-Ordinator who is responsible for ensuring all practical and emotional support is in place for children and families who require additional support. If a diagnosis is confirmed through external agencies, the SENDCO will ensure all processes are in place ready for their school transition.	St Bede's Childcare Ltd was founded in 2003 and now has 7 settings across Leigh, Wigan and Bolton.
York Childcare http://www.yorkchildcare.co.uk/ Accessed 18.06.2021	We provide high quality Ofsted-regulated childcare in York. The Out of School Club Support Service provides support to several clubs across the city providing	We provide full and part-time day care (and flexibility when possible) for children in the 6 weeks to 5 years age group. In the nursery world there is nothing more important than being able to trust the person looking after your child. Our nurseries all have secure entry systems making	No specific mention of SEN or vulnerable children.	We are a non-profit registered charity with the aim of providing quality childcare for families in York. We are run by a committee of voluntary Trustees.

	breakfast, after school and holiday clubs for children aged 2 to 12 years of age.	each location a safe and secure place for your child. We believe that healthy, interesting, nutritious meals are of fundamental importance, which is why at each nursery we employ a cook to prepare home cooked meals on site in our own kitchens on a daily basis.		We have three nursery settings in York offering childcare for children aged 6 weeks to 5 years.

DETAILED CASE STUDIES FOR WORKSTREAM 2

Detailed case studies of the financial analysis of each of the sample companies are in the Appendix (appendices 1a - 1e and 2a - 2f), together with a glossary of terms (appendix 3) and details of financial ratios used in the analysis (appendix 4).

Bright Horizons (Appendix 1a) and Busy Bees (Appendix 1b) are two large nursery chains in the UK. For this financial analysis, we looked at their performance over a five-year period. Both of them showed consistent losses from trading. In 2018, Busy Bees showed losses of £23million and Bright Horizons had losses of £10million in 2017. When we look behind the numbers, we find that the most significant cost for both of them is staff wages, which range between 50% and 60% of sales. This is unsurprising, as we know that this is a labour-intensive service business. Another common feature is leverage – they are both heavy borrowers, with leverage ratios of between 60% and 115% (Debt to Total Assets) with Bright Horizons having the higher leverage consistently.

Total levels of debt were increasing in the period, with Busy Bees at £563m (2018) and Bright Horizons at £383m (2017). When companies make consistent losses, and they have high levels of borrowing, they are at a high risk of failure or bankruptcy, as the reported financial performance shows significant operational challenges. In normal circumstances, they would be unable to increase their borrowing given such worsening financial performance, but this does not seem to have affected these two companies.

Most importantly, they need to generate significant cash flow to service the borrowings and should also be financially solvent. Despite this performance, the auditors have consistently certified that the financial reports give a true and fair view of performance. Alongside the build-up of debt, we are also seeing an increase in goodwill in both companies. Goodwill is a soft intangible asset, whose actual value is difficult to establish, and often deflates in the event of bankruptcy (Deegan and Ward, 2013). Busy Bees had goodwill of £336m as at 2018 and Bright Horizons had goodwill of approximately £200m. Bright Horizons had negative shareholder equity throughout, and in 2017 it was £34m. Negative equity means that the liabilities of the business are greater than the assets. This would be yet another signal that the business is not a going concern, necessitating a qualification of the accounts by the auditors, but, the auditors gave an unqualified report[3].

A small piece of evidence from Bright Horizons, about the work of its charitable foundation, calls in to question the effectiveness of its Corporate Social Responsibility scheme: our analysis shows that the company charged more in terms of staff time and support to the foundation then they gave by way of donation – almost three times more.

Unlike BusyBees and Bright Horizons, **Les Petits Chaperons Rouges (Appendix 1c)** is a relatively new entrant in the market, and we only have accounting figures for one year – 2017 (the UK company is called Grandir). In this year, they made losses of £4 million and had a leverage ratio of 58% (debt to total assets) and goodwill of 52% to total assets. Staff costs were 63% of sales. The pattern we see here is not very different from Busy Bees and Bright Horizons – growth and expansion through acquisition (three nursery chains were acquired in the first year), and an accumulation of leverage to finance the growth and the use of goodwill to inflate the balance sheet. The holding company is in France called Eurazeo which is a private equity business.

Just Childcare (Appendix 1d) is a smaller chain of nurseries, but also growing through acquisition – as at end 2017, it provided for around 2200 children. It was originally a profit-making family-owned small business, but after acquisition, it became loss-making, with losses increasing every year. It had losses of £4 million in 2017 and negative net shareholder equity of -£11.3 million. It had a significant level of leverage – 159% as at 2017, showing that debt was the principal form of financing. Once again, goodwill was growing in the company as a result of acquisitions. The holding company, Phoenix Equity Partners, kept on making profits however. Ordinarily, we would expect the auditors of Just Childcare to qualify the accounts of the company given the increasing losses and the high levels of debt, but this did not happen, and the auditors endorsed the accounts as providing a true and fair view of the financial affairs of the company.

[3] An unqualified report or opinion is an independent auditor's judgment that a company's financial statements are fairly and appropriately presented, and in compliance with generally accepted accounting principles (GAAP).

All About Children (Appendix 1e) is a much smaller nursery group, with ten nurseries in total. It has been profit-making, with zero debt in 2017, but a new loan was arranged in 2018 of £3million. This raised its leverage from zero to 101% in 2018. However, it does not have any private equity holding companies and unlike the other larger businesses, it shows positive profits every year. The accounts also show a significant percentage of goodwill – over 70%, but net assets are positive. Despite the loan, the total interest paid as a percentage of sales was 1% in 2018, whereas in the big chains, this percentage was much larger ranging from about 8% for Bright Horizons, to an average of 10% for Busy Bees. Of all the companies analysed in this part of the research, All About Childcare is the only one which accrued taxes in each of the years proportional to its profits. The others above were all showing losses each year so negligible taxes were payable.

The **London Early Years Foundation (Appendix 2a)** is a social enterprise, so unlike the other companies, profit is not its primary motive. It provided 4,300 childcare places in London at the end of 2018. In their accounts in 2018, they admit that financial management in prior years was not robust, as a result of which they had made consistent losses, something which is very challenging for any business to sustain. They raise concerns about the high level of staff costs given that it is a labour-intensive business, and express worries about sustaining this given the rising costs of wages in London. They do get a certain amount of income from grants (about 23% in 2018), unlike the other companies examined in this section, who get zero income from grants.

St Bede Childcare, **York Childcare**, **Child Dynamix**, **CBCS** and **Community Childcare** are smaller charities. Their turnover is much lower than the big corporate chains, and they are primarily ‘local’ charities, with no national network – Bolton, York, Hull are examples of their base locations. Due to the requirements of the Charity Commission, their accounts are more detailed in terms of income, expenditure, assets and liabilities, with no group structures or subsidiary companies to complicate our financial analysis. Also due to the solvency requirements for charities, their capacity to borrow is restricted, and financial viability is a critical concern, so they are unable to accumulate losses consistently for too long, unless they have reserves to support them. Their management report narratives show how concerned the trustees are about making a social impact and supporting struggling families or special needs children, and there are financial disclosures which explain how such aspirations are fulfilled. The accounts need to be audited, and in none of our case studies was there a qualification to the audit reports over the periods we studied. The financial information exposes some struggles for some charities to break even in certain years, usually when they are investing in new refurbishment, but overall, they are solvent throughout, and have positive overall reserves every year. Relative to sales, their staff costs tend to be approximately 10% higher than the private sector, suggesting that they are willing to pay higher wages. Some of them operate in deprivation areas (for example, Child Dynamix) so provide important services which would not be accessible otherwise. Generally, they have very low borrowings, if any, and no goodwill whatsoever. They also do not engage in tax avoidance practices. Some of the charities (for example, Child Dynamix and CBCS) have diverse sources of income besides fees from parents, and these might include local authority grants and donation income (we do not have evidence from the accounts to verify other sources of income unfortunately). Generally, the management and governance are also local to the area where they operate, which makes them more adaptable and flexible to local needs. Our analysis suggests that generally, the social enterprise case studies were able to retain public values and balance their budgets at the same time. The wording in the management reports suggested a greater passion for care and more intimacy with the local context than those in the private sector.

Appendices for Workstream 2

Section 1: Private-for-profit Nursery Chains

APPENDIX 1A: BRIGHT HORIZONS FINANCIAL ANALYSIS

Bright Horizons is the second largest nursery chain in the UK (Lang Buisson, 2019). This operator owns or manages over 300 nurseries in the UK, a number of which are run on behalf of employers – in all they care for over 24,000 children every week. 32% of these nurseries have been rated outstanding by Ofsted (Source: 2017 Annual Report). Its origins are in the USA, where Bright Horizons Family Services is a group listed in the New York Stock Exchange, and originally founded in 1986. BHFS One Limited, is a wholly-owned subsidiary of the USA group. Their website (www.brighthorizons.com accessed 11th June 2019) notes:

> *As of December 31, 2018, we had more than 1,100 client relationships with employers across a diverse array of industries, including more than 150 Fortune 500 companies and more than 80 of Working Mother magazine's 2018 "100 Best Companies. We operated approximately 1,100 child care and early education centers across a wide range of customer industries with the capacity to serve approximately 120,000 children and their families in the United States, as well as in the United Kingdom, the Netherlands, Canada and India.*

In the United Kingdom, they operate under the group holding company 'BHFS One Limited', founded in 2006, which then grew through acquisitions of a variety of nurseries and nursery chains such as Asquith, Four Seasons, Casterbridge, Kidsunlimited, The Secret Garden and Teddies Nurseries. Their financial performance in the last four years is summarised here:

Bright Horizons UK (BHFS ONE):

Source: Audited Annual Accounts filed at Companies House

Table 6 Basic Data from Accounts

£ '000	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Goodwill	Long-term Debt	Shareholder Equity
2014	145,591	83,686	21,737	11,447	-4,076	145,107	76,023	167,966	-18,767
2015	155,870	87,193	26,170	11,801	-1,328	176,582	101,259	180,577	-20,095
2016	184,109	103,881	18,042	13,942	-3,353	368,430	208,887	361,504	-23,053
2017	254,262	146,331	29,050	22,438	-9,842	364,751	195,023	383,111	-33,895

EBITDA = Cash from operations

Table 7 Cost and earnings ratios

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2014	57.5	14.9	7.9	**-2.8**
2015	55.9	16.8	7.6	**-0.9**
2016	56.4	9.8	7.6	**-1.8**
2017	57.6	11.4	8.8	**-3.9**

Table 8 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets
	%	%	%
2014	52.4	115.8	**-12.9**
2015	57.3	102.3	**-11.4**
2016	56.7	98.1	**-6.3**
2017	53.5	105.0	**-9.3**

From the above financial analysis, we can see that in terms of performance, BHFS One is loss-making in the UK and these losses have been continuing over several years (see Figure 1). Long term debt has virtually doubled over the same period to fund the acquisitions (see Tables 6 and Figure 2). The primary source of finance is a loan from the parent company which was £383 million at the end of 2017, which suggests an average interest rate of 6%. Goodwill remains a significant proportion of total assets and is over 50% in the last four years (see Table 7 and Figures 3 and 4). The negative equity (see Figure 5) also provides a warning of financial trouble – it is unusual for successful and growing companies. In spite of the consistent losses, the annual accounts, audited by BDO LLP, do not give any qualifications or warnings as to whether or not the group is a going concern. If the financial statements were qualified, BHFS performance, valuation and Balance Sheet would change significantly. The ultimate holding company, Bright Horizons Family Services, is healthy and performing well (see Tables 6-8; Figure 6), so perhaps UK auditors are relying on this security and guarantee, though this is not explicitly reported in the financial statements.

Figure 1 BHFS ONE Profit and Loss Account
Source: Annual Audited Financial Statements

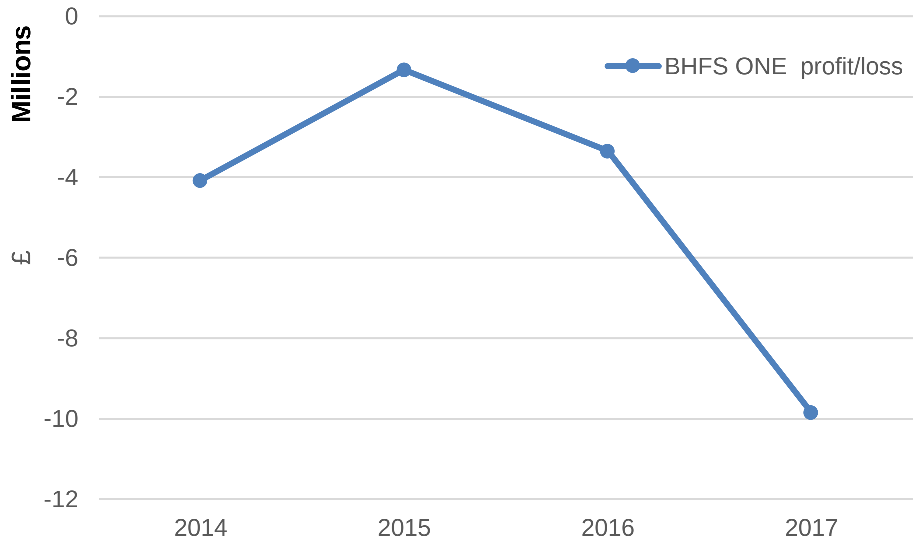


Figure 2 BHFS ONE debt
Source: Annual Audited Financial Statements

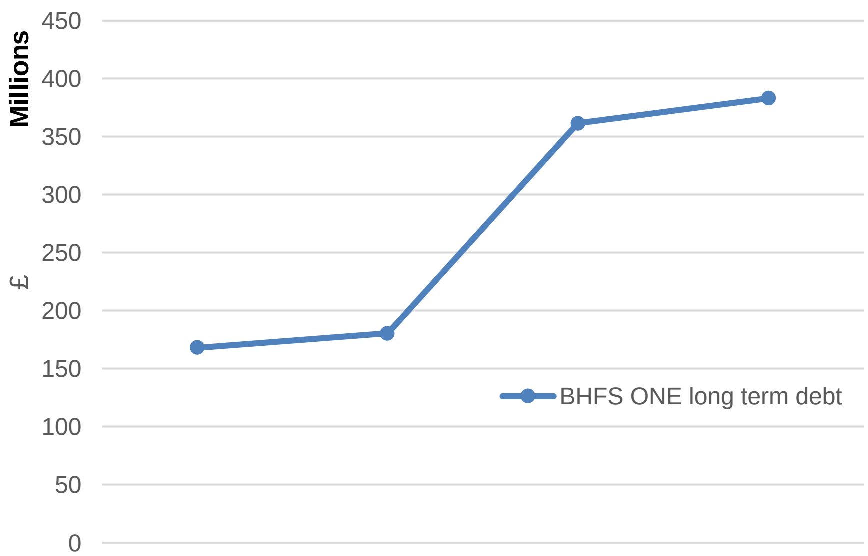


Figure 3 BHFS ONE Goodwill
Source: Annual Audited Financial Statements

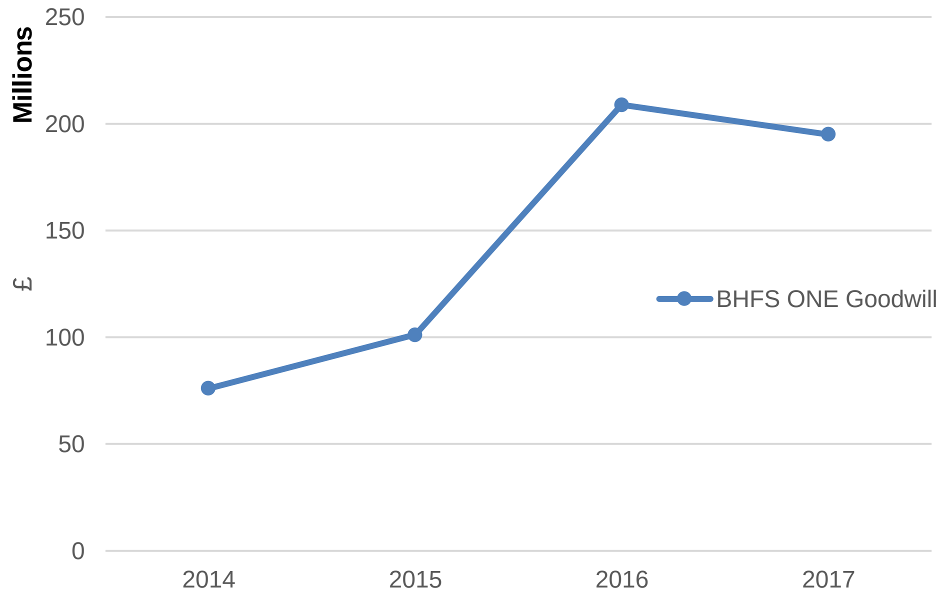


Figure 4 BHFS ONE Balance Sheet ratios
Source: Annual Audited Financial Statements

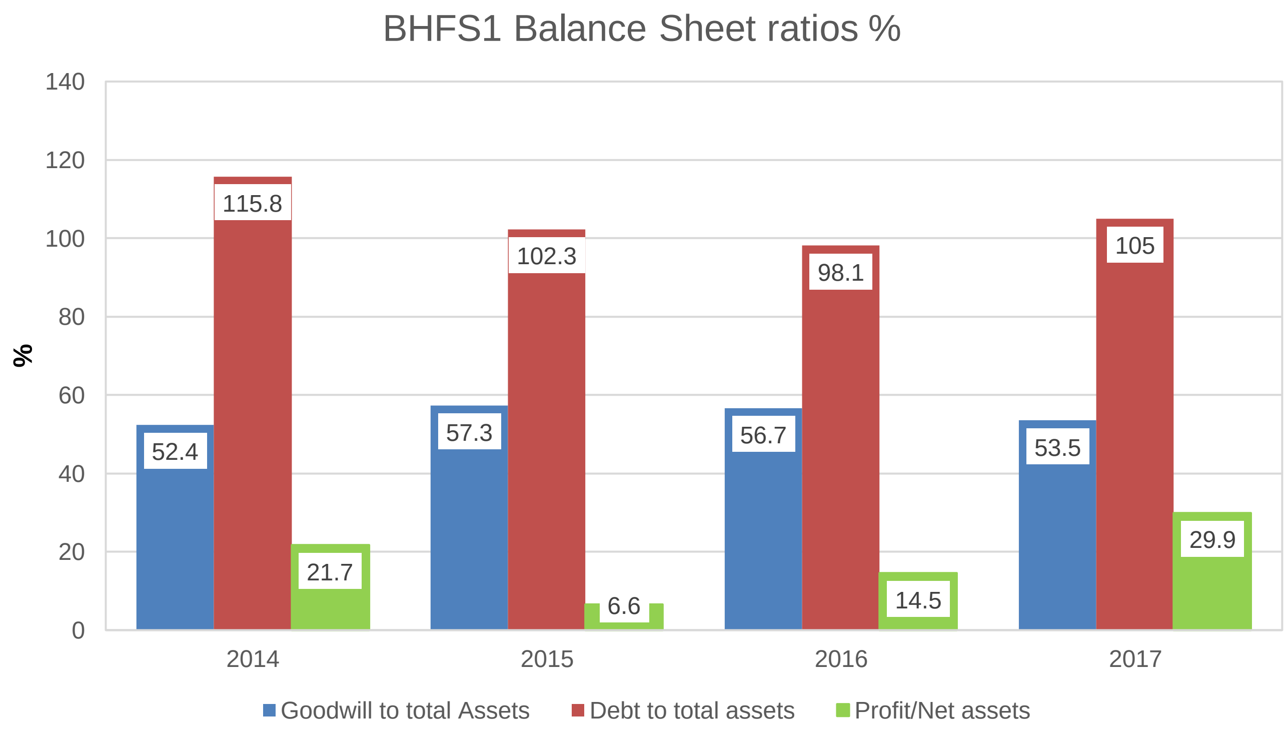
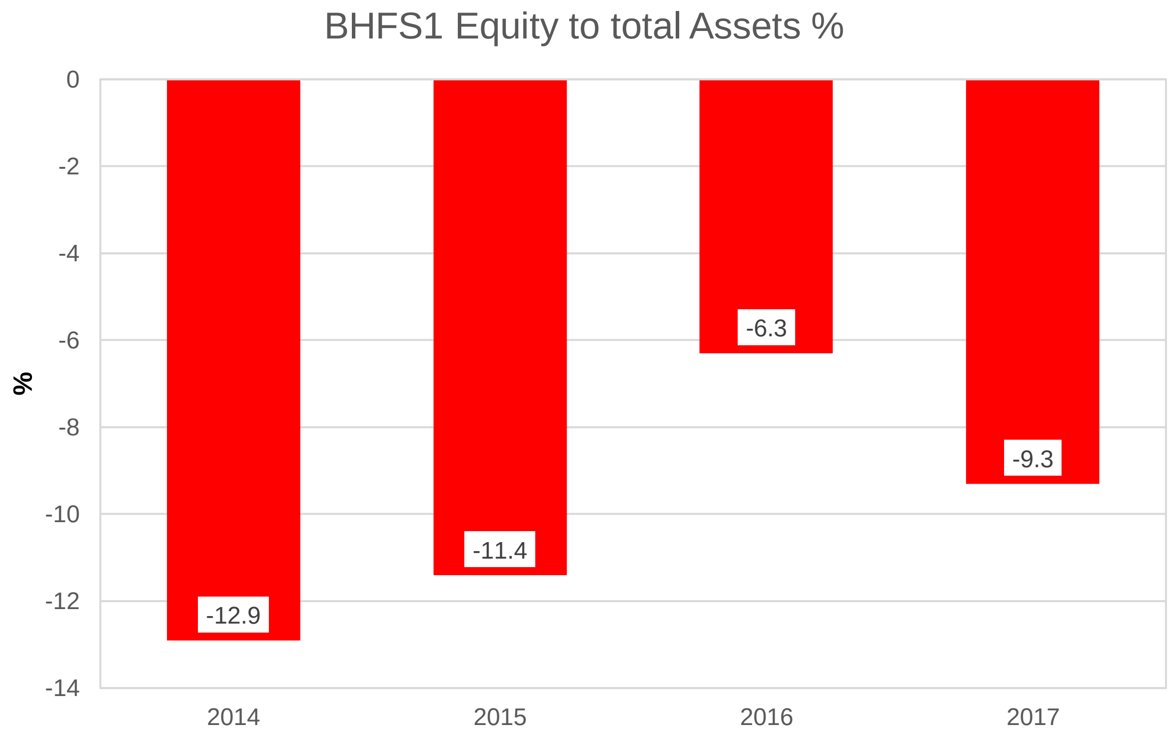


Figure 5 BHFS ONE Equity to Total Assets
Source: Annual Audited Financial Statements



Here is a summary of the performance of the US group Bright Horizons Family Services Incorporated:

Table 9 **Basic Data from Accounts**

BRIGHT HORIZONS FAMILY SERVICES INCORPORATED
Source: Audited Annual Financial Statements

$ '000	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Goodwill	Long-term Debt	Shareholder Equity
2014	1,352,999	59,364	224,367	34,606	72,035	2,141,076	1,095,738	911,627	750,959
2015	1,458,445	46,705	260,268	41,446	93,927	2,150,541	1,147,809	905,661	727,608
2016	1,569,841	59,258	271,405	42,924	94,760	2,359,017	1,267,705	1,054,009	687,867
2017	1,740,905	56,817	300,215	44,039	156,963	2,468,644	1,306,792	1,046,011	749,060

EBITDA = Cash from operations

Table 10 Cost and earnings ratios

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2014	4.4	16.6	2.6	**5.3**
2015	3.2	17.8	2.8	**6.4**
2016	3.8	17.3	2.7	**6.0**
2017	3.3	17.2	2.5	**9.0**

Table 11 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets
	%	%	%
2014	51.2	42.6	**35.1**
2015	53.4	42.1	**33.8**
2016	53.7	44.7	**29.2**
2017	52.9	42.4	**30.3**

Figure 6 BHFS Inc Profit and Loss Account
Source: Annual Audited Financial Statements

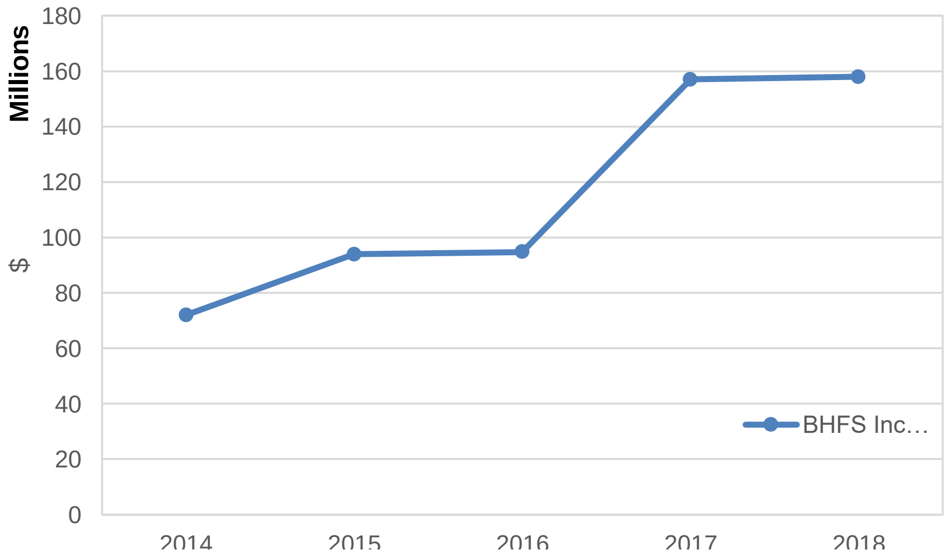
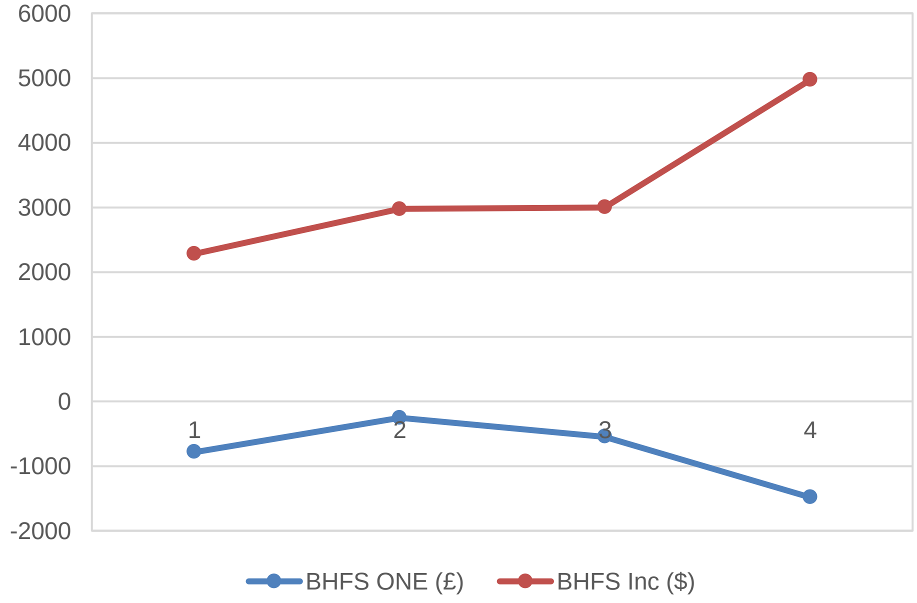


Figure 7 Profits per employee BHFS ONE and BHFS Inc.

Source: Annual Audited Financial Statements



From the above (Tables 8-11), we can see that the two groups, Bright Horizons Family Services Incorporated and BHFS Inc, are much more profitable, and consistent in their performance, and have a solid record of positive net equity. Goodwill is still an equally significant component of total assets – demonstrating that a lot of growth is funded through acquisitions. The levels of debt remain high at an average of over 40%, but this is not unusual for listed companies today as debt is seen as a cheaper source of finance given low interest rates.

Unlike other private equity funded nursery chains in this study (for example, Just Childcare; Busy Bees), BHFS One is owned by an established US company specialising in childcare. We can assume from this that the owner is bringing along experience and skills in childcare, and not simply interested in wealth extraction. Profits per employee (based on c. 31,600 employees[4]) are positive and substantially higher than the negative UK group (BHFS One) holding figures (see Figure 7).

BHFS One has set up a charity in the UK, called Bright Horizons Foundation, to conduct their corporate social responsibility activities. These activities are also prominently highlighted on their website. However, when we look closely at the

[4] Of whom approximately 2,000 employed at corporate, divisional and regional offices, the remainder employed at childcare and early education centres. Includes approximately 10,600 employees working outside of the United States

financials of the Foundation (Source: 2017 Accounts filed with Charities Commission), we find that in 2017, donations made totalled £30,000, yet £82,770 was charged to the charity for the staff time devoted in generating volunteers and supporting the charity – so in effect, a net profit was made by the UK group BHFS One in their charitable activities.

APPENDIX 1B: BUSY BEES FINANCIAL ANALYSIS

Busy Bees is a large chain of nurseries which was initially founded in the UK but has now also branched into Asia and Canada. At the end of 2017, Busy Bees had an occupancy of 27,000 children (source: 2017 annual report), and 71% of revenues were earnt in UK – it remains primarily a UK company. In 2017 alone, 150 new nurseries were acquired – such is the pace of growth and expansion. The UK head company of the group is called Eagle Midco Ltd., which is 100% owned by Eagle Topco Ltd. Started in 1984 by two mothers in Staffordshire, it has now grown to one of the largest childcare groups in the country, and the founders are still involved in the management. The entire group is ultimately owned by the Ontario Teachers' Pension Plan, whose goal is to invest assets on behalf of their members.

Below is the summary financial analysis of Eagle Midco (Tables 12-14):

Busy Bees / Eagle MIDCO
Source: Audited Annual Accounts filed at Companies House

Table 12 Basic Data from Accounts

£ '000	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Of which: Goodwill	Long-term Debt	Shareholder Equity
2014	176,018	88,936	36,423	9,868	**-11,792**	358,879	194,395	-201,262	**-11,697**
2015	216,822	108,047	40,978	29,954	**-11,473**	401,067	193,728	-241,099	117,609
2016	249,352	128,037	45,155	20,576	**-6,121**	438,278	186,963	-265,656	123,893
2017	327,491	170,043	59,947	29,766	**-5,010**	650,221	200,542	457,398	118,883
2018	432,355	223,689	73,737	37,421	**-23,134**	735,335	336,351	562,898	91,246

EBITDA = Cash from operations

Table 13 Cost and earnings ratios

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2014	50.5	20.7	5.6	**-6.7**
2015	49.8	18.9	13.8	**-5.3**
2016	51.3	18.1	8.3	**-2.5**
2017	51.9	18.3	9.1	**-1.5**
2018	51.7	17.1	8.7	**-5.4**

Table 14 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets
	%	%	%
2014	54.2	56.1	**-3.3**
2015	48.3	60.1	29.3
2016	42.7	61	28.3
2017	45.7	76.5	12.4
2018	45.7	77	12.4

From the above, we can see that revenues are improving year on year, although not translating into profits, with losses in every year (see Table 12), and 2018 posting the highest loss at £23 million. Eagle Midco Ltd is growing very fast, and turnover has more than doubled in the last five years – not surprising given the high level of acquisitions noted above. They appears to have very good access to finance, and with this it is on an expansion drive all over the country and internationally. Debt has grown to 77% of total assets (see Figures 9 and 10).

Figure 8 Eagle Midco and Superco losses
Source: Audited Annual Accounts filed at Companies House

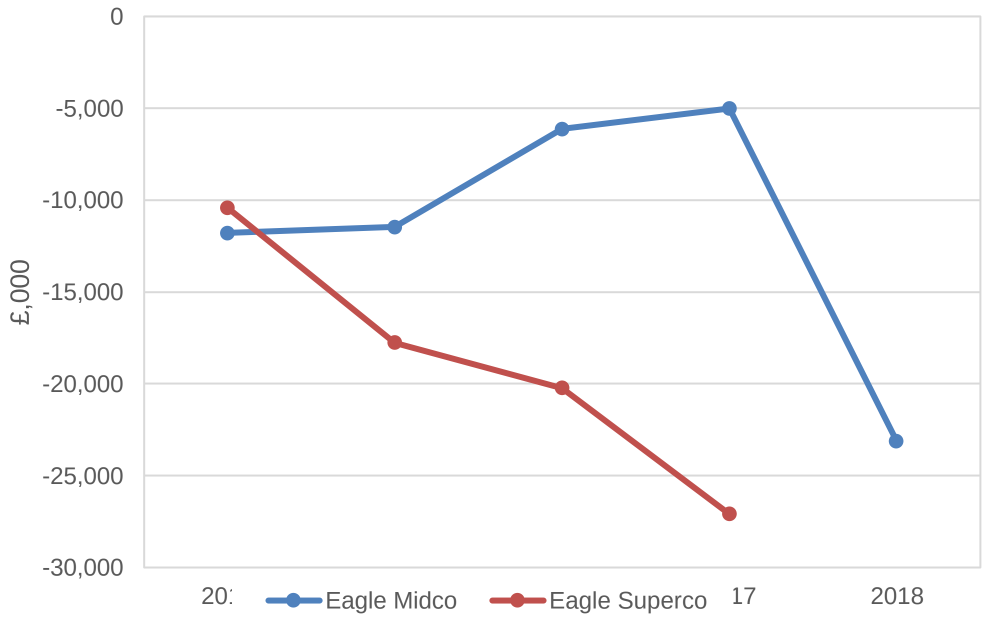


Figure 9 Eagle Midco Balance sheet ratios
Source: Audited Annual Accounts filed at Companies House

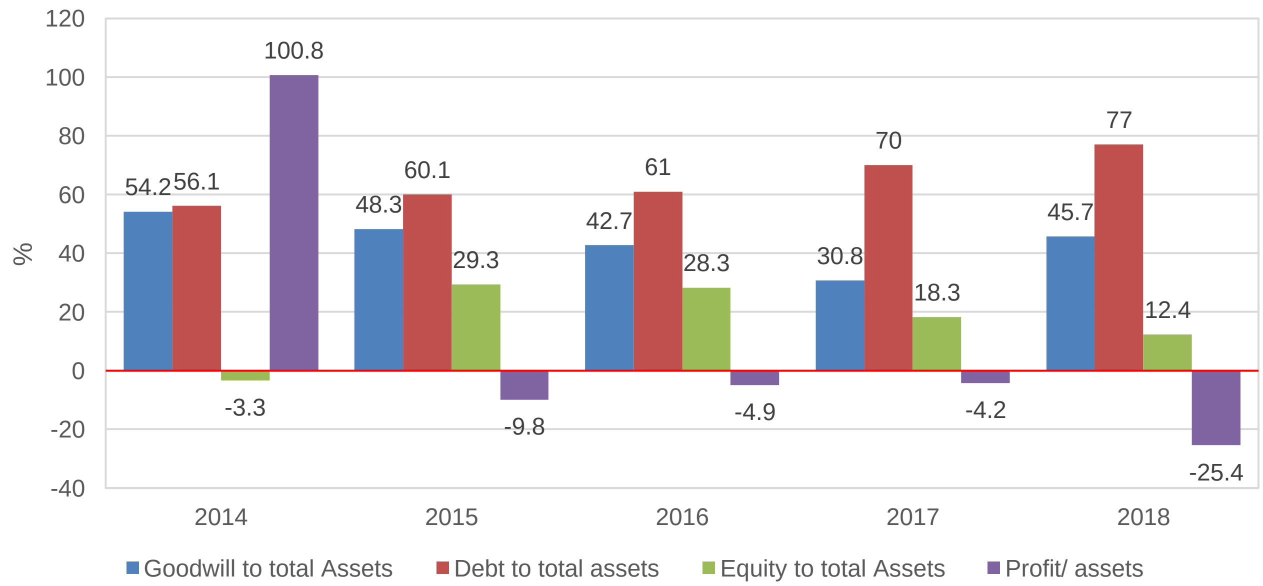
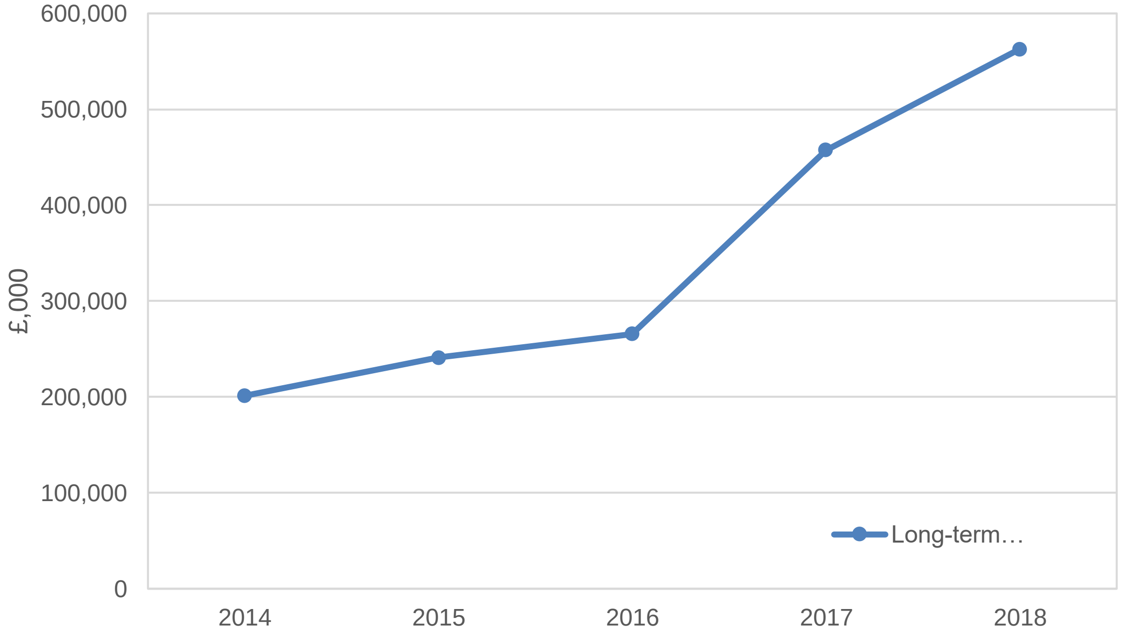


Figure 10 Eagle Midco long-term debt
Source: Audited Annual Accounts filed at Companies House



We will now examine the performance of the top company which owns Eagle Midco, Eagle Superco, which is also headquartered in the UK. It is making losses every year (see Figure 8), and building up its asset portfolio financed by loans which are over 100% of total assets in 2018. At the same time, Goodwill has grown as a percentage of total assets, and interest payments have increased as a result of the growing debt. Most surprisingly, net assets have turned negative and are growing in negativity, suggesting that the top company is insolvent. Despite this the auditors, Deloitte LLP, have not qualified the accounts and say that they provide a true and fair view.

EAGLE SUPERCO
Source: Audited Annual Accounts filed at Companies House

Table 15 Basic Data from Accounts

£ '000	Total Revenue	Wages & Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Goodwill	Long-term Debt	Shareholder Equity
2014	176,018	94,714	36,128	30,501	**-10,425**	359,057	194,395	340,415	**-12,982**
2015	216,822	116,891	40,792	41,355	**-17,754**	401,573	186,963	397,225	**-41,739**
2016	249,352	138,896	45,109	40,759	**-20,226**	438,973	200,542	441,601	**-55,918**
2017	327,491	184,355	54,698	53,446	**-27,095**	650,221	336,351	707,608	**-90,369**

EBITDA = Cash from operations

Table 16 Cost and earnings ratios

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2014	53.8	20.5	17.3	**-5.9**
2015	53.9	18.8	19.1	**-8.2**
2016	55.7	18.1	16.3	**-8.1**
2017	56.3	16.7	16.3	**-8.3**

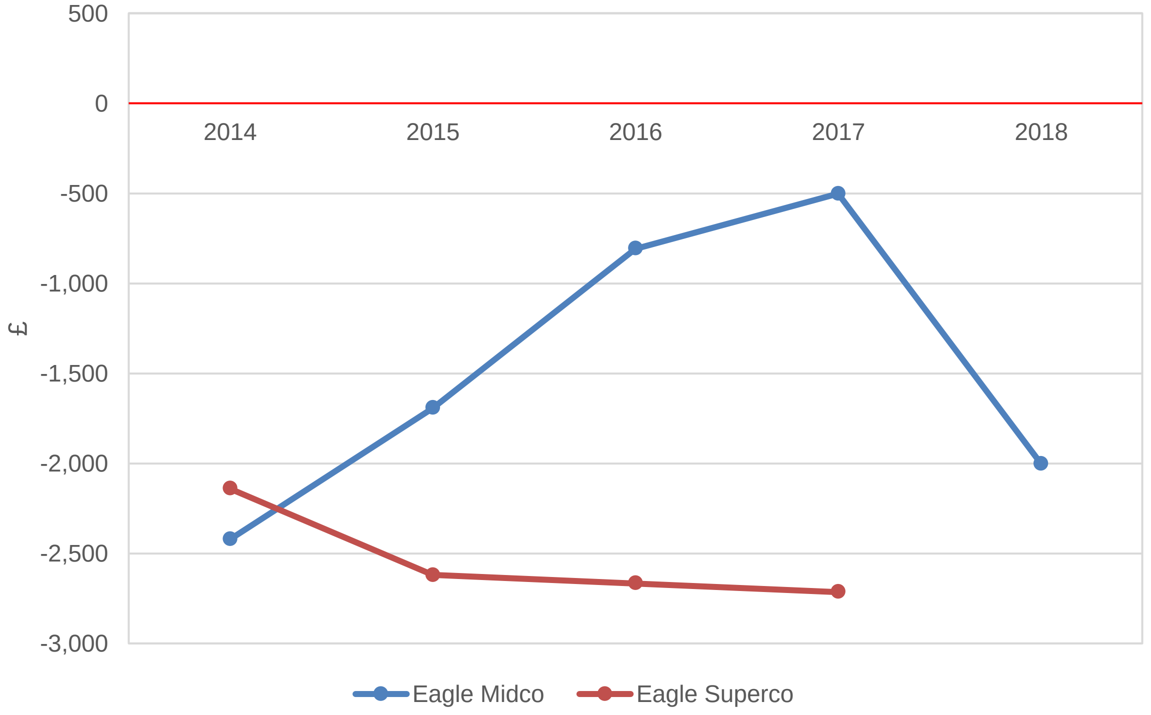
Table 17 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets
	%	%	%
2014	54.1	94.8	**-3.6**
2015	46.6	98.9	**-10.4**
2016	45.7	100.6	**-12.7**
2017	51.7	108.8	**-13.9**

In the 2017 annual report, there is an admission by the directors of financial problems on pages 2 and 3 of the strategic report in the annual accounts. However, they argue that their cash flow forecasts and bank facilities are such that they will be able to ride the temporary negative equity situation. As the auditors have not qualified the accounts, they are happy to rely on the statements from the directors. This is a contentious issue as they need to exercise their own professional judgement as to whether the accounts give a true and fair view, and they have discontinued this responsibility by saying that they rely on statements from directors. If there were future financial problems and this were to go to a court of law, the courts may interpret this differently and penalise the auditors. Unfortunately, such phraseology is common practice in the UK, and auditors are generally reluctant to qualify accounts as they do not wish to give up the regular revenues they earn from fees and other advisory work (Sikka et al., 2018). There is a huge crisis in the application of professional scepticism (Financial Reporting Council, 2020).

In 2017, the total dividend has been maintained at £127,000, which is negligible compared to the size of the Eagle Superco group, but also shows that cash flow is very tight. To improve cash flow and reduce borrowings, the group entered into Sale and Leaseback transactions of a large number of their freehold property assets in 2017, taking long leases of 175 years over the properties. As private equity companies tend to focus on the extraction of cash and financial assets and expanding corporate leverage to maximise tax benefits and financial returns, the behaviour of the Eagle companies which own Busy Bees is not surprising. Valuable physical assets like freehold property have been financialised through sale and leaseback arrangements, unlocking the borrowing power of the assets. The build-up of goodwill, which is a soft intangible asset, gives the appearance of a growing balance sheet, but its real value especially at liquidation, often collapses. The use of names like 'Midco' (middle company) and 'Superco' (top company) show that these companies have been constructed with a private equity mindset by financial engineers, as opposed to organisations which have their own distinctive purpose and activity. Ideally, to fully understand the inner strategy and decision-making of the organisation, we would need access to the management accounts and board minutes, to which we did not have access.

Figure 11
Eagle Midco and Superco losses per employee
Source: Audited Annual Accounts filed at Companies House



APPENDIX 1C: GRANDIR (LES PETITS CHAPERONS ROUGES) FINANCIAL ANALYSIS

The highly successful and fast growing French nursery chain, Les Petits Chaperons, entered the UK market in 2017 by setting up a company called Grandir Limited, through which it began acquiring nurseries. The chains acquired in 2017 were: the Childcare Corporation, Magic Nurseries and Kiddicaru. In this first year, it spent £67 million on acquisitions and raised £33 million of new equity finance (source Group Cash Flow statement 2017). The financial statements are very minimal and do not give details about the companies acquired, the number of nurseries or the numbers of children cared for.

Les Petits Chaperons Rouges are being supported in their expansion efforts (dubbed **Chaperons 2020**) by Eurazeo, a publicly listed global private equity firm based in Paris, France. They describe the Chaperons 2020 corporate project as “the wish to transform a national nursery business into a worldwide early learning and education group”. Their website states:

> *“Created in 2000, Les Petits Chaperons Rouges is a pioneer in employer-sponsored nurseries and is now the co-leader in the French private nursery market. Its Grandir network offers clients a choice of nearly 1,400 nurseries, with 400 operated directly by the group. More than 1,000 clients (companies, public authorities and local communities) currently place their trust in Les Petits Chaperons Rouges, including many major groups. Les Petits Chaperons Rouges also stands out through its leading position in France in the growing Public Service Delegation and micro-nursery segments… Europe-wide, with its investment in the German player, Infanterix, in 2016, and the purchase of two British players, Magic Nurseries and more recently Kiddi Caru, the Grandir Group (operating under the Les Petits Chaperons Rouges brand) now manages over 14,000 daycare and nursery places, 30% outside France. It is a leading player in early learning, education and parenting in the three most densely populated European countries: France, Germany and the UK.”* https://www.eurazeo.com/en/societe/les-petits-chaperons-rouges/

Turnover in 2017 was £18 million, but this translated into an overall net loss of £4million in the first year. See Table 18 for details of the financial analysis. The financing of the acquisitions was through an increase in both debt and equity, with £35million of new debt finance raised to support the business, primarily through inter-group borrowing. Overall, Grandir Limited had net current liabilities of £20million at the end of the first year, which normally is a warning flag for auditors, suggesting a crisis of liquidity. This would necessitate a qualification of the accounts and a revaluation of the numbers, but once again as we have seen with other companies, the auditors were compliant and did not qualify the accounts. On page 5 of the accounts, they state that they have 'nothing to report' on matters related to whether Grandir is a going concern.

Below is the data from the audited accounts.

Table 18 Basic Data from Accounts

£ '000	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Goodwill	Long-term Debt	Share-holder Equity
2017	17,849	11,370	2,378	371	**-4,162**	60,506	32,165	35,157	29,528

Table 19 Costs and Earnings Ratios

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2017	63.7	13.3	2.1	**-23.3**

Table 20 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets	Profit/Net assets
	%	%	%	%
2017	53.2	58.1	**48.8**	-14.1

Tables 19 and 20 and Figures 12 and 13 present a more detailed financial analysis of the first year's performance. From this we can see that the losses in the first year comprise over 23% of sales and the proportion of assets tied up as goodwill is 53% – implying that a significant proportion of the purchase price of these new nurseries related to a soft asset called goodwill. Losses represented 14% of the net assets in the first year. Although the accounts do not make this clear, it can safely be assumed that Grandir is supported by the French chain and in the first year, these negative figures would be seen within a larger strategy context of creating a global chain. The initial investment cost would be expected to be recovered within a few years through good management and cost control.

Figure 12 Costs and Earnings Ratios 2017

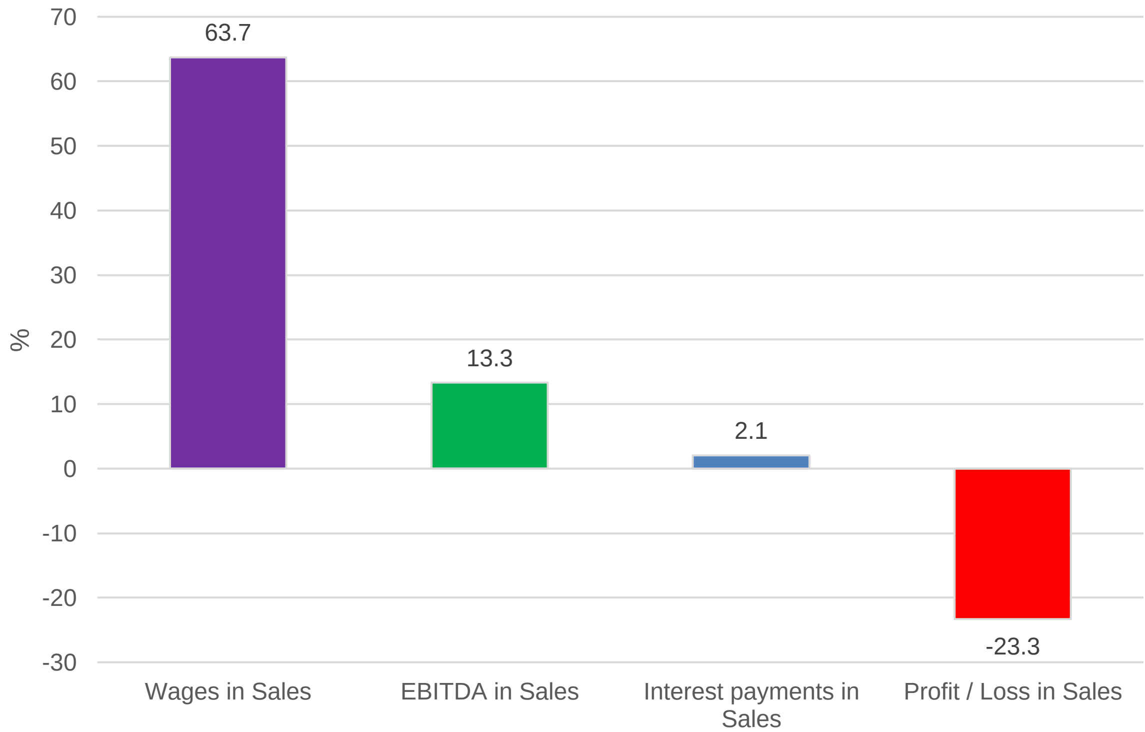
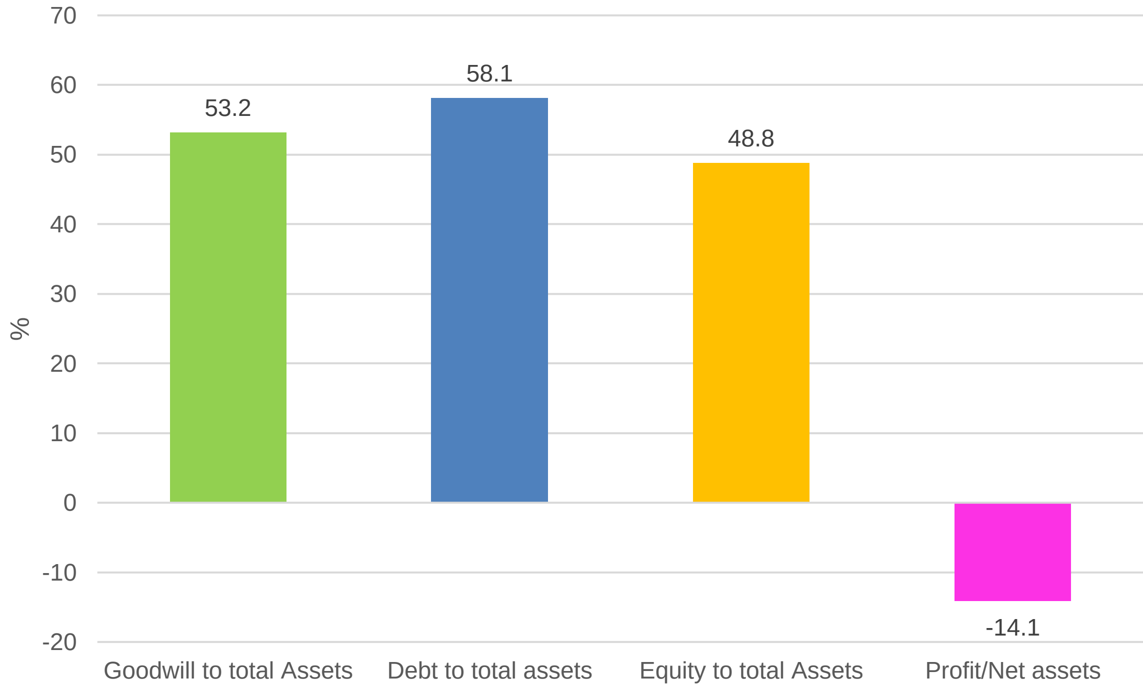


Figure 13 Balance Sheet ratios 2017



APPENDIX 1D: JUST CHILDCARE FINANCIAL ANALYSIS

This is a small family-owned nursery chain founded by David and Jacqueline Johnson in the North of England, which was sold to a private equity group, Phoenix Equity Partners in November 2014. It had seven nurseries before the sale, and grew to 22 within fourteen months, providing 1439 childcare places. The cash price paid for the acquisition was £3,432,000 for a net asset value of £328,000 (Source: Audited Accounts). Thereafter, both David and Jacqueline stayed on as directors of the newly formed Just Childcare Holdings Limited, having a 22% stake in the new holding company – from this we can infer that the sale of the original company was for a combination of cash and shares in the newly formed group. More nurseries were acquired in subsequent years – 33 nurseries as of December 2017 with total childcare places of 2,194. Prior to its acquisition, Just Childcare was a profit-making enterprise, posting a profit of £117,000 in its 2015 accounts and paying taxes of £43,000. However, after its acquisition, Just Childcare became loss-making (see Figure 14) and negligible taxes were paid in any year. It also gets loaded with debt, with borrowings jumping up from £1,072,000 in 2014 to £14,234,000 in 2015. Whilst Just Childcare Holdings makes losses, Phoenix Equity Partners, the top holding company of the newly formed group, makes significant profits every year from 2015 onwards, and yet it pays no taxes and instead makes tax losses (see Figure 15).

Below is the basic financial data gleaned from the audited accounts.

Table 21 Just Childcare Holdings

Source: Audited Annual Financial Statements

£'000	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Of which: Goodwill	Long-term Debt	Shareholder Equity
2015	5,152	3,301	-249	1,436	**-3,610**	14,347	7,829	19,349	**-3,412**
2016	10,762	8,069	-77	2,362	**-4,371**	20,807	9,607	28,050	**-7,302**
2017	12,720	8,870	340	2,462	**-4,028**	20,506	8,590	32,624	**-11,330**

EBITDA = Cash from operations

Table 22 Cost and Earnings Ratios
Source: Annual Audited Financial Statements

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%	%
2015	64.1	-4.8	27.9	**-70.1**
2016	75.0	-0.7	21.9	**-40.6**
2017	69.7	2.7	19.4	**-31.7**

Table 23 Balance Sheet ratios

	Goodwill to total Assets	Debt to total assets	Equity to total Assets
	%	%	%
2015	54.6	135	**-23.8**
2016	46.2	135	**-35.1**
2017	41.9	159	**-55.3**

Figure 14 Just Childcare Profit and Loss Account
Source: Annual Audited Financial Statements

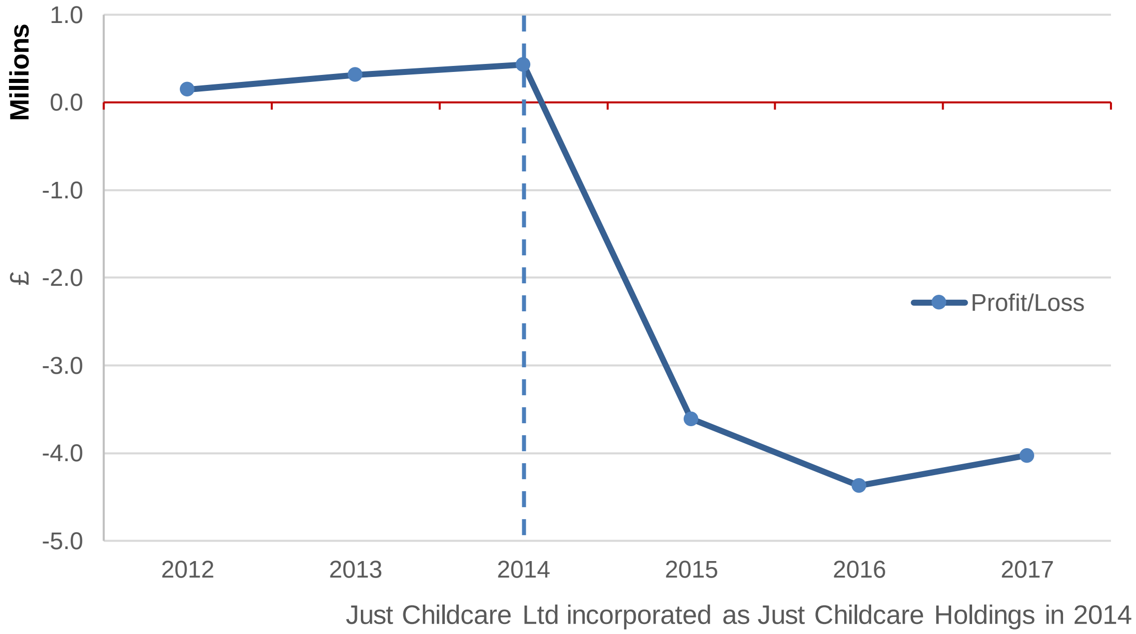
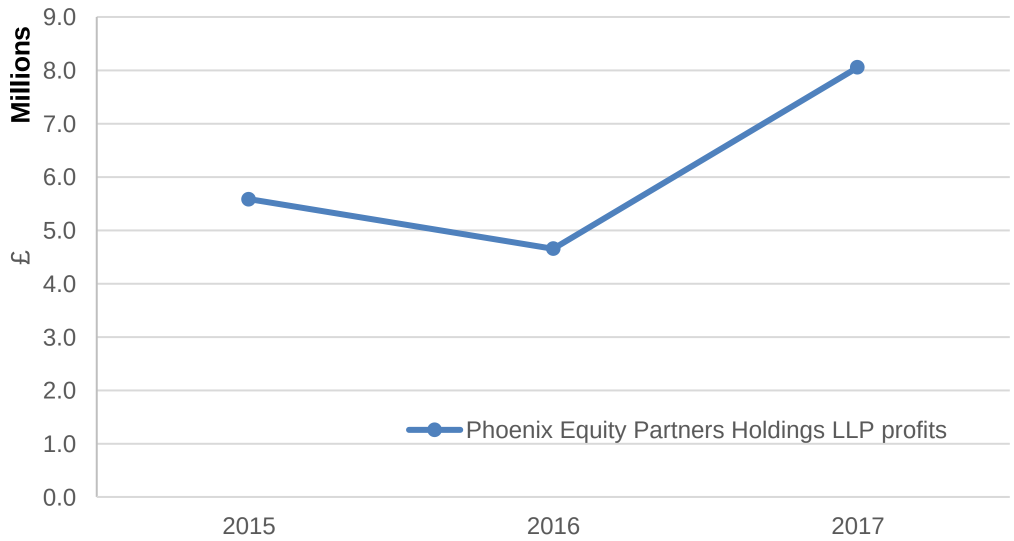


Figure 15 Phoenix Equity Partners LLP Profits
Source: Annual Audited Financial Statements



From the above (and see also Figure 19), we can see that the top holding company, Phoenix Equity Partners, is making significant losses every year, between 30% and 70% of turnover, something very unusual and unsustainable in the nursery business. No dividend has been paid to shareholders in the above period.

The negative equity means that from an accounting perspective, there are question marks over whether Phoenix Equity Partners is a going concern, yet the auditors have not qualified the accounts, and the directors continue to be happy with the performance – they make no statement about financial performance in their strategic report, despite such serious problems. Company law requires that directors provide early warnings of financial difficulties, and auditors must confirm whether the firm is a going concern. At the same time, Just Childcare has been saddled with debt, rising from £19m in 2015 to £33m in 2017 (see Figure 16). The working capital requirements are financed by £24m of third party loan notes, from Phoenix Equity Nominees Ltd (which is a related party due to common ownership) and there is a statement in the 2017 accounts (page 17) which says '… the Directors are satisfied that the forecast level of trading performance and cash flows is achievable and that the Company will therefore be able to continue to operate for the foreseeable future.' This is a questionable statement based on accounting rules – a group which makes continuous losses should raise serious doubts about its survival and viability to auditors. However, the auditors have instead chosen to rely on the directors' statement – which directly contradicts the facts of such poor financial performance.

The losses per employee at the nursery group level (Just Childcare) are between £−7,508 and £−19,835, whereas at the Phoenix Equity Partners level for the same three years, they make positive profits and significant returns ranging from £159,427 to £211,801 **per employee** (see Figure 17). The actual daily childcare work is being done at the nursery level, yet profits are made at the holding company level where no direct childcare is done. All this suggests direct wealth and profit extraction, and maximum tax avoidance by the private equity company. Phoenix Equity Partners Holdings LLP are the ultimate holding company of Just Childcare, and they are a purely financial vehicle, specialising in investment advice to their various holdings and have a total of 23 staff only. Structured as a limited liability partnership, they have flexibility in how income is paid to members and how it is categorised for tax purposes – as a capital gain (termed 'carried interest) which attracts lower taxes than if it is treated as income when it arrives in the pockets of the members.

Figure 16 Just Childcare debt
Source: Annual Audited Financial Statements

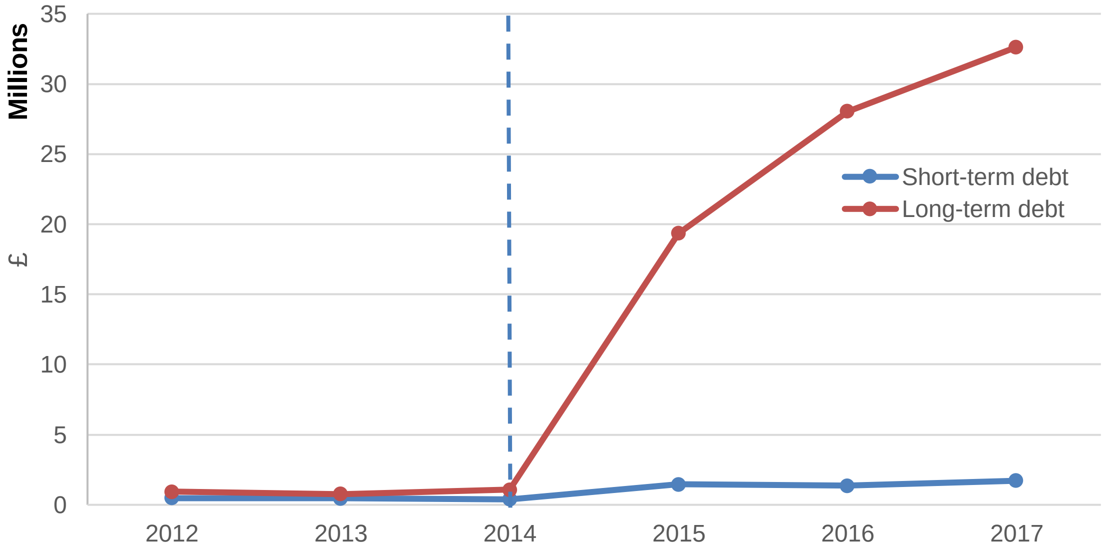
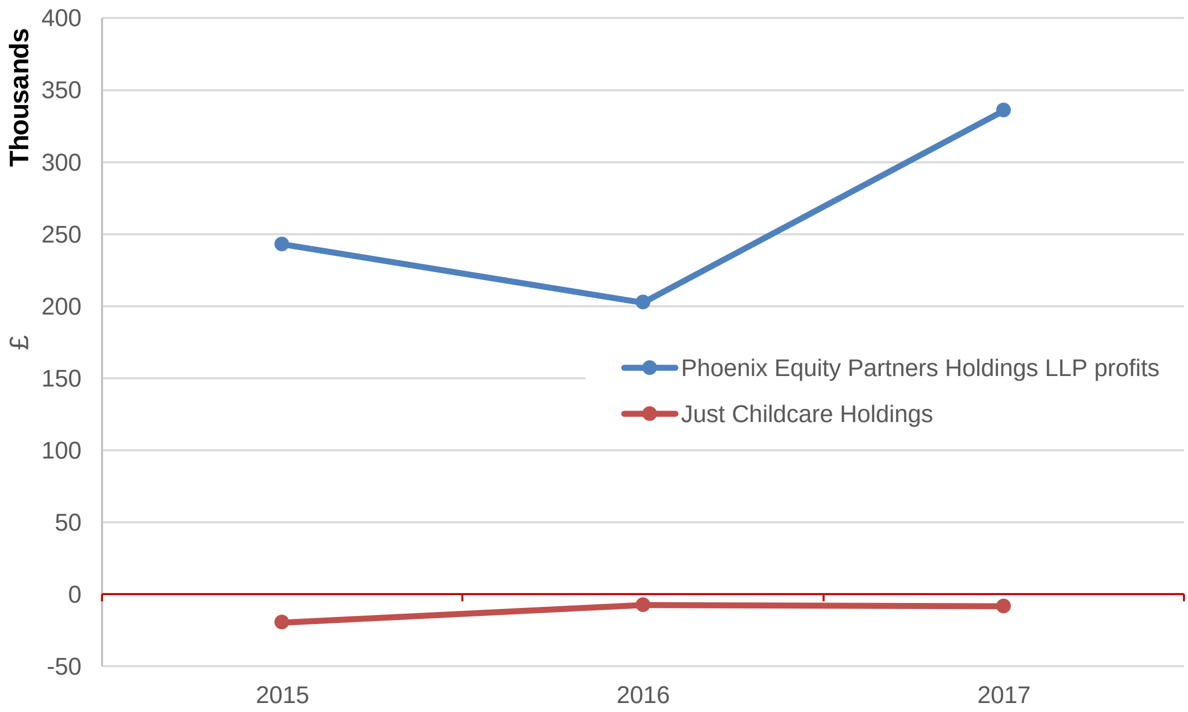


Figure 17 Just Childcare and Phoenix Equity Partners profits per employee
Source: Annual Audited Financial Statements



Goodwill, an intangible asset, has also grown and become a significant part of the new Just Childcare Holdings Group Balance Sheet comprising between 40 and 55% of total assets (see Figure 18) – it is a soft asset, which arises from an accounting calculation at the time of acquisition. Alongside the borrowings, interest has also grown comprising 20% or more of total sales. Interest rates paid on borrowing are declared at 10% of unsecured loan notes borrowings, which seems above market rates for a viable business (which would be around 3%). As of 2017, £3.6m of the loan notes are held by the founders of Just Childcare, the Johnsons. £24m are held by Phoenix Equity Nominees Ltd.

Figure 18 Just Childcare Holdings Goodwill

Source: Annual Audited Financial Statements

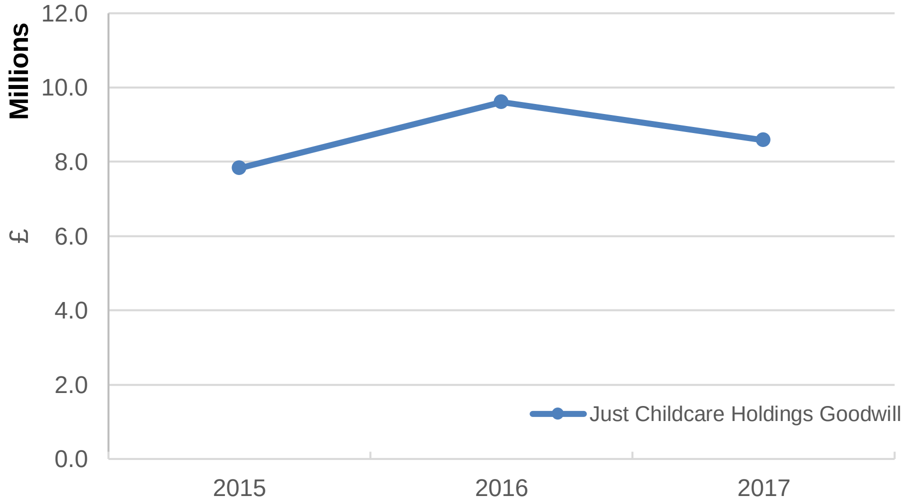
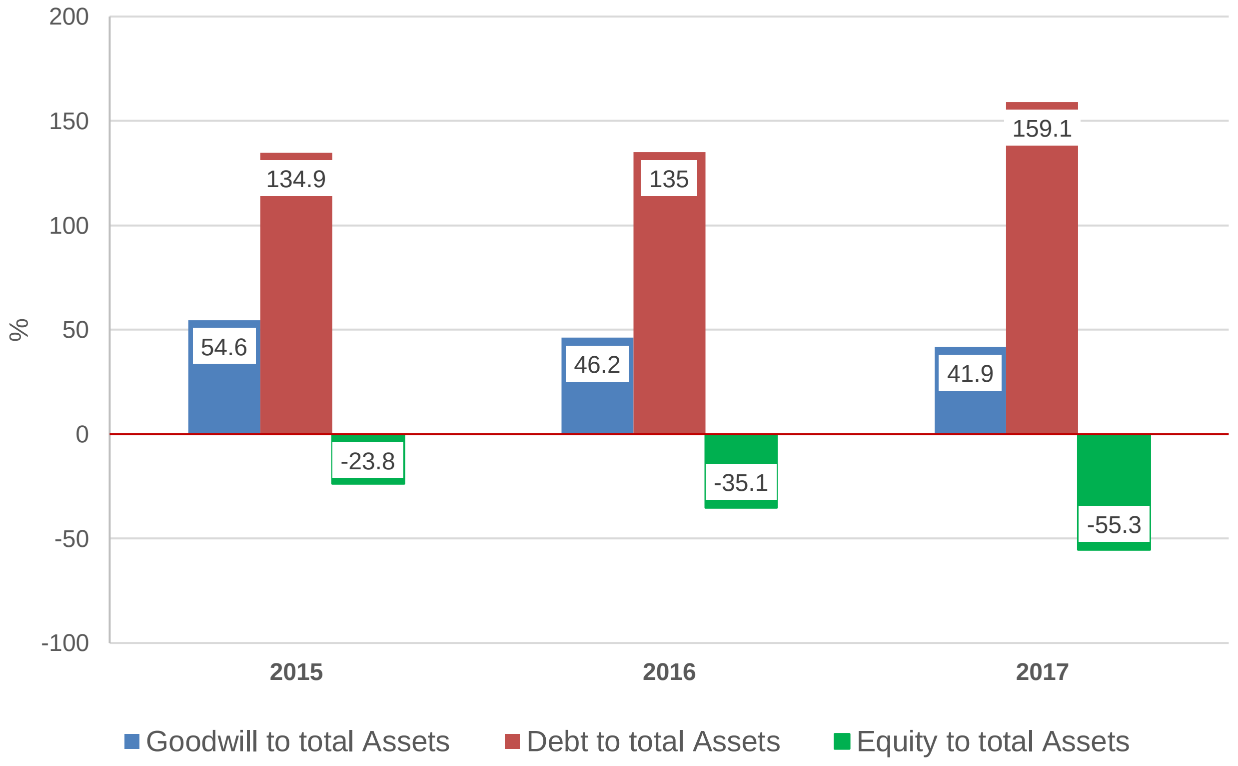


Figure 19 Just Childcare Balance Sheet Ratios

Source: Annual Audited Financial Statements



APPENDIX 1E: ALL ABOUT CHILDREN FINANCIAL ANALYSIS

This is a small privately-owned UK chain of nurseries, with ten sites and caring for a thousand children every week. Russell Ford is founding Director and CEO. 2017/18 is the first year they have chosen to publish detailed audited group accounts, which have been certified as true and fair by the auditors Adler Shine LLP. Prior to that, the accounts were very basic. Even then, information on Wages and Salaries for staff is not declared. In all they have 277 staff. All ten nurseries are 100% owned by All About Children although they trade under different names.

In terms of financial performance, we can see from Table 24 that the profits in 2018 dipped from £919k to £672k and dividends were paid to shareholders in both years: £184k in 2018 and £355k in 2017. The return on capital dipped from 25% in 2017 to 16% in 2018. Performance appears to be dipping. Taxation of £227k (2017) and £135k (2018) was accrued in each year. Note 17 to the accounts shows an unusually high number of debtors for 2018 £5.8m, without explaining the nature of these debtors. Note 22 in the annual statement explains that these are loans to various nurseries which have common shareholders and are therefore related party transactions. The actual group of nurseries with common ownership is larger than ten, but they have not all been consolidated into All About Children for some reason, as they are not officially owned by the holding company. This suggests a complex financial management structure which is not unusual for the size of the organisation and close shareholdings by a few people.

In terms of borrowings, it had zero in 2017 and a new loan of £3 million was secured in 2018, against the various freehold properties within All About Children. Goodwill represents a high proportion of total assets – £1.55 million in 2018 (78%) see table 3.

Overall, unlike the financialised private equity-owned chains which are committed to maximising cash flow, leverage and minimal taxation, this small group operates in a less financialised way, although it seems that its performance management and financial management does not appear to be very strategic and instead is a little mixed up due to crossholdings by key shareholders/directors.

Table 24 Basic data from accounts
Source: Annual Audited Financial Statements

£	Total Revenue	Wages and Salaries	EBITDA	Interest Payments	Profit /Loss	Total Assets	Goodwill	Long-term Debt	Share-holder Equity
2017	5,943,159	Not declared	924,537	0	**918,537**	986,127	768,201	0	3,648,990
2018	7,327,264	Not declared	952,930	61,204	**672,146**	2,261,996	1,551,997	2,303,212	4,138,386

Table 25 Cost and earnings ratios
Source: Annual Audited Financial Statements

	EBITDA in Sales	Interest payments in Sales	Profit / Loss in Sales
	%	%	%
2017	15.6	0.0	15.5
2018	13.0	0.8	9.2

Table 26 Balance sheet ratios
Source: Annual Audited Financial Statements

	Goodwill to total Assets	Debt to total Assets	Equity to total Assets
	%	%	%
2017	77.9	0.0	370.0
2018	68.6	101.8	183.0

Figure 20 Profit/loss

Source: Annual Audited Financial Statements

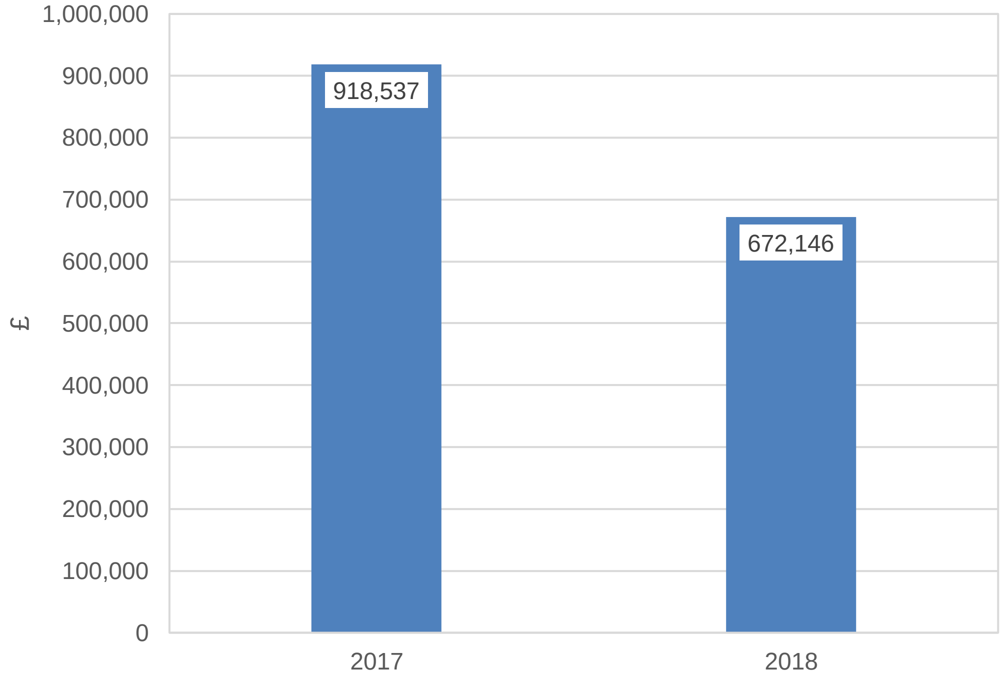


Figure 21 Cost and earnings ratios

Source: Annual Audited Financial Statements

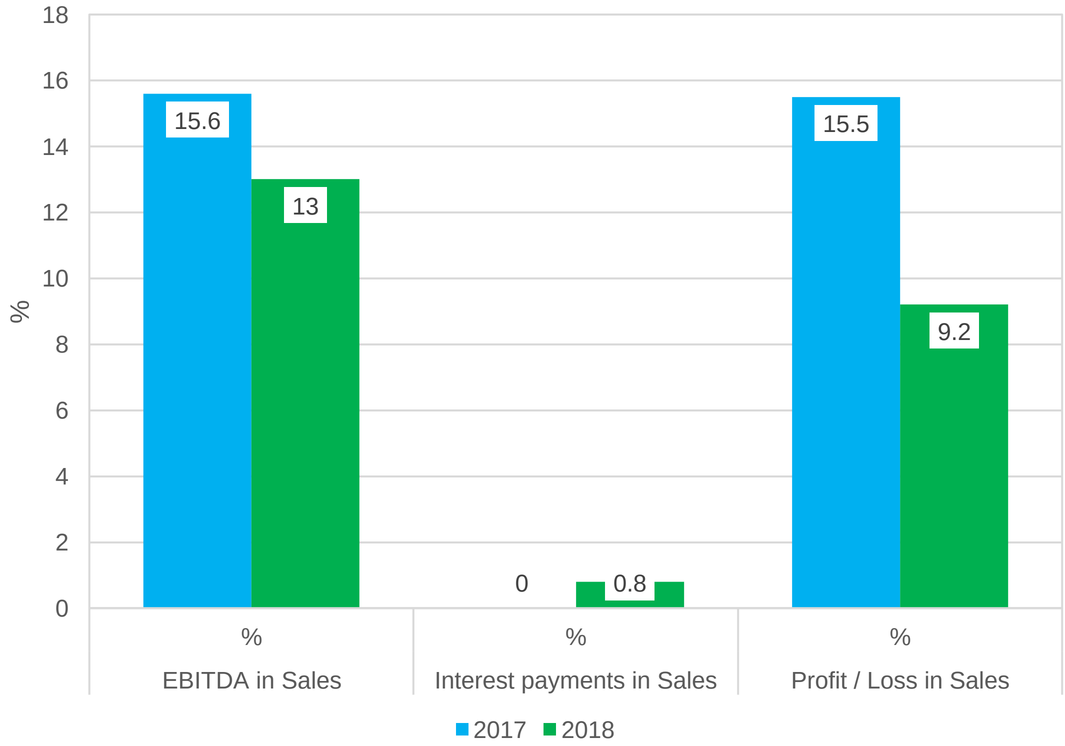
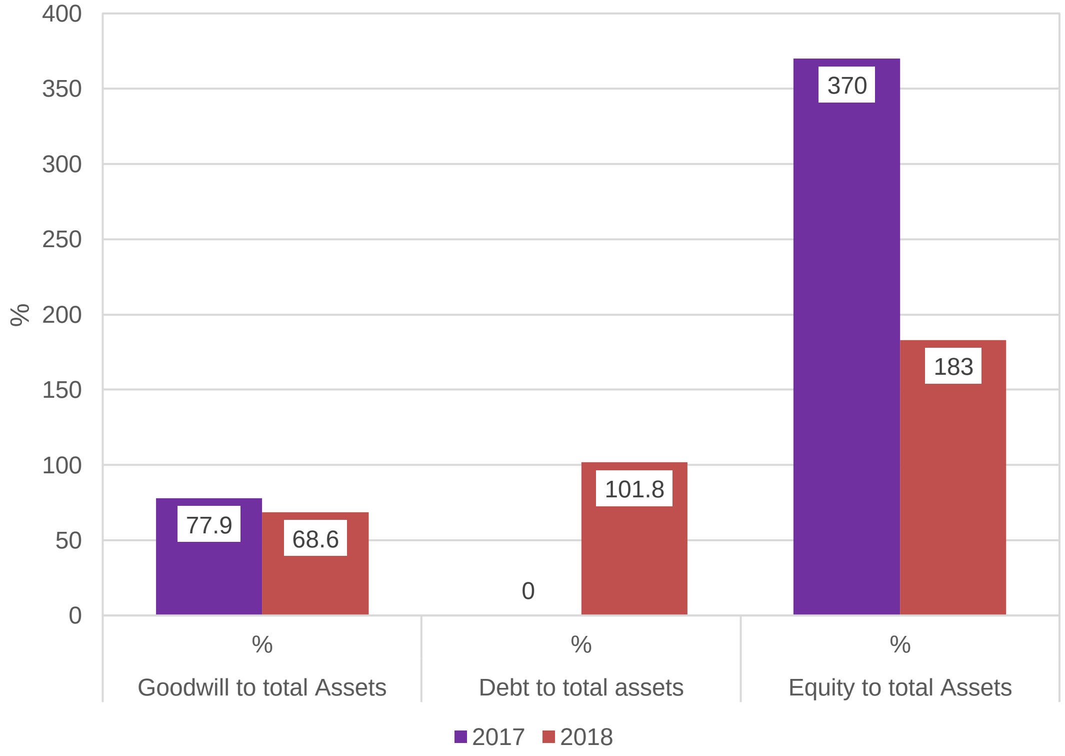


Figure 22 Balance sheet ratios

Source: Annual Audited Financial Statements



Section 2: Social Enterprise Nurseries

APPENDIX 2A THE LONDON EARLY YEARS FOUNDATION

The London Early Years Foundation is a registered charity with a long history (established in 1903) and an eminent Board of Trustees. Its CEO June O'Sullivan has received an MBE for her services to early years education. Reading the financial statements and annual report, which are much more informative than any we have reviewed in the sector, one central feature emerges – the importance of quality education, and quality care for both children and staff, with a strong focus on continuous staff training and innovation. The values are clearly laid out – which was not the case in the corporate accounts analysed.

In 2017/18, it ran 37 nurseries across London and provided 4,300 children with a nursery place. In the annual report, the Chair admits to the challenges of running such an organisation in terms of funding, staff recruitment and retention and maintaining quality and consistency in childcare. They also run a training academy and have linked up with the University of Wolverhampton for training in Early Years Education. Their financial performance has been poor for several years, with consistent losses, except in the latest 2017/18 year, where for the first time in many years they had a net income surplus (see Table 27, Figure 20). In 2016/17, they had severe staff shortages and paid £2.3million in agency costs – they admit in their annual report that they had to undergo a major restructuring as a result of the financial problems and managed to extend their loans. They seem to have had consistent cash flow and liquidity problems – reviewing the ratios in the table below shows that their financial management is poor, given that they are neither big nor complex. The charity is reliant on long-term loan finance to fund its activities (35% in 2018) – table 29, and figures 21 and 22 show how significant this source of funding is. The income comes either from parent fees (77%) or from grants (23%) (source: page 15 of 2018 annual report). It is still reliant on parent fees to provide its services.

As LEYF is a charity, it does not have to pay any income tax. The auditors have not qualified the 2018 or the 2017 accounts and are happy that they provide a true and fair view of the overall financial performance. As compared to the turnover, the total funds represent roughly 10% – not a very strong cushion for any major financial risks. Unlike the large corporate groups we have analysed, goodwill is a very small component of assets (around 2%, see table 29, figure 22).

London Early Years Foundation

Table 27 Basic data from accounts
Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Goodwill (Intangible Assets)	Long- term Debt	Total Funds (Restrict & Unrestrict)
2014	10,568,992	7,461,410	**-244,327**	15,585	**-423,833**	2,764,334	54,760	249,572	2,696,945
2015	12,311,471	9,004,091	37,563	82,635	**-187,142**	3,991,934	73,858	1,491,395	2,509,803
2016	14,814,489	11,155,513	**-185,979**	145,336	**-497,056**	4,604,241	160,814	1,982,278	1,969,700
2017	18,336,086	12,455,800	**-433,912**	162,164	**-756,523**	4,623,115	95,991	1,975,622	1,213,177
2018	20,066,705	13,396,396	1,095,560	183,494	617,578	4,436,485	103,398	1,536,929	1,830,755

Figure 23 Net income / Loss

Source: Charity Commission for England and Wales

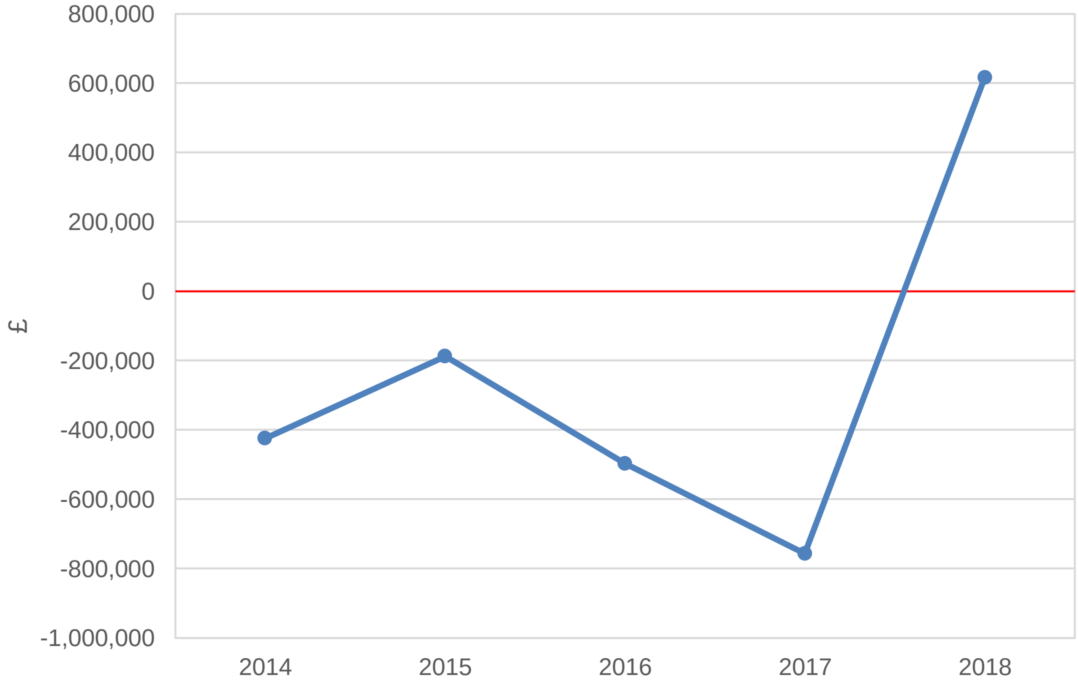


Table 28 Cost and earnings ratios

Source: Charity Commission for England and Wales

	Wages to Sales	**EBITDA in Sales**	**Interest payments in Sales**	**Net Income / Loss in Sales**
	%	%	%	%
2014	70.6	**-2.3**	0.1	**-4.0**
2015	73.1	0.3	0.7	**-1.5**
2016	75.3	**-1.3**	1.0	**-3.4**
2017	67.9	**-2.4**	0.9	**-4.1**
2018	66.8	5.5	0.9	3.1

Table 29 Balance sheet ratios

Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total Assets	Total funds to total Assets
	%	%	%
2014	2.0	9.0	**97.6**
2015	1.9	37.4	**62.9**
2016	3.5	43.1	**42.8**
2017	2.1	42.7	**26.2**
2018	2.3	34.6	**41.3**

Figure 24 Long-term Debt

Source: Charity Commission for England and Wales

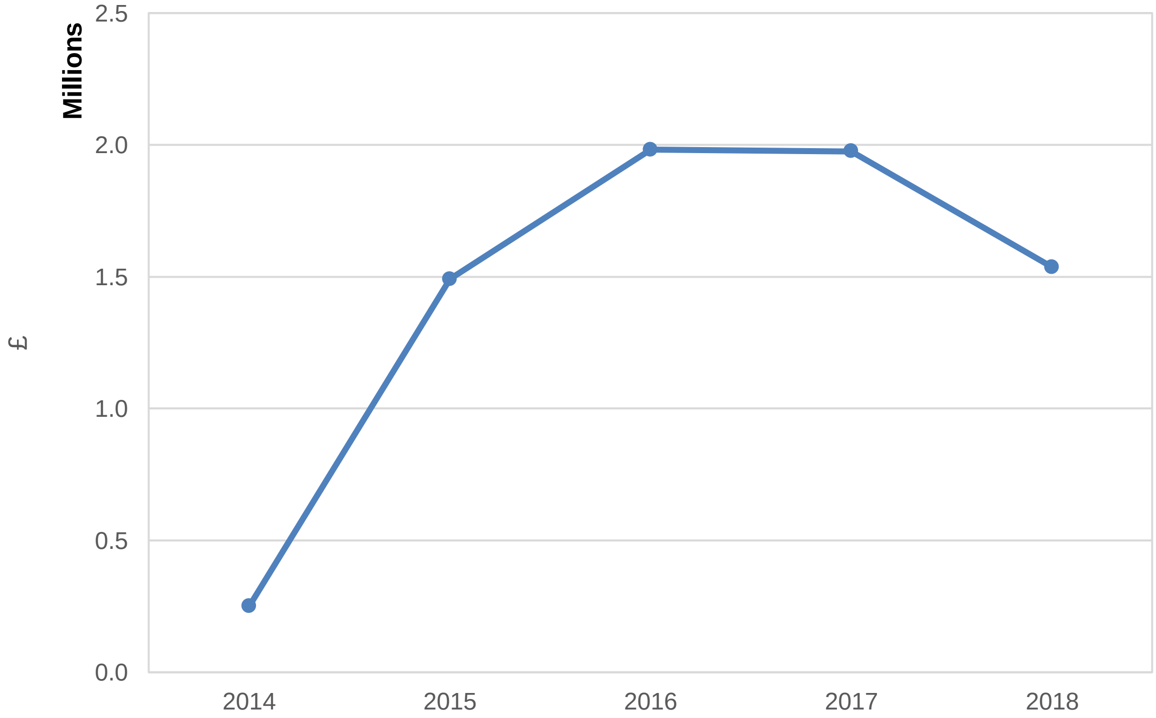


Figure 25 Balance sheet ratios

Source: Charity Commission for England and Wales

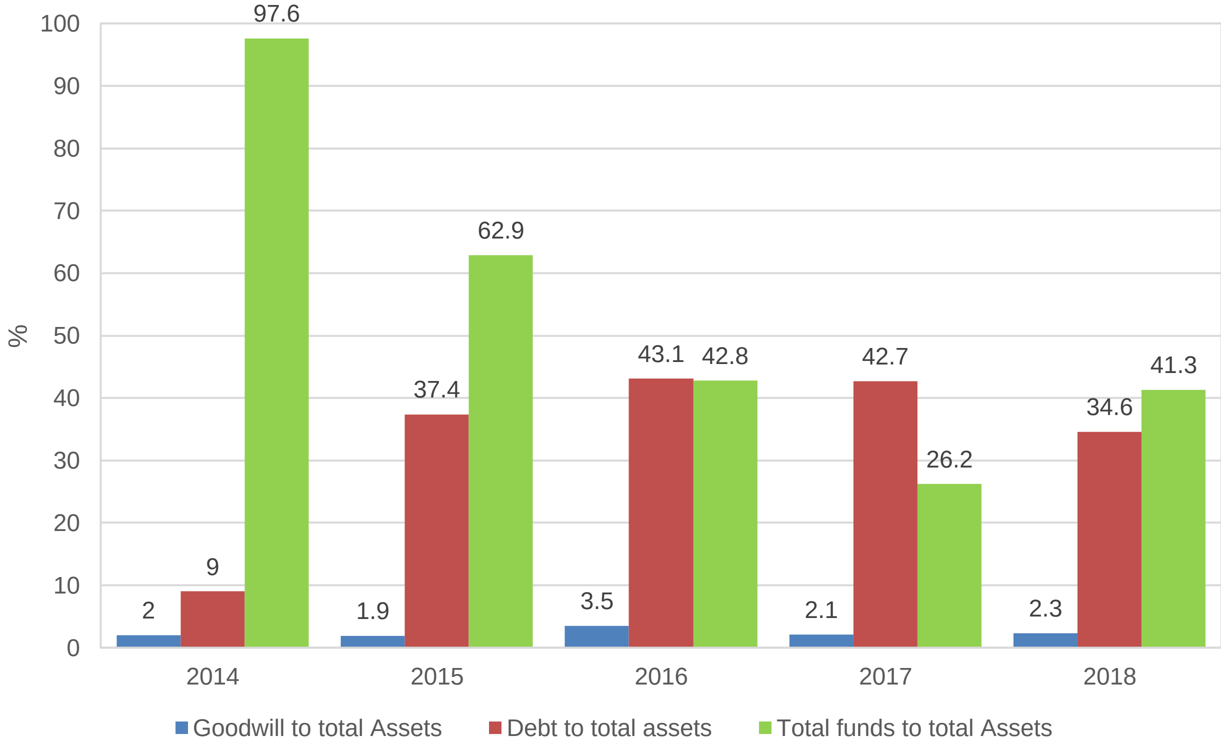


Figure 26 Wages to Sales

Source: Charity Commission for England and Wales

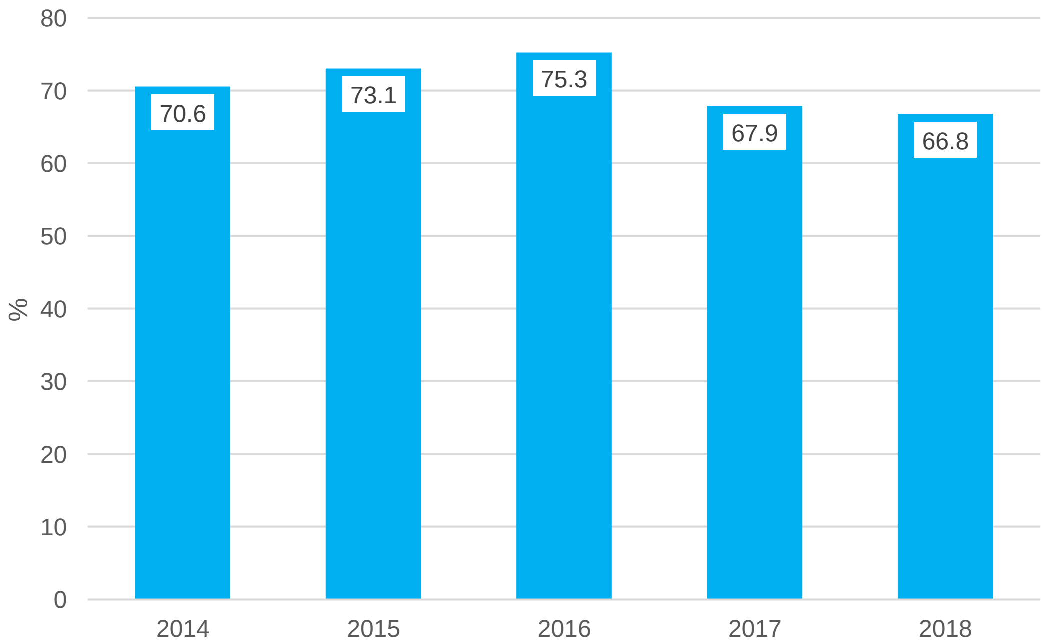
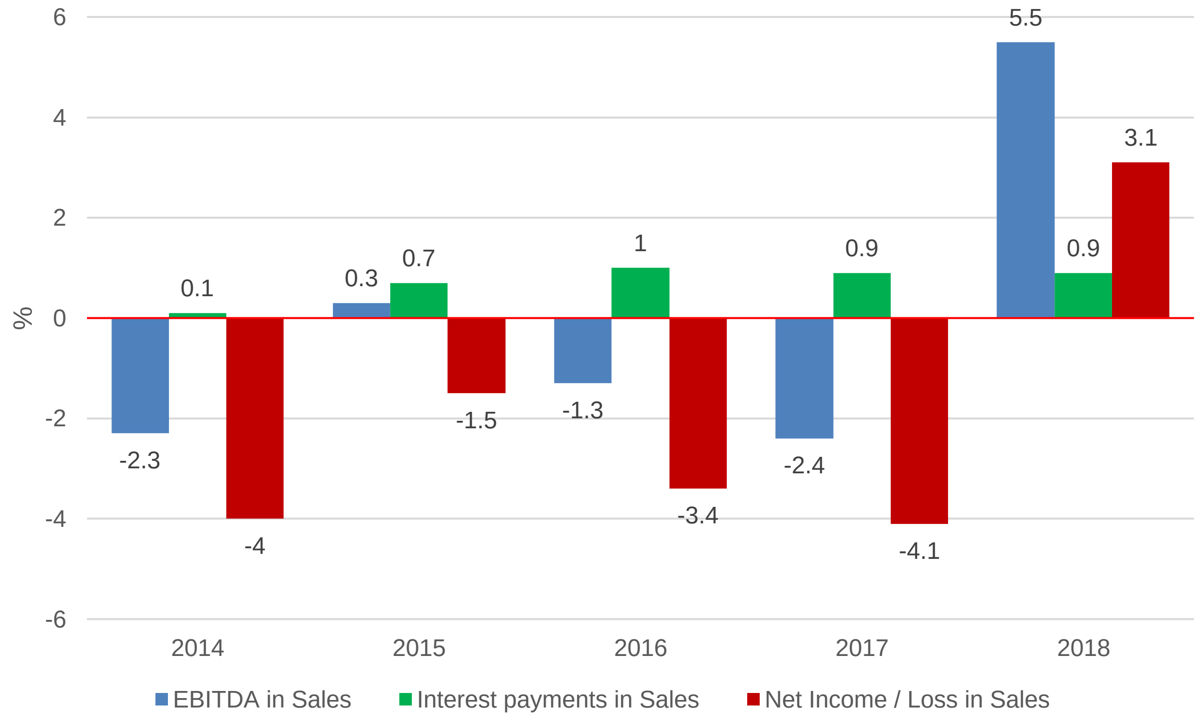


Figure 27 Cost and Earnings ratios

Source: Charity Commission for England and Wales



APPENDIX 2B ST BEDE CHILDCARE

St Bede Childcare is a small chain of nurseries in the Bolton area, operating as a charity to provide childcare to babies, toddlers and pre-school children. The nurseries are called Little Rainbows, Little Owls and Baby Bede and they also run some out of school clubs. The charity is linked to the St Bede Church of England Primary Academy, which runs a primary school in Bolton and some of the premises and management are shared. The chairman of the trust is Mr James Hatch OBE. It is both a registered charity and a company limited by guarantee, and files annual audited accounts with the Charity Commission.

The primary objectives and activities are (Source 2015 audited accounts, p. 2):

> *'… to provide better educational and childcare resources to enable all members of the community to play a fuller role in the local community and society at large. The charity provides nursery care and after school clubs. The nursery provision aims to offer parents an extension to their home, where children will be loved, cared for and educated to the highest standard, allowing parents to return to work knowing their child's needs, likes and enjoyment are fully catered for. The trustees have taken into consideration the Charity Commission guidance on public benefit.'*

The annual report and financial statements provide details of the financial performance for each year – none of the accounts have been qualified by the auditors – they have been produced in compliance with law and the Charities Act. The following summary is based on five years of their audited accounts.

St Bede Childcare
Table 30 Basic Data from Accounts
Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Of which: Goodwill (Intangible Assets)	Long-term Debt (Creditors due > 1 year)	Total Funds (Restricted & Unrestricted)
2014	1,908,259	1,100,936	122,287	5187	96,820	1,183,217	0	148,303	726,132
2015	2,247,390	1,453,995	-45,524	19,361	-81,419	1,206,812	0	386,990	644,713
2016	2,404,737	1,635,887	63,071	18,315	19,856	1,313,998	0	360,824	720,317
2017	2,308,190	1,512,060	134,605	16,922	92,910	1,459,096	0	332,860	813,227
2018	2,249,299	1,396,992	132,197	16,250	88,239	1,413,136	0	207,336	901,466

Table 31 Cost and earnings ratios

Source: Charity Commission for England and Wales

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Net Income / Loss in Sales
2014	57.7	6.4	0.3	5.1
2015	64.7	-2.0	0.9	-3.6
2016	68.0	2.6	0.8	0.8
2017	65.5	5.8	0.7	4.0
2018	62.1	5.9	0.7	3.9

Table 32 Balance Sheet ratios

Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total Assets	Total funds to total Assets
2014	0	12.5	61.4
2015	0	32.1	53.4
2016	0	27.5	54.8
2017	0	22.8	55.7
2018	0	14.7	63.8

Figure 28 Net income / Loss

Source: Charity Commission for England and Wales

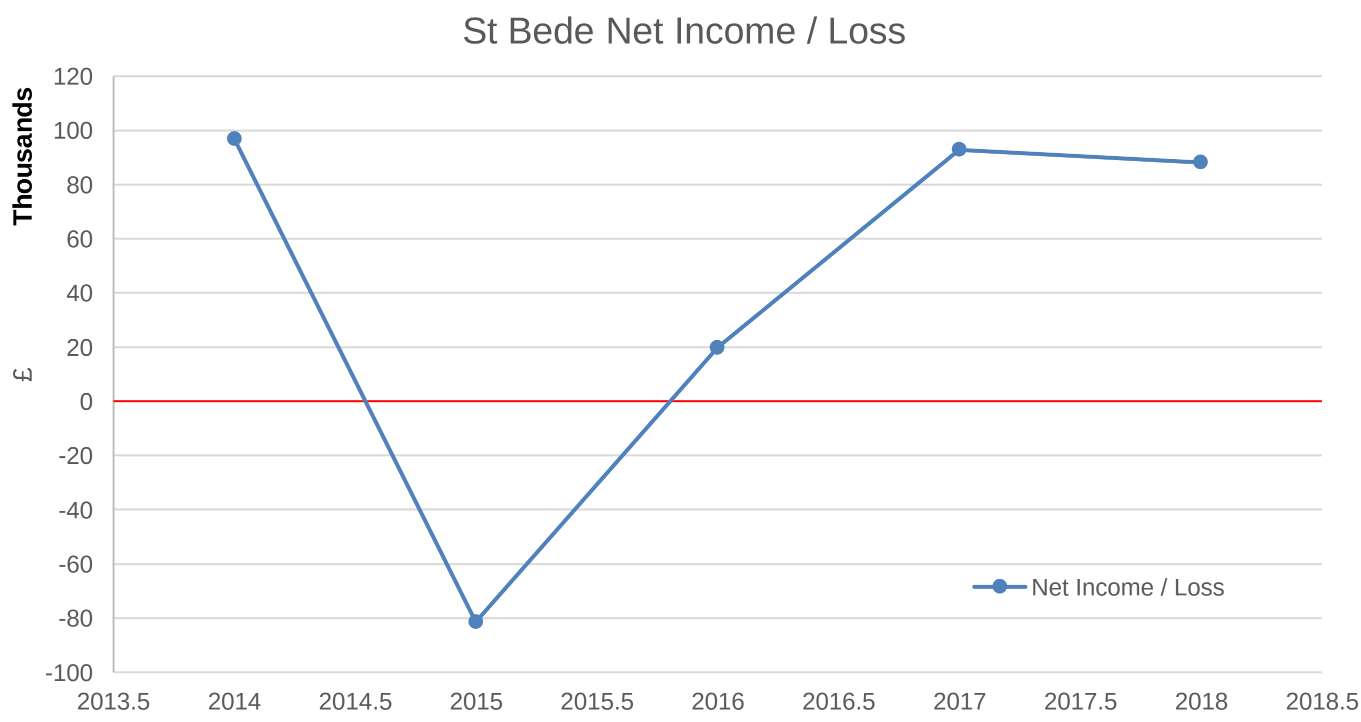


Figure 29 Long-term Debt

Source: Charity Commission for England and Wales

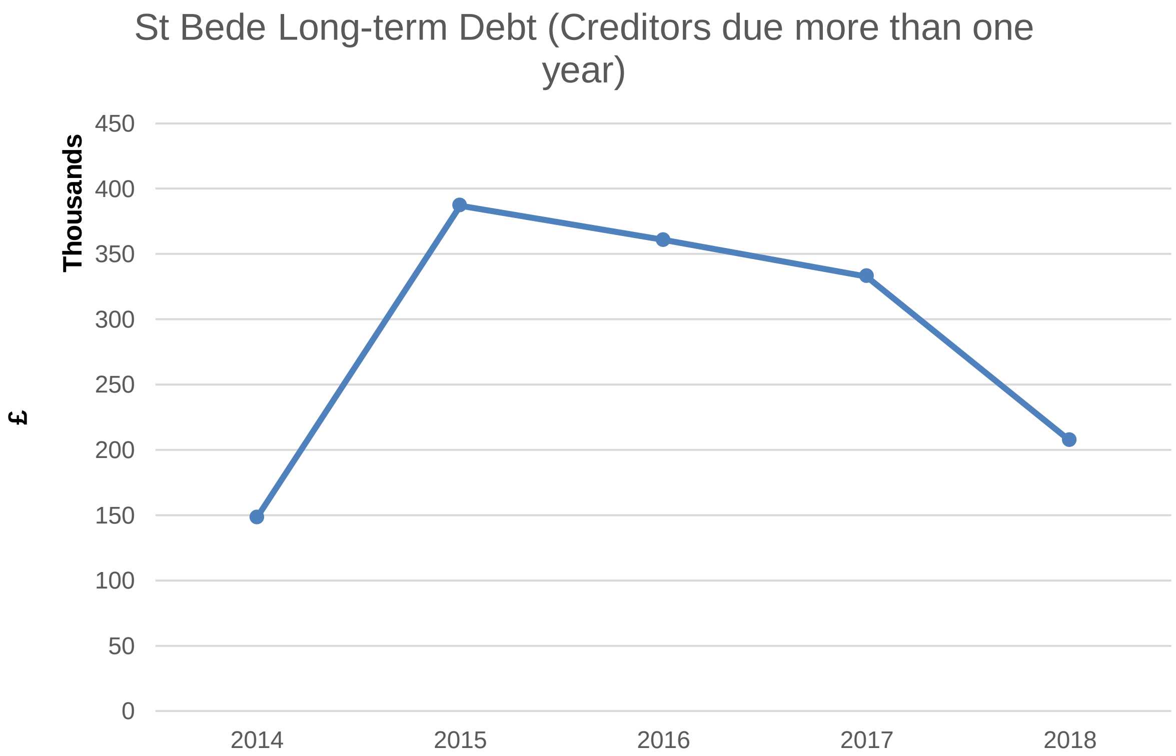


Figure 30 Balance sheet ratios

Source: Charity Commission for England and Wales

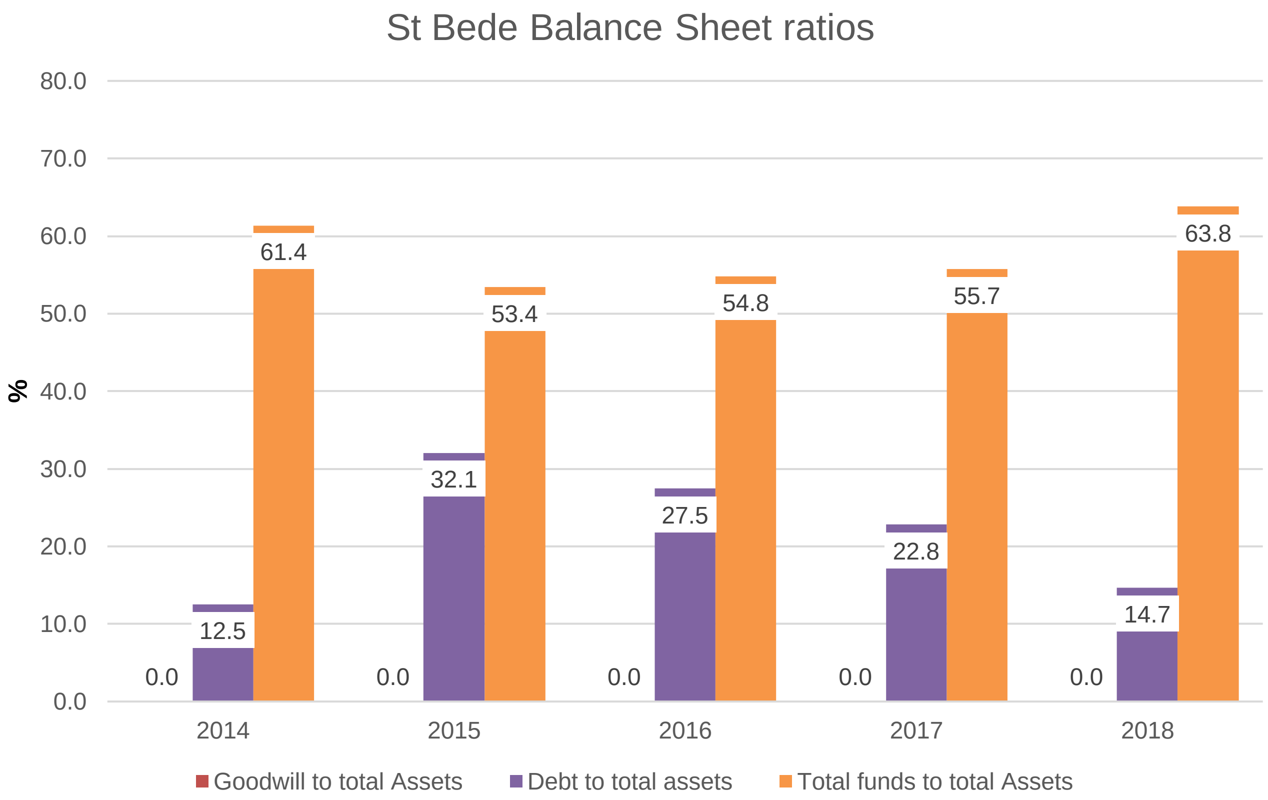


Figure 31 Wages to Sales

Source: Charity Commission for England and Wales

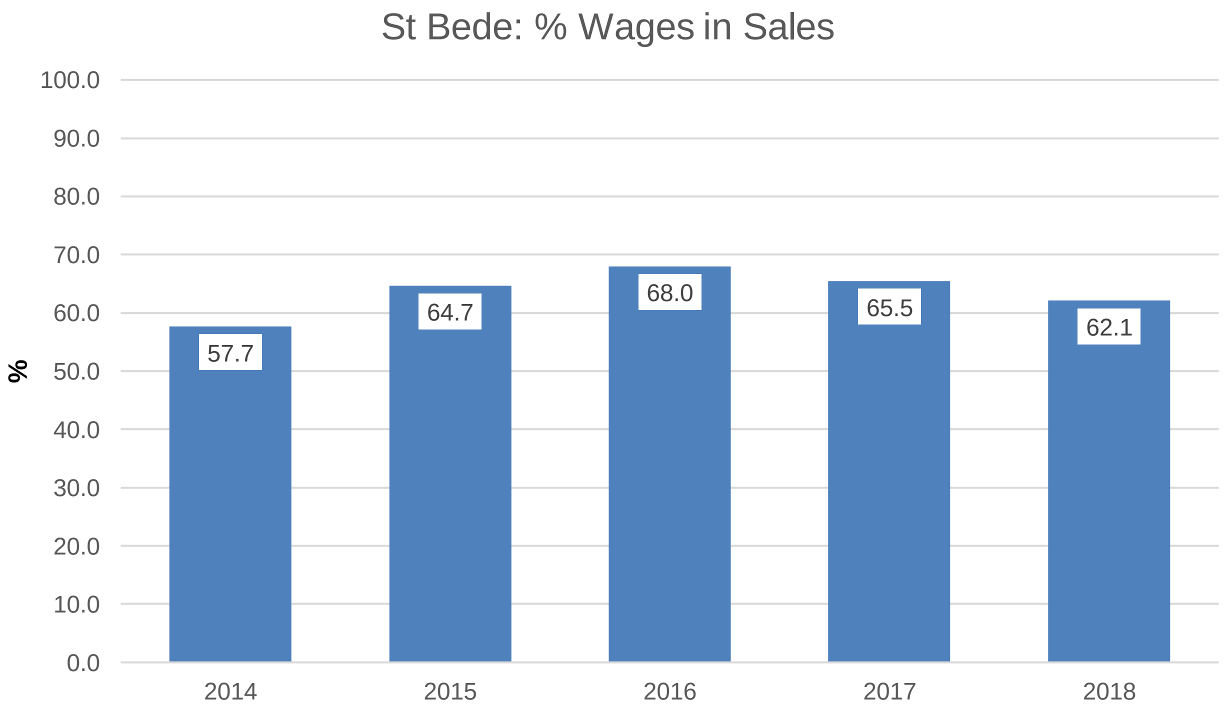
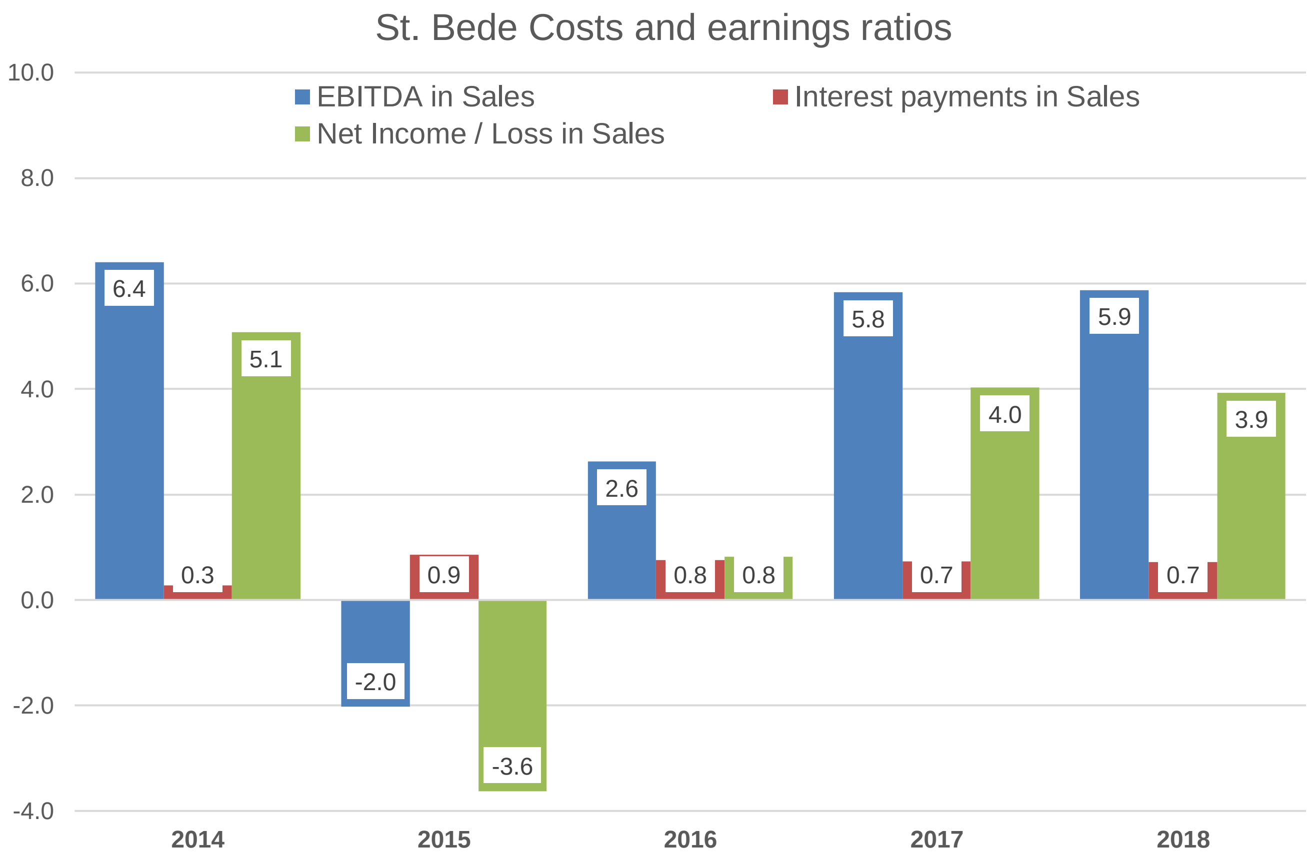


Figure 32 Cost and Earnings ratios

Source: Charity Commission for England and Wales



REVIEW AND ANALYSIS OF FINANCIAL PERFORMANCE

From the above analysis, and a review of the detailed annual report and financial statements, we can see that the chain is not-for-profit, and its income and assets are fairly stable, and borrowings are prudent and well-managed. The primary source of income is fees, but this is not broken down into how much is paid by parents, and how much comes from the government voucher scheme. The performance is steady, and the cash flow and reserves are fairly well managed. The largest cost of the chain is staff costs (see Figure 31), which is not surprising as it is in the service industry, and consistent with our findings for similar operations. The charitable and public values are clearly visible. For example, in page 3 of the 2016 audited accounts, they state in the trustees' report (Source: St Bede Childcare Ltd Annual Report 2016):

Plans for future periods

We would like to achieve outstanding OFSTED judgements at all venues.

We would like all venues to be running successfully and sustainably.

The trustees would like to further develop the Leigh building to incorporate a purpose-built Out of School Club and additional nursery provision when the government introduces 30 hours funded childcare for 3 and 4 year olds in September 2017.

The trustees continually look at how provision can be improved as well as opportunities for new venues.

It is an aspirational charity with a focus on childcare, and its steady management and growth has not outstripped its capacity, nor been reliant on heavy levels of borrowing. The only loss was made in 2015 of £81k (see Figure 28). This was a result of the set-up costs of new nurseries and facilities to expand capacity and take on more children and provide more facilities and equipment – three new nurseries were opened that year (source: 2015 annual report, p. 2).

The accounts explain that St Bede Childcare is both a registered charity and a company limited by guarantee, and the accounts are published according to the rules of the Charity Commission. They also state that as it is a registered charity, no taxation is payable (Source: 2018 annual report, p.15). The Trustees explain that they pay due regard to the need to provide public benefit, and during the year 2017/18 (trustees report, p. 3):

'A total of £3,559 has been spent in the year on the provision of free places to aid parents in hardship or children who need additional one to one care.'

This seems quite a small amount. As staff and resources of the primary school are used for the management and administration of St Bede Childcare, an annual management charge is applied – this was £215,632 in 2018 and £146,089 in 2017 (Source: 2018 accounts p. 17). The accounts do not explain the basis by which this management charge is actually calculated.

APPENDIX 2C YORK CHILDCARE

This is a registered charity and a company limited by guarantee, operating in the York area. Its stated objectives are (2018 annual report, p. 1):

> *Our objectives as an organisation are to provide quality and affordable childcare for children from 6 weeks to 16 years and in particular to support lone parents and those on low income. We achieve this both with the provision of nursery care and the work of supporting Out of School Clubs.*
>
> *As a policy we do not seek to means-test the users of our nurseries and the out of school clubs, and we offer Assisted Places to parents who are in receipt of certain State Benefits or who apply for a reduction in fees due to personal circumstances. As State Benefits change we review and update our criteria to ensure that as wide a group as possible can be considered for financial assistance.*
>
> *Our Out of School Support Service only works with out of school clubs that are 'not for profit'. The aim is to improve quality standards and ensure the clubs are sustainable in the longer term. A charge is made to cover the costs of the services provided.*
>
> *We believe that our activities further our charitable purposes which we provide for the wider public benefit.*

A review and analysis of the audited financial statements below demonstrates that they actually live by these values – they do not make a profit – and usually break even or make a small loss or surplus (see table 33, Figure 33); pay staff reasonably well; have low borrowings/loans and operate very prudently; and have a number of skilled volunteers who support the charity. In both 2018 and 2017, they provided £22K worth of support in terms of fee and other waivers to struggling families (2018 accounts, management report, p.2). They also do not own any property assets, all the buildings they use are either rented or leased, nor do they have Goodwill in the balance sheet (see Table 33). Funds and reserves are sufficient to support the business – none of the audited accounts have been qualified, and auditors do not see the business at risk of failure.

The 2018 management report in the annual accounts is ten pages long, the longest we have seen in the entire research project. It details the values, actions and achievements during the year. Such a lengthy report is not required, but it shows how committed the trustees are to openness and accountability. One key theme throughout the report is the importance of staff training and retention. They explain (p.7):

> *'We are continuing to ensure that our staff attend in-house training at least twice a year to help them apply the latest initiatives in early years care and education. In addition, the group of staff with a higher level of qualifications fulfils additional responsibilities to improve the quality and variety of care and education at all three settings. An enhancement to salary has been introduced for staff who are the appointed 'graduate leaders' at each setting in conjunction with the additional associated responsibilities. This also fulfils part of our retention strategy to enable us to keep the staff we have supported through years of training.'*

One critical and costly area of support is where children have special needs, or where struggling families need differing levels of support. Here again, we see York Childcare as an organisation which listens to parents/carers' needs and is willing to be flexible about the support that is provided. All this work is detailed in the 2018 management report (p. 4):

> *'All our nurseries now have strong links with local schools where the schools cannot provide pre-school nursery care on site and they work in partnership with the foundation classes at the school to ensure that the children have continuity of childcare. Heather's Nursery acts as the provider of this service to Acomb School and Scarcroft Green Nursery acts as the provider of this service to Scarcroft School. Joseph's Nursery has a wider catchment in the Clifton area of York. We provided this service to an average of 77 (2017: 70) children a term receiving Early Years funding and to an average of 10 (2017: 10) 'hard to reach 2-year old's' a term receiving Early Years funding. Occupancy at Joseph's, Heather's and Scarcroft Green Nurseries has remained good; at Scarcroft Green Nursery an after-school club for children in their first year at school continued to be offered within the nursery from*

September 2017 in response to requests from parents who were due to leave the nursery when their children started at the adjoining school, but there were no vacancies in the out of school club run by the school for them. This was reviewed on a termly basis to ensure that there was sufficient capacity within the nursery.

Although we received no further specific donations to support families at IDAS (the Independent Domestic Abuse Service, formerly known as York Women's Refuge) Scarcroft Green Nursery has provided childcare for 5 families and Joseph's Nursery has supported 1 family from IDAS.

All our nurseries work closely with social services to provide the right kind of support to families with an identified social or welfare need. Nursery staff attend planning and support meetings in addition to the ongoing support given though daily interaction with the parents of vulnerable children, some of whom are on the child protection register.

Joseph's Nursery has provided additional support for a child with SEND, with a successful application for 20 hours per week of Inclusion Funding to provide one-to-one support for the child on a part-time basis.

Heather's Nursery was also successful in securing additional inclusion funding for one child with special needs. This allowed focused one-to-one time between the child and keyperson/SENCO. The funds were used to support the child with MSP targets and help to access provision during the parts of the day the child found challenging. Due to location we have a high demand for 2-year-old funded places at this nursery, often requiring additional support from our staff.'

The information below provides a summary of the key financial indicators, and a trend analysis of these over a five-year period. With an annual revenue of approximately £1 million (Table 1), it is a sizable charity, and the figures demonstrate that its motives are non-profit. The cash flow statements provided in the accounts show that the liquidity of the charity is well-managed, something very critical when an organisation operates with such tight budgetary constraints. The management realise the importance of monitoring this risk and have so far done this effectively, without the need for a bank overdraft in the last few years.

York Childcare

Table 33 Basic data from accounts
Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Goodwill (Intangible Assets)	Long-term Debt (Creditors due >1 year)	Total Funds (Restricted & Unrestricted)
2014	1,005,552	742,623	-9,725	978	-36,462	386,690	0	34,191	190,786
2015	952,622	721,125	-11,089	678	-35,253	308,981	0	13,666	155,533
2016	986,998	717,975	5,591	372	-12,756	249,666	0	0	142,777
2017	1,112,109	771,546	70,114	71	58,526	338,689	0	0	201,303
2018	1,172,988	867,626	1,283	0	-8,957	329,852	0	0	192,346

Table 34 Cost and earnings ratios
Source: Charity Commission for England and Wales

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Net Income / Loss in Sales
	%	%	%	%
2014	73.85	-1.0	0.1	-3.6
2015	75.70	-1.2	0.1	-3.7
2016	72.74	0.6	0.0	-1.3
2017	69.38	6.3	0.0	5.3
2018	73.97	0.1	0.0	-0.8

Table 35 Balance sheet ratios
Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total Assets	Total funds to total Assets
	%	%	%
2014	0.0	8.8	49.3
2015	0.0	4.4	50.3
2016	0.0	0.0	57.2
2017	0.0	0.0	59.4
2018	0.0	0.0	58.3

Figure 33 Net income / Loss
Source: Charity Commission for England and Wales

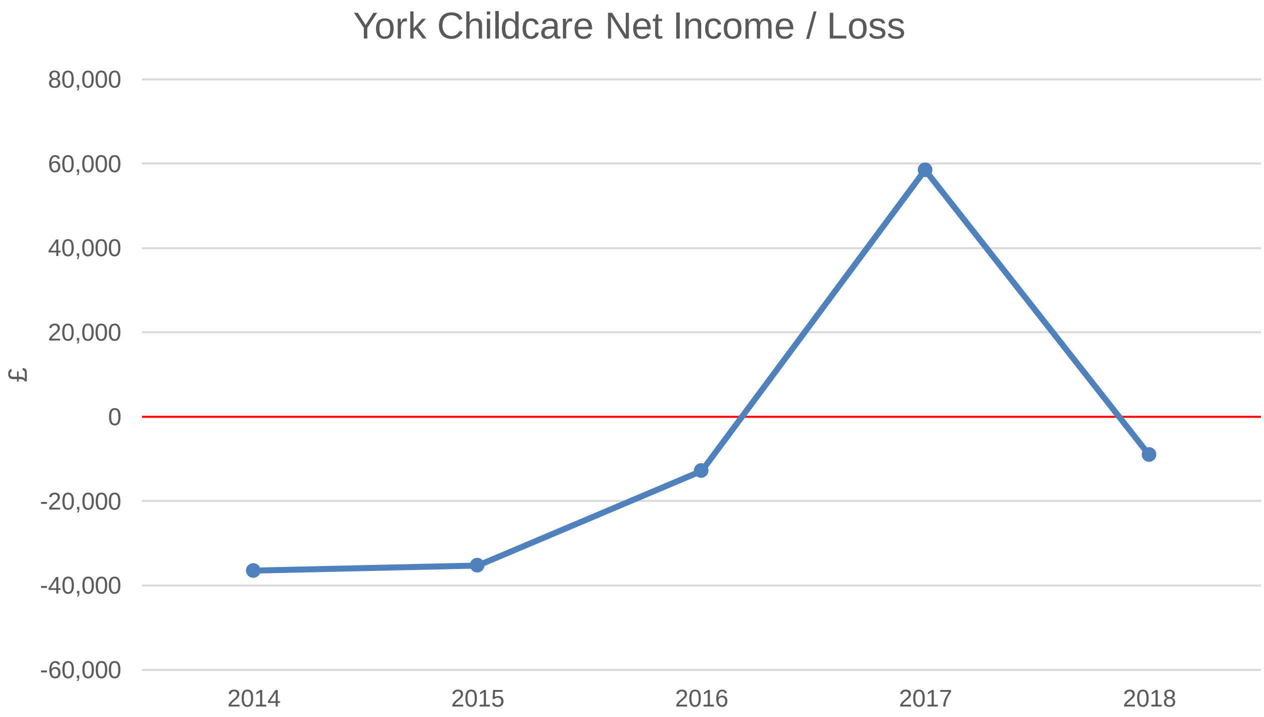


Figure 34 Long-term Debt
Source: Charity Commission for England and Wales

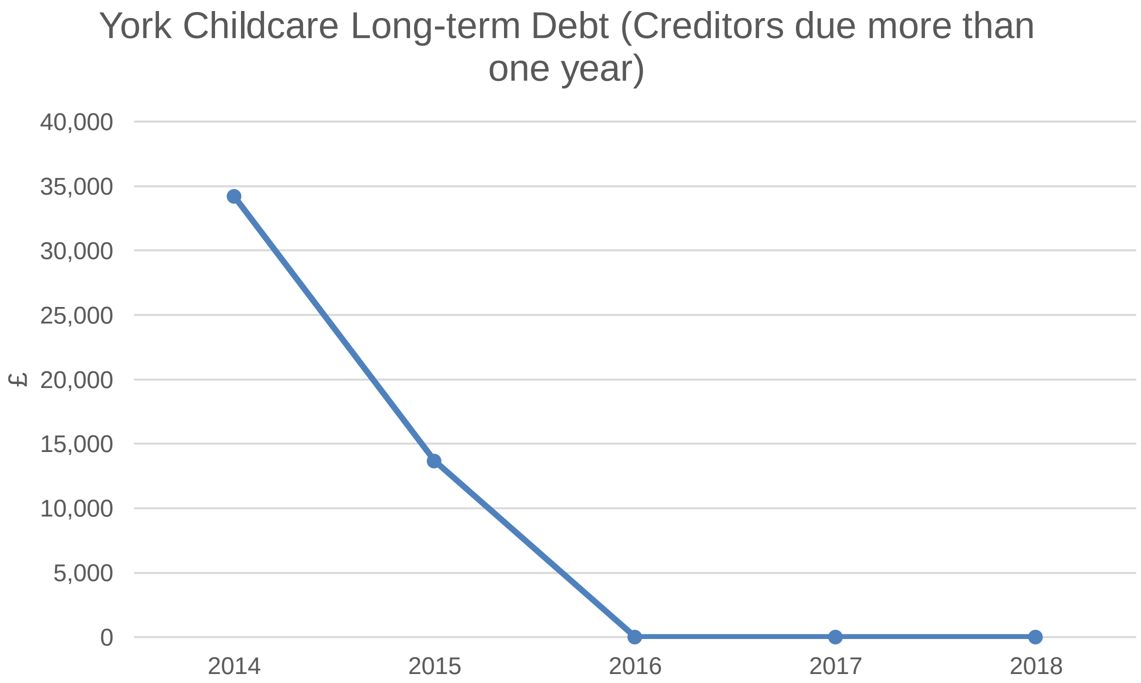


Figure 35 Balance sheet ratios
Source: Charity Commission for England and Wales

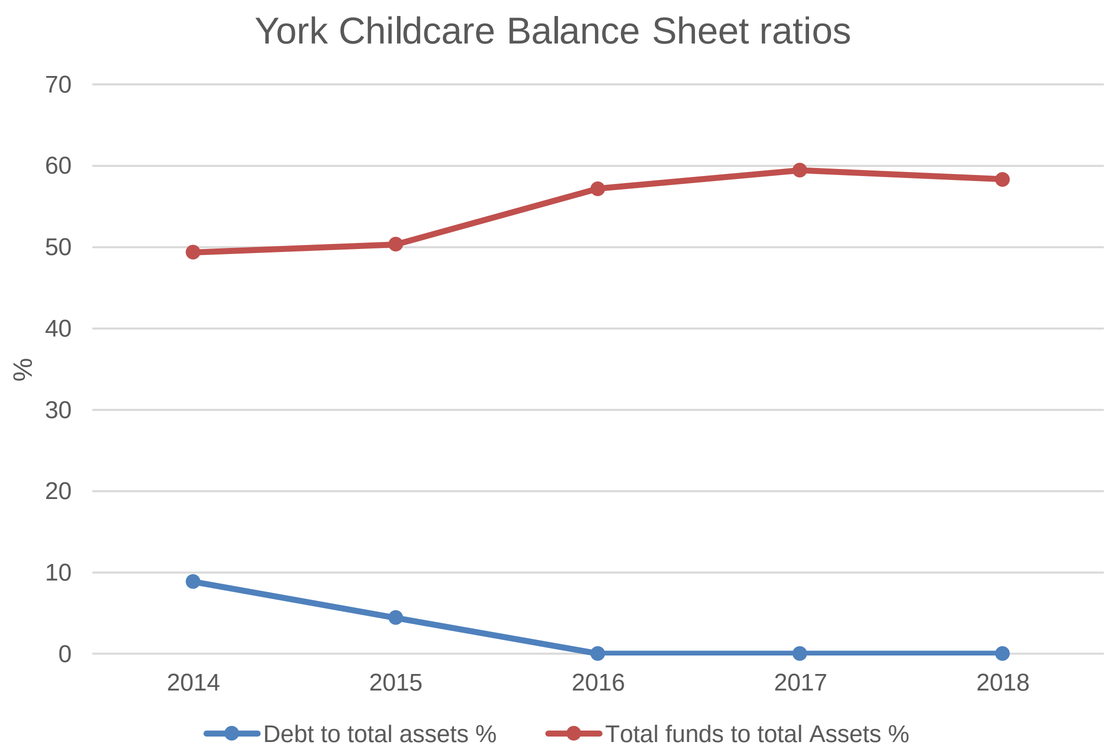


Figure 36 Wages to Sales
Source: Charity Commission for England and Wales

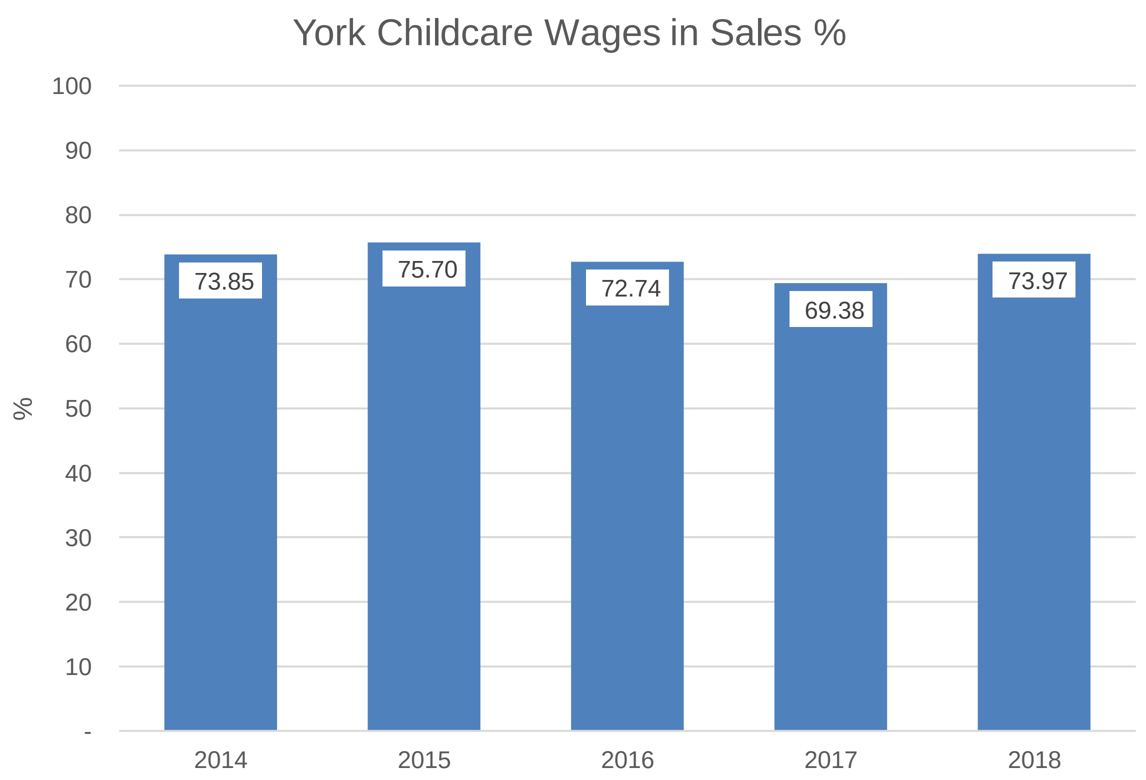
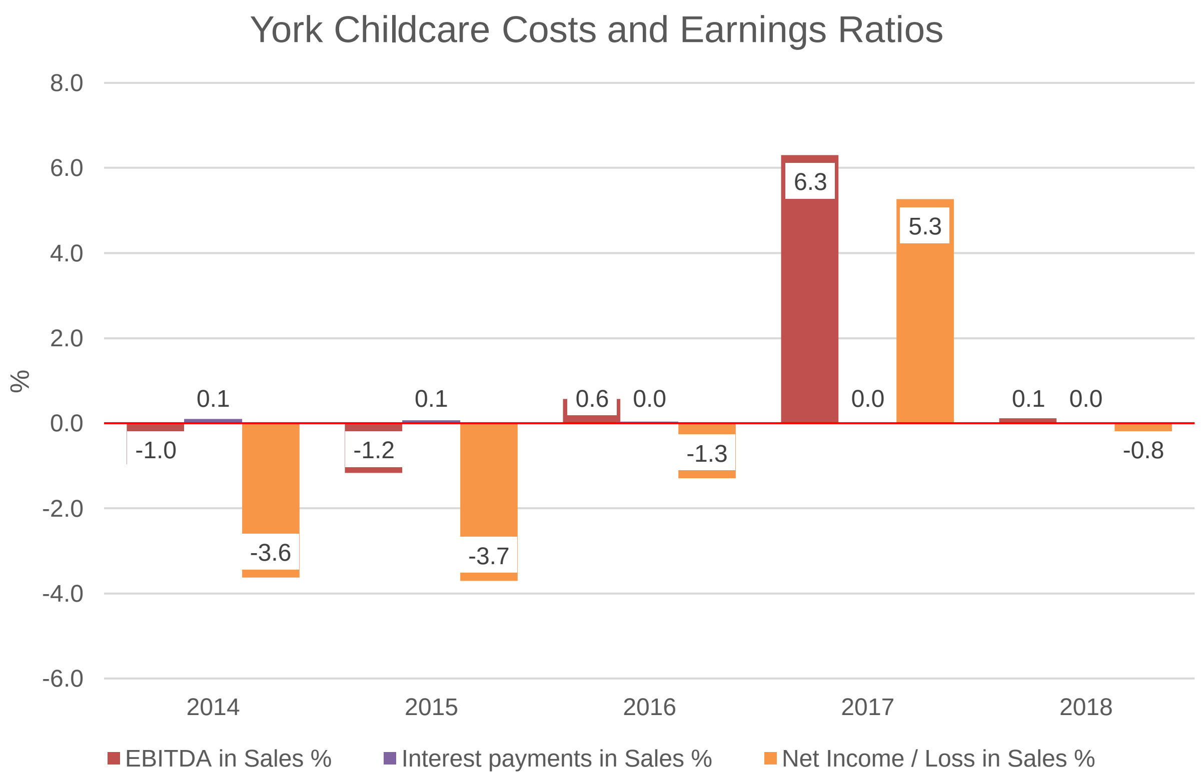


Figure 37 Cost and Earnings ratios
Source: Charity Commission for England and Wales



APPENDIX 2D CHILD DYNAMIX

Set up in 2005, Child Dynamix is a charity which runs several day nurseries in the Hull area, and some youth and adult care centres. They explain in their 2018 report (p.2): 'Over the course of the year 2017-18 Child Dynamix staff and volunteers have worked with 4303 children and young people and 1042 adults/carers in communities across Hull.' They hold the 'Investor in Volunteering' standard, and during the year obtained an average of 2,380 hours of volunteering support. They also have a wholly owned trading arm called 'Child Dynamix Trading Ltd.' A review of the accounts shows that their income base is not solely on childcare fees or vouchers – it is much more diversified, with grants from organisations like the Big Lottery or Hull City Council, other trusts and foundations, a small amount of commercial income, and some fees from parents and childcare vouchers. In general, the financial statements are detailed, and give a clear breakdown of the different sources of income and the different lines of expenditure, making them easier to interpret. Throughout the five-year period 2014-2018, their accounts have been audited and unqualified – they consistently provide a true and fair view, and the auditors have not raised any concerns related to the viability of the charity. Also given that wages and salaries are on average 74% of their income, the charity can be viewed as a job creator in an economically depressed region, in addition to childcare provision.

From the audited accounts, the following financial numbers were extracted, and a comparative and trend analysis is presented here:

Table 36 Basic data from accounts

Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Of which: Goodwill (Intangible Assets)	Long-term Debt (Creditors due >1 year)	Total Funds (Restricted & Unrestricted)
2014	1,526,984	1,159,924	30,068	867	618	229,726	0	8,889	200,859
2015	1,801,594	1,297,289	80,831	1,300	56,462	254,319	0	2,222	257,321
2016	1,713,072	1,347,643	-87,293	1,300	-106,599	209,049	0	0	150,722
2017	1,661,761	1,174,110	93,008	14,676	58,479	548,144	0	254,630	209,201
2018	1,474,248	1,103,168	18,291	16,353	-22,851	548,162	0	248,656	186,350

Table 37 Cost and earnings ratios

Source: Charity Commission for England and Wales

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Net Income / Loss in Sales
	%	%	%	%
2014	75.96	2.0	0.1	0.0
2015	72.01	4.5	0.1	3.1
2016	78.67	-5.1	0.1	-6.2
2017	70.65	5.6	0.9	3.5
2018	74.83	1.2	1.1	-1.6

Table 38 Balance sheet ratios

Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total assets	Total funds to total Assets
	%	%	%
2014	0.0	3.9	87.4
2015	0.0	0.9	101.2
2016	0.0	0.0	72.1
2017	0.0	46.5	38.2
2018	0.0	45.4	34.0

Figure 38 Income Sources 2018

Source: Charity Commission for England and Wales

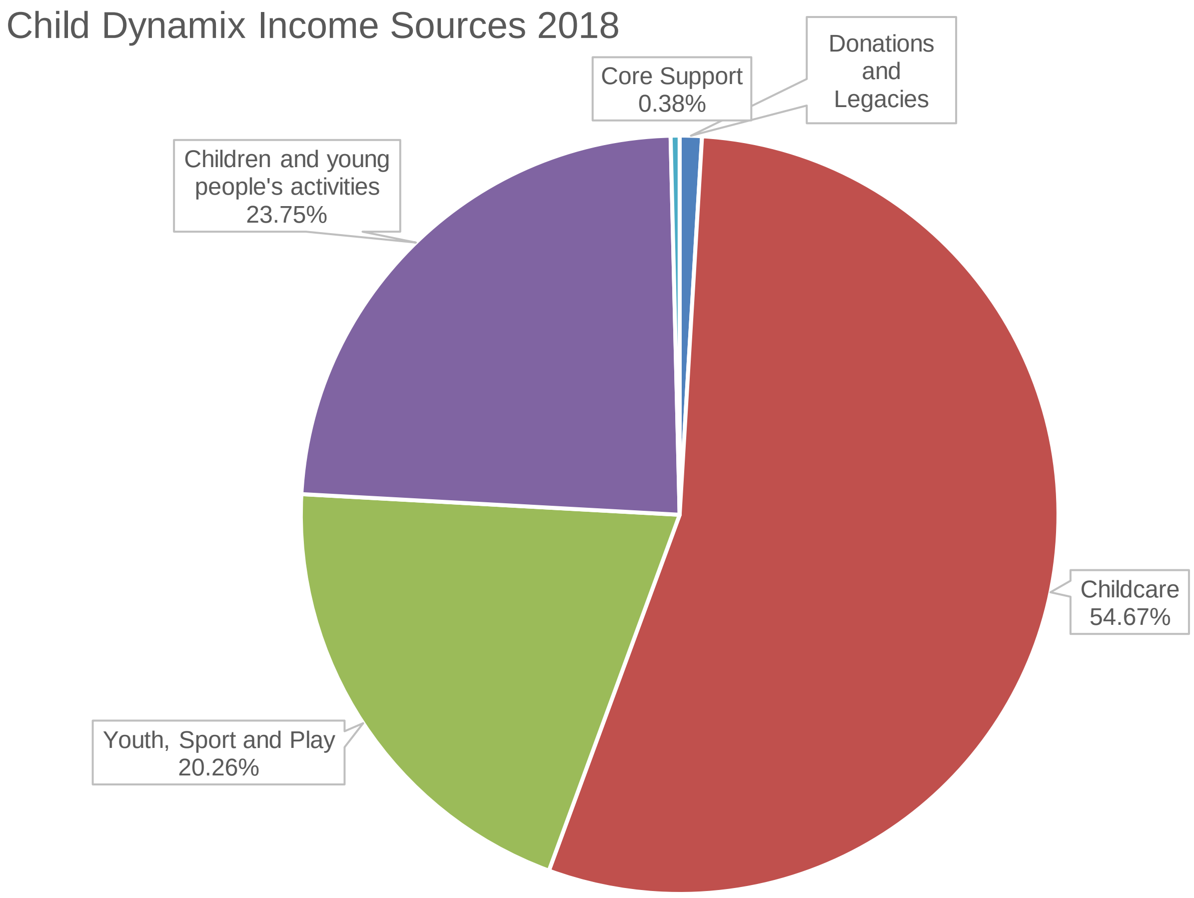


Figure 39 Net income / Loss

Source: Charity Commission for England and Wales

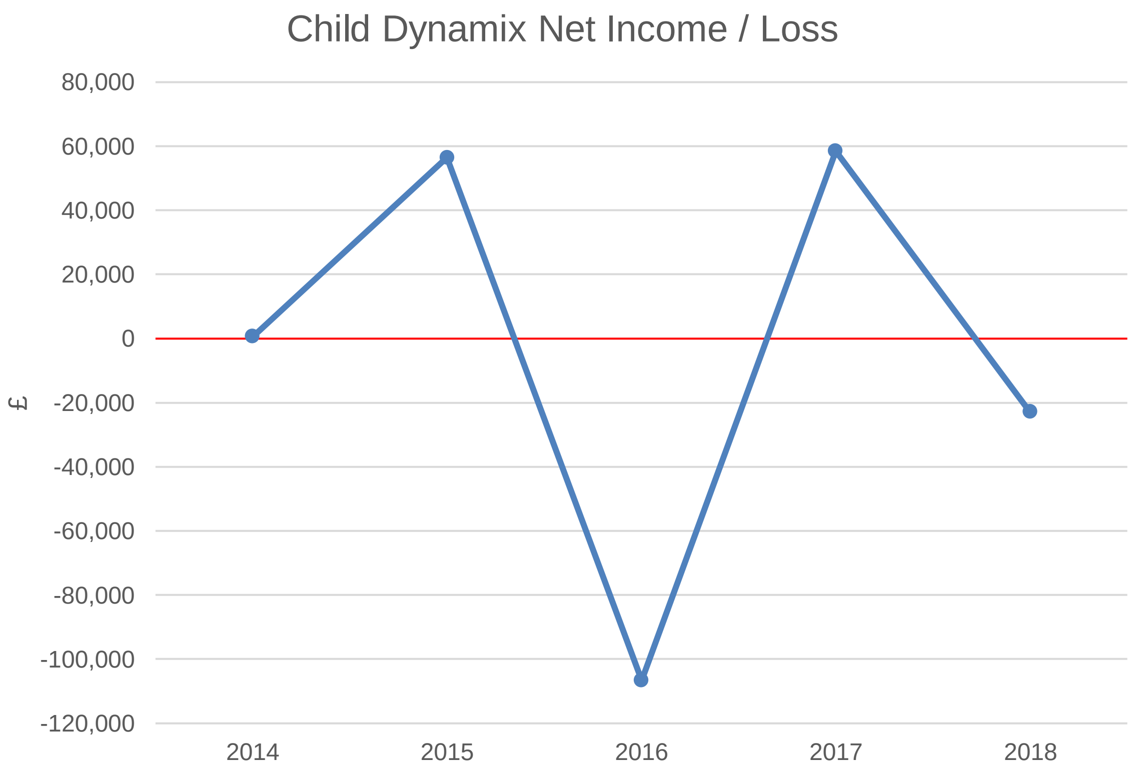


Figure 40 Balance sheet ratios

Source: Charity Commission for England and Wales

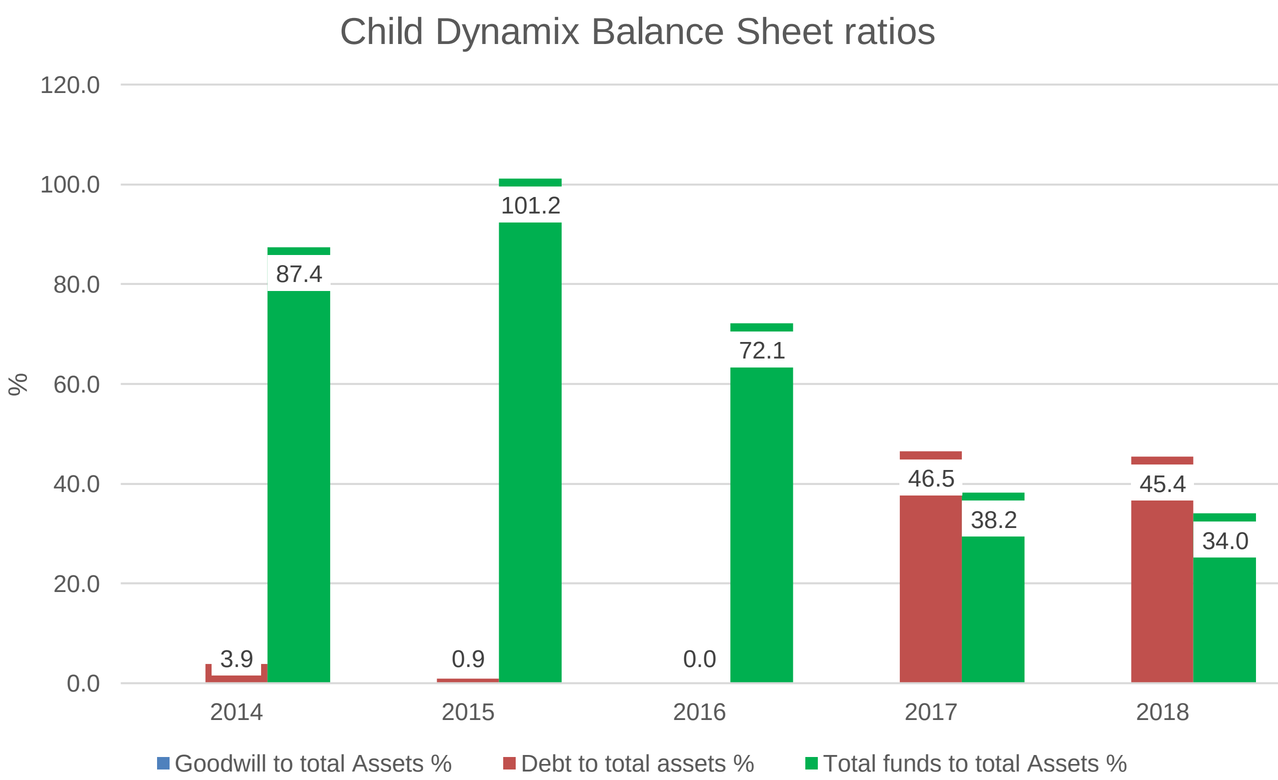


Figure 41 Wages to Sales
Source: Charity Commission for England and Wales

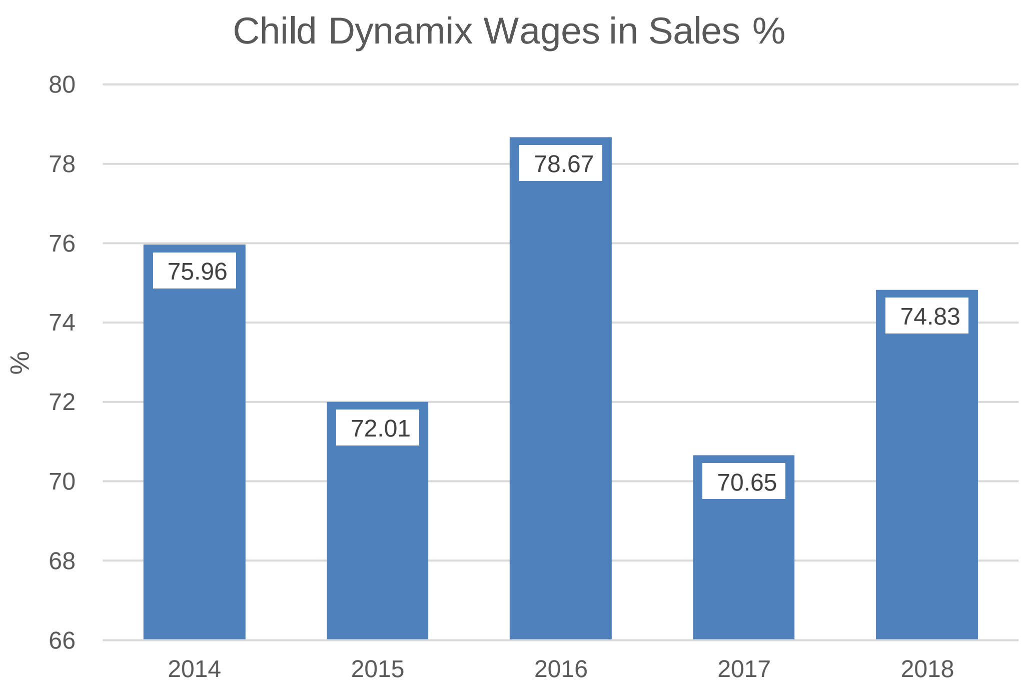
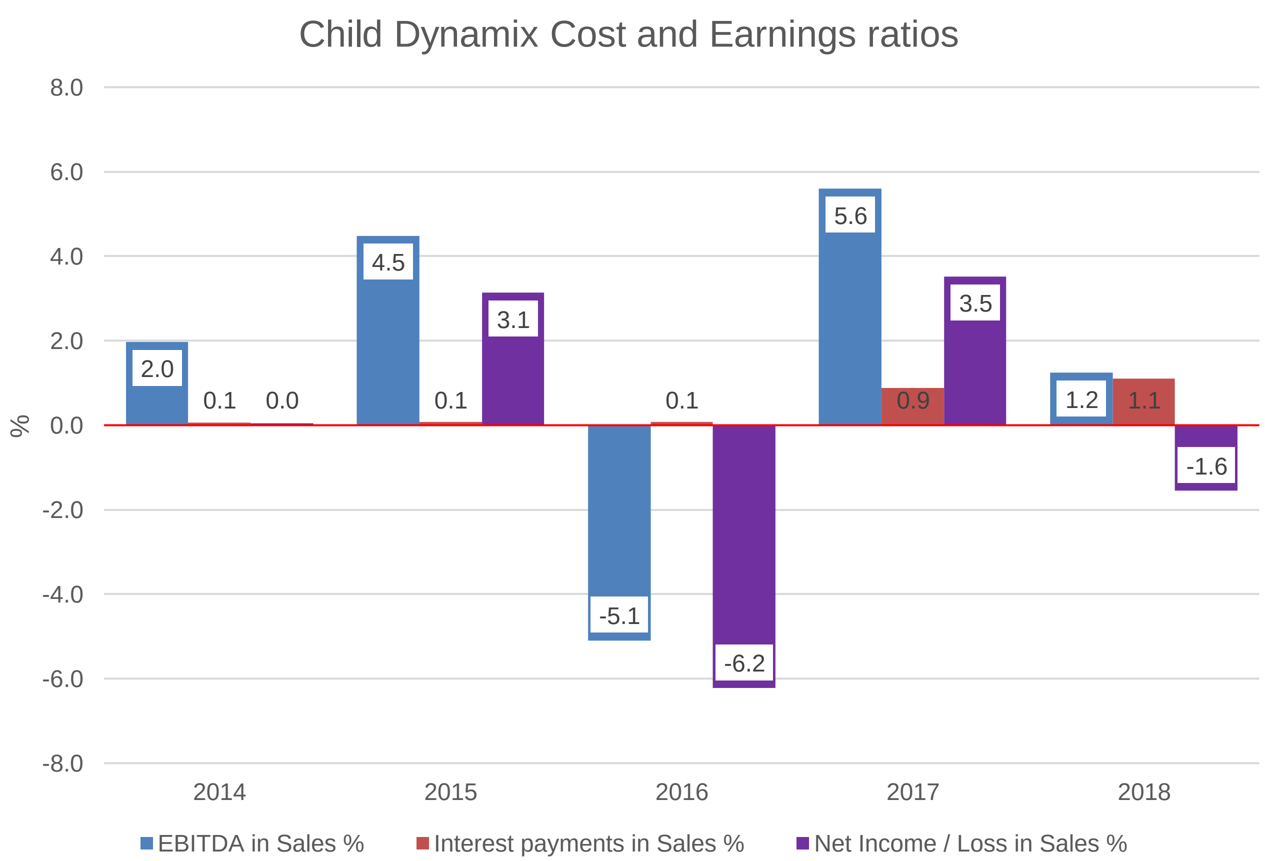


Figure 42 Cost and Earnings ratios
Source: Charity Commission for England and Wales



From the above, we can see that 2016 was a difficult year for financial performance, when a net loss of £87k (see Table 36, Figure 38) was generated, although this was cushioned by existing reserves. Like other similar organisations, the bulk of the costs relate to staff wages, which average at around 74.5% of income every year (see Figure 41). Borrowings are relatively low, although loans jumped to £254k in 2017 due to a new mortgage to finance the purchase of a new property. The financial management of the charity is inconsistent, and in 2016, they also had a significant net negative cash flow of £112,803 (source: 2016 accounts), which for the size of the charity, makes them vulnerable. Unfortunately, the trustees report for 2016 makes no reference to the loss or the cash flow situation for that year. Given that this was an aberration from the norm, it should have been discussed and corrective actions suggested. Like the other social enterprises, they do not have any goodwill in the accounts (see Table 36).

APPENDIX 2E CHILDCARE AND BUSINESS CONSULTANCY SERVICES

CBCS is a London-based registered charity and company limited by guarantee, founded in 2000. In trustees' report of their 2017 accounts (p.3), they explain their purpose and activities:

The primary aims of the association as defined in its Constitution are "to advance the education and development of children up to the age of 11 years by encouraging parents to understand and provide for the needs of their children through community groups by:

- *Encouraging the formation of groups offering appropriate play facilities, together with the opportunity for parents to take responsibility for and to become involved in the activities of such groups.*
- *Offering continuing support, encouragement and help to such groups, and in particular to ensure that such groups offer opportunity for all children regardless of race, culture, religion, disability or means.*
- *Holding courses, discussions, conferences and meetings and publishing magazines, books, pamphlets and papers relating to the aforesaid aims.*
- *Developing or encouraging appropriate training for the achievement of the aforesaid aims.*
- *Encouraging the study of the needs of such children and their families and advancing the education of the general public in recognition of such needs.*
- *Co-operating with other charitable organisations having similar aims anywhere in the world.*
- *Co-operating with statutory and other services.*
- *Doing all such other lawful things that are necessary or desirable for the attainment of the aforesaid aim."*

They run childcare activities in several areas of London – Putney, Wandsworth, Hammersmith & Fulham, Balham & Tooting, Battersea (source: 2017 accounts p. 7). CBCS do not own any property of their own. The income they generate comes from a variety of sources – parental fees, grants, donations, management fees and sundry income (source: 2017 accounts p. 15; see Figure 43). By and large, their financial management throughout the study period has been prudent, and none of the audited accounts have been qualified. From the financial analysis below, we can see that they have made losses in two years – 2014 and 2018 (see Table 39, Figure 44), showing how delicate the financial management of such organisations is, in an environment where there are such severe cuts to children's services and growing demand for subsidised care. They have managed to keep positive reserves throughout, giving stability and resilience to the charity. The financial statements give a very detailed account of the revenues and expenses, something which we have not found in the annual reports of profit-oriented companies. There is also very little complexity or financial engineering, and no goodwill has been accumulated throughout the study period (see Table 39, Figure 46). Staff wages and payroll remains the biggest cost for the charity (Table 39, Figure 47), and they have admitted in their accounts that due to the London location, they struggle to recruit and retain good quality staff (for example, 2017 accounts p. 3). An overall reading and analysis of the five years of audited financial statements shows that there is a culture of care within the organisation and a desire to provide quality services at affordable prices, and keep them manageable and sustainable, with partnership working. None of the trustees of the organisation are paid.

Childcare and Business Consultancy Services

Table 39 Basic data from accounts
Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Goodwill (Intangible Assets)	Long-term Debt (Creditors due >1 year)	Total Funds (Restricted & Unrestricted)
2014	802,027	524,258	-127,070	0	-130,898	322,858	0	0	244,262
2015	1,221,764	738,401	36,420	0	31,692	405,922	0	0	275,954
2016	1,209,474	719,570	102,490	0	99,311	438,761	0	0	375,265
2017	1,643,504	1,167,427	105,997	0	99,295	556,075	0	0	474,560
2018	1,731,025	1,382,877	-110,155	0	-119,657	488,634	0	0	354,903

Table 40 Cost and earnings ratios

Source: Charity Commission for England and Wales

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Net Income / Loss in Sales
	%	%	%	%
2014	65.37	-15.8	0.0	-16.3
2015	60.44	3.0	0.0	2.6
2016	59.49	8.5	0.0	8.2
2017	71.03	6.4	0.0	6.0
2018	79.89	-6.4	0.0	-6.9

Table 41 Balance sheet ratios

Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total Assets	Total funds to total Assets
	%	%	%
2014	0.0	0.0	75.7
2015	0.0	0.0	68.0
2016	0.0	0.0	85.5
2017	0.0	0.0	85.3
2018	0.0	0.0	72.6

Figure 43 Income Sources 2018
Source: Charity Commission for England and Wales

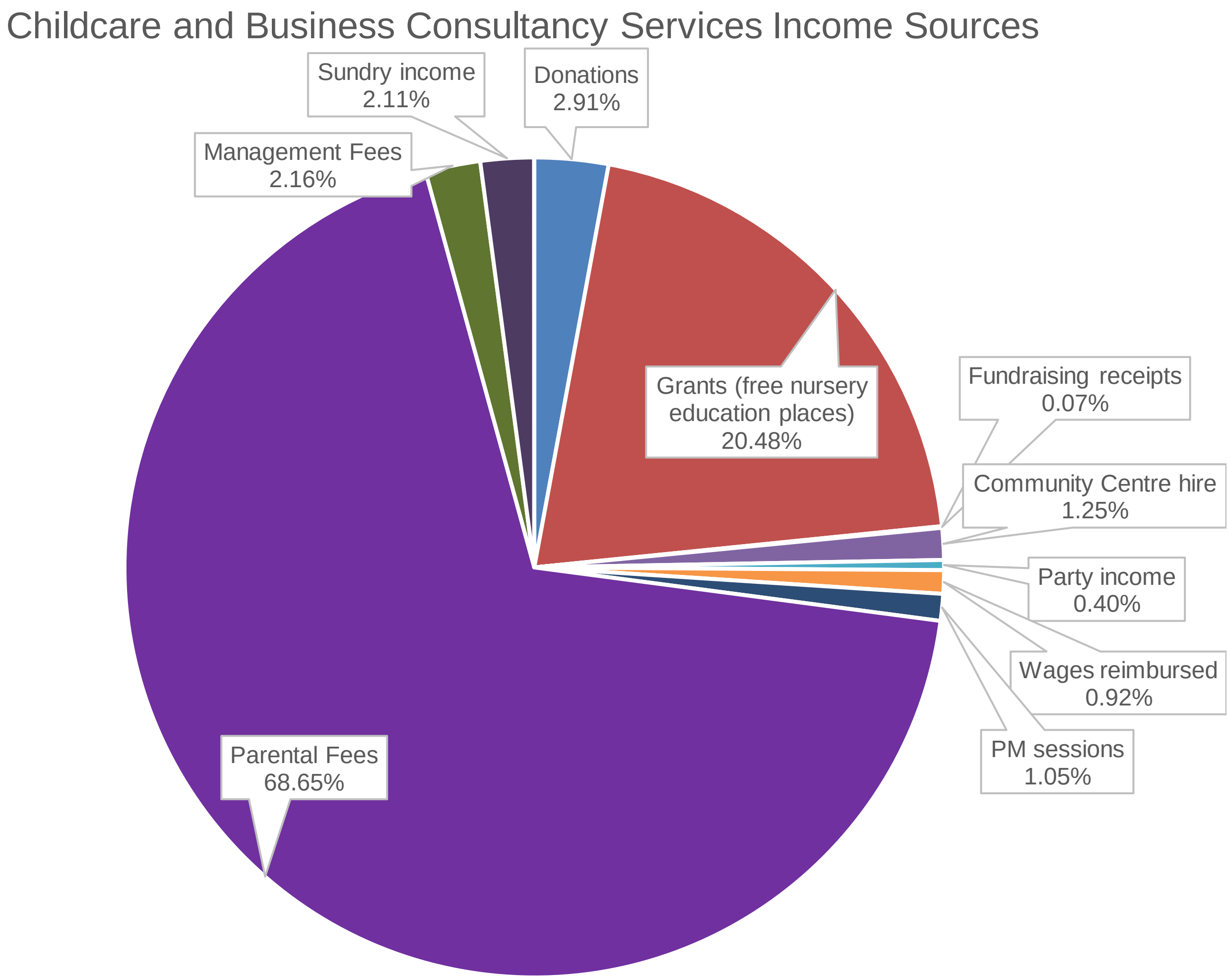


Figure 44 Net income / Loss
Source: Charity Commission for England and Wales

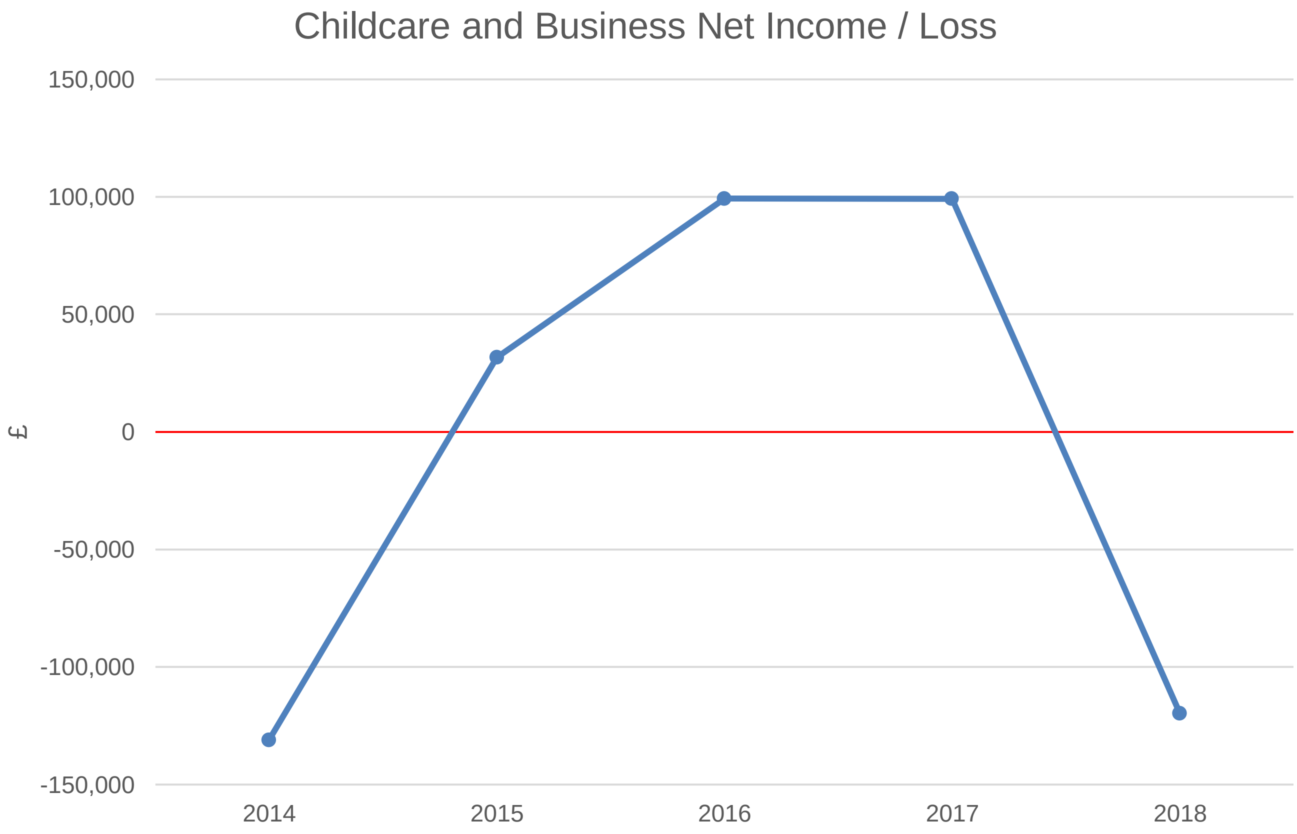


Figure 45 Balance sheet ratios
Source: Charity Commission for England and Wales

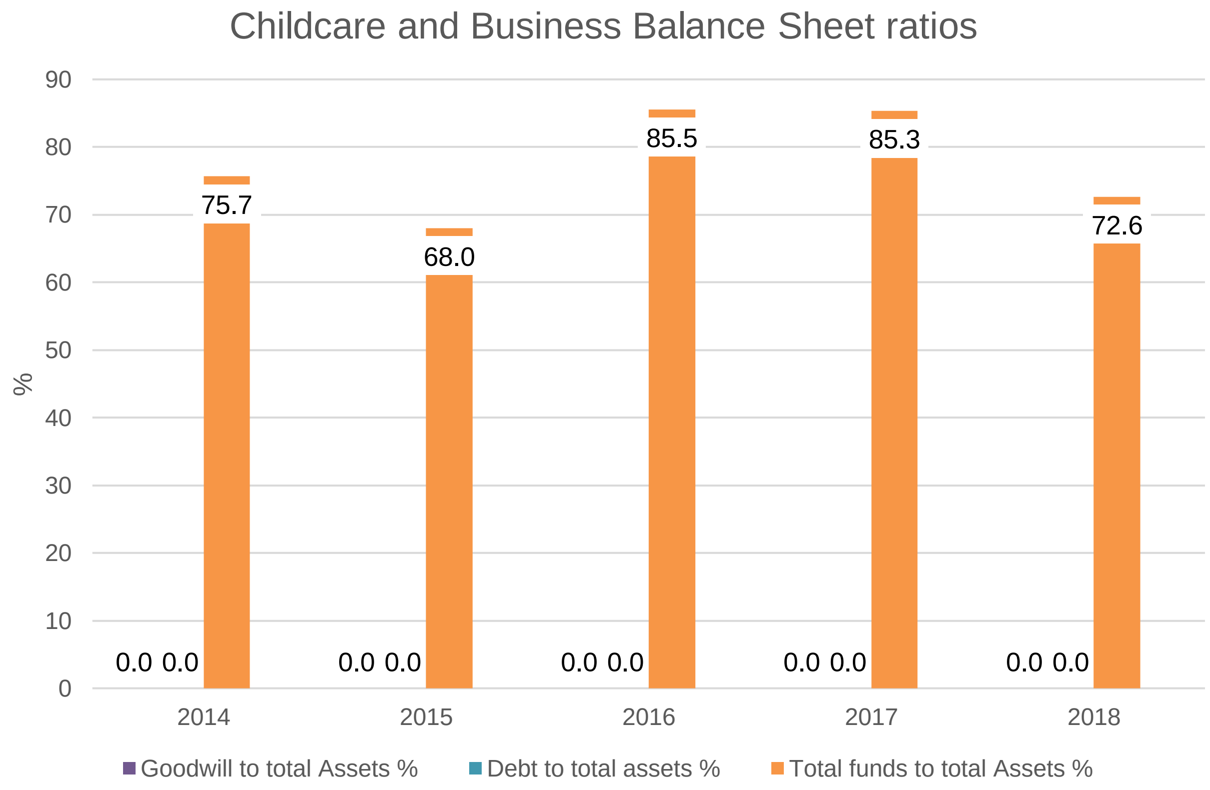


Figure 46 Wages to Sales
Source: Charity Commission for England and Wales

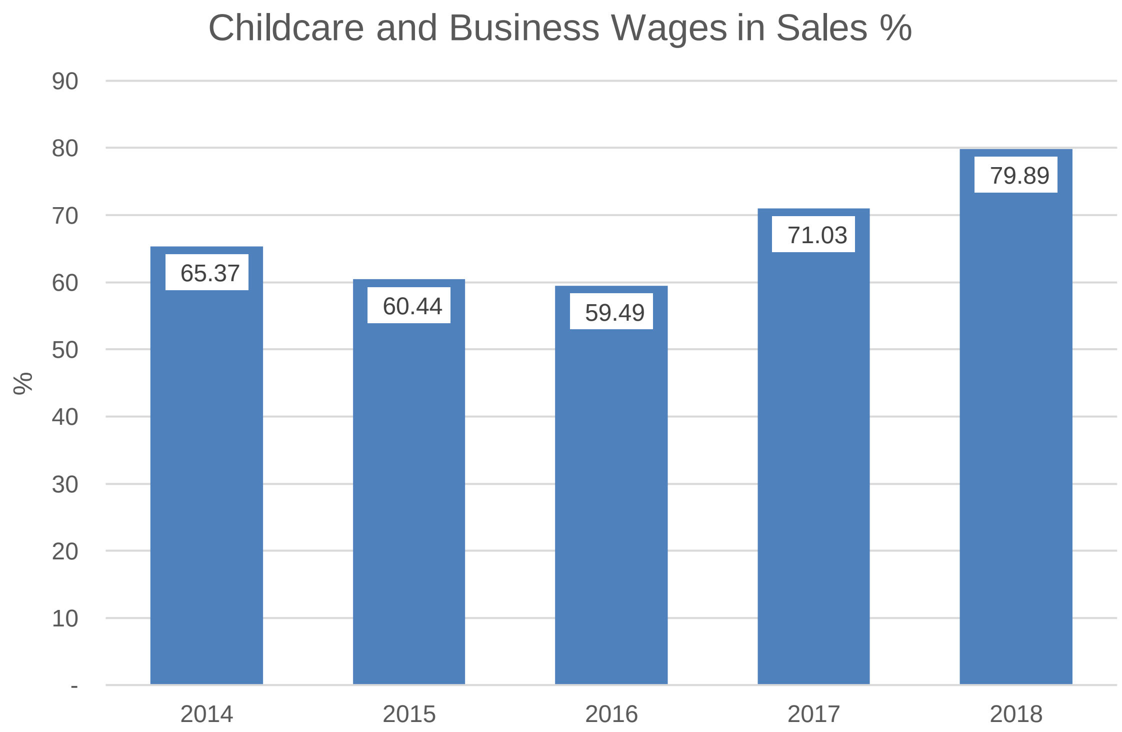
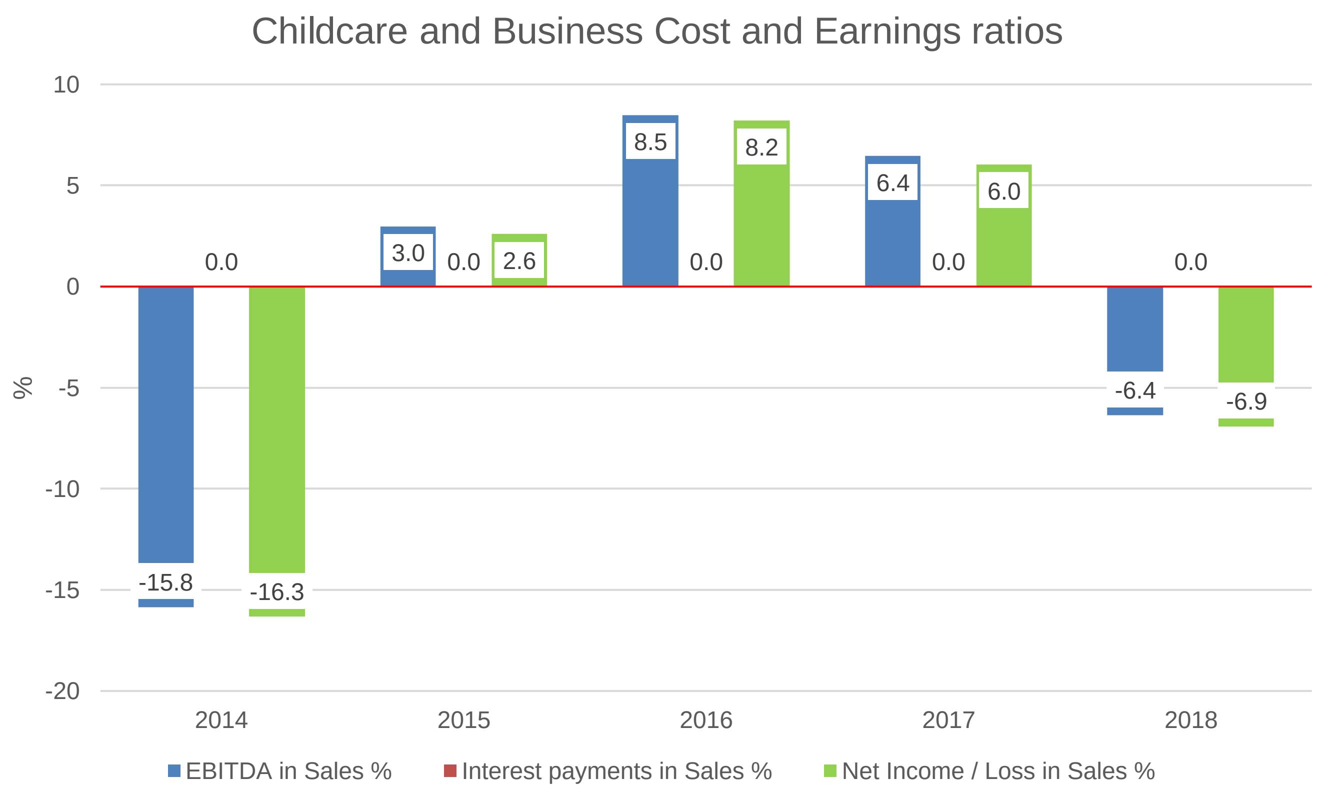


Figure 47 Cost and Earnings ratios
Source: Charity Commission for England and Wales



APPENDIX 2F COMMUNITY CHILDCARE CENTRES (GROWING PLACES)

This charity was founded in 2001 and it has twelve childcare settings, providing day and after-school care to children up to the age of eleven living in the Boroughs of Havant and Fareham. All settings are registered with Ofsted. The trading name for the nurseries is ‘Growing Places’. Their ethos includes (2018 annual report p. 3):

> *Growing Places will RAISE THE ASPIRATIONS for all who are part of our settings.*
>
> *We provide a range of opportunities to encourage children to explore, think for themselves, find solutions and know that it is ok to make mistakes: In doing so, we build children’s resilience, self-esteem and self-belief, encouraging positive attitudes to future learning.*
>
> *To do this, we:*
>
> - *Value each child as an individual, with their own needs and interests;*
> - *Value our teams, ensuring continued investment in individuals’ staff development, to be the best they can be;*
> - *Value our families and wider community: creating a diverse environment with tolerance and understanding towards each other;*

The annual reports detail a range of activities and services which suggest the public purpose of the charity (source: 2017 and 2018 trustee reports):

- *Support for children with special educational needs*
- *Support for children and parents for whom English is a second language*
- *Partnership working with other local agencies where children need multi-agency support*
- *Free meals for children suffering hardship*
- *Financial support for childcare with easy payment terms for struggling families*
- *Good outdoor spaces and activities for children*
- *Good staff training, working conditions and above-market pay rates.*

Growing Places also have some innovative care practices – for example (2016 annual report page 7):

> *‘All of the nurseries have family pods to encourage strong attachments and foster a sense of belonging. The pod areas are set up with familiar objects and photos from home. They are cosy areas where the children have their meals and sleep (if necessary) and are accessible during the day for small group work. Each pod has at least 2 Key People who share responsibility for a group of children's care, welfare and education needs, recording and sharing developmental achievements with parents.’*

They have a Board of Trustees and a management team and produce annual accounts which are audited every year. None of these have been qualified during the five-year period studied below. They are also financially healthy, growing their reserves every year with a healthy total reserve of £891,167 at the end of 2018 (see Table 42). The financial analysis below shows that the charity does not engage in any complex financial engineering, with zero borrowings (see Table 42), and is prudently managed.

Community Childcare Centres (Growing Places)

Table 42 Basic data from accounts

Source: Charity Commission for England and Wales

£	Total Income	Wages and Salaries	EBITDA	Interest Payments	Net Income / Loss	Total Assets	Goodwill (Intangible Assets)	Long-term Debt (Creditors due > one year)	Total Funds (Restricted & Unrestricted)
2014	1,489,237	1,078,378	27,988	0	15,601	760,830	0	0	719,379
2015	1,520,721	1,140,819	33,466	0	14,539	774,417	0	0	733,918
2016	1,499,973	1,108,728	30,090	0	10,232	794,845	0	0	744,150
2017	1,627,735	1,137,227	30,431	0	10,232	904,197	0	0	858,829
2018	1,857,147	1,367,663	54,456	0	32,338	1,156,005	0	0	891,167

Table 43 Cost and earnings ratios
Source: Charity Commission for England and Wales

	Wages to Sales	EBITDA in Sales	Interest payments in Sales	Net Income / Loss in Sales
	%	%	%	%
2014	72.41	1.9	0.0	1.0
2015	75.02	2.2	0.0	1.0
2016	73.92	2.0	0.0	0.7
2017	69.88	1.9	0.0	0.6
2018	73.61	2.9	0.0	1.7

Table 44 Balance sheet ratios
Source: Charity Commission for England and Wales

	Goodwill to total Assets	Debt to total Assets	Total funds to total Assets
	%	%	%
2014	0.0	0.0	94.6
2015	0.0	0.0	94.8
2016	0.0	0.0	93.6
2017	0.0	0.0	95.0
2018	0.0	0.0	77.1

Figure 48 Net income / Loss
Source: Charity Commission for England and Wales

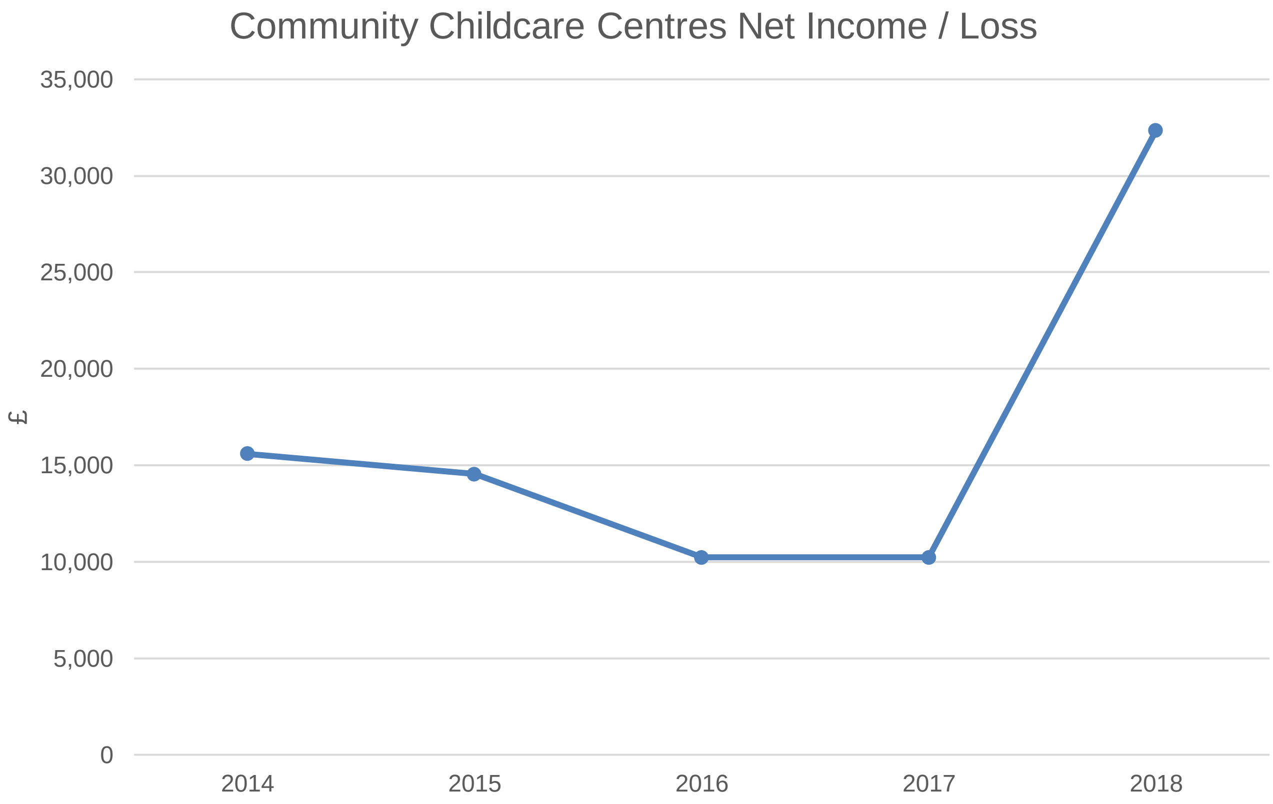


Figure 49 Balance sheet ratios
Source: Charity Commission for England and Wales

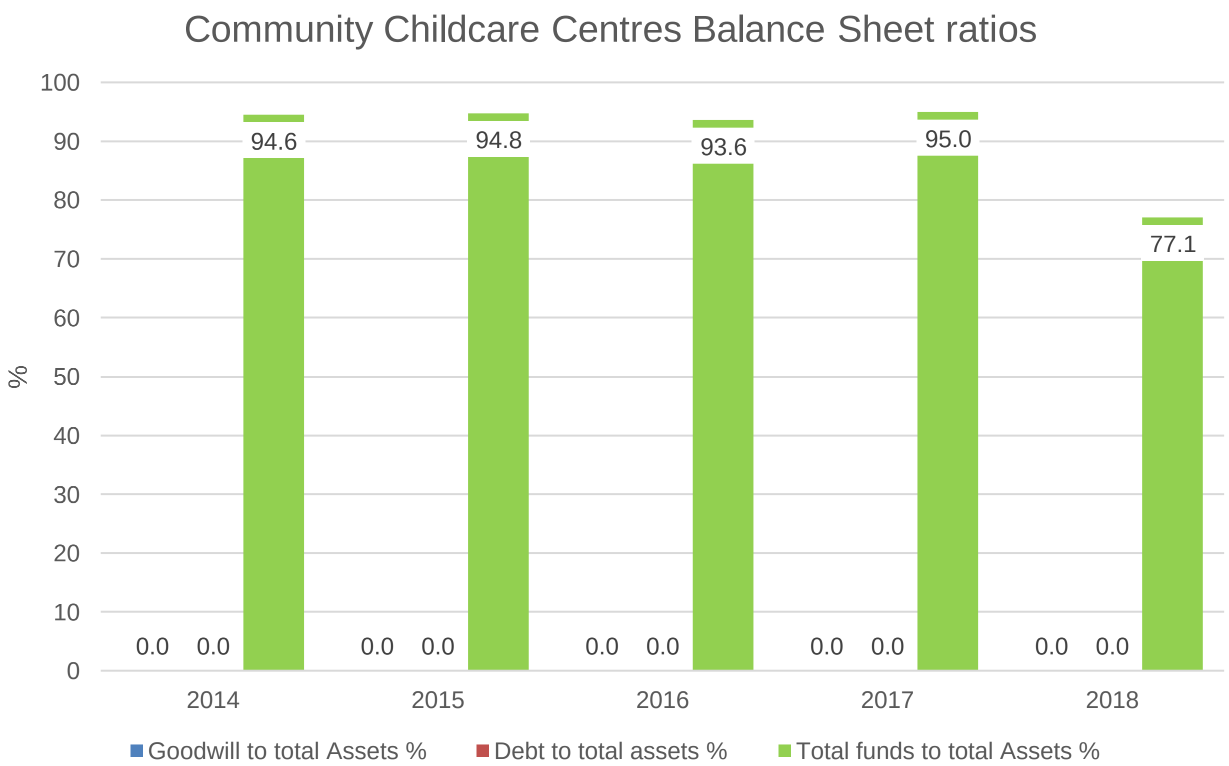


Figure 50 Wages to Sales
Source: Charity Commission for England and Wales

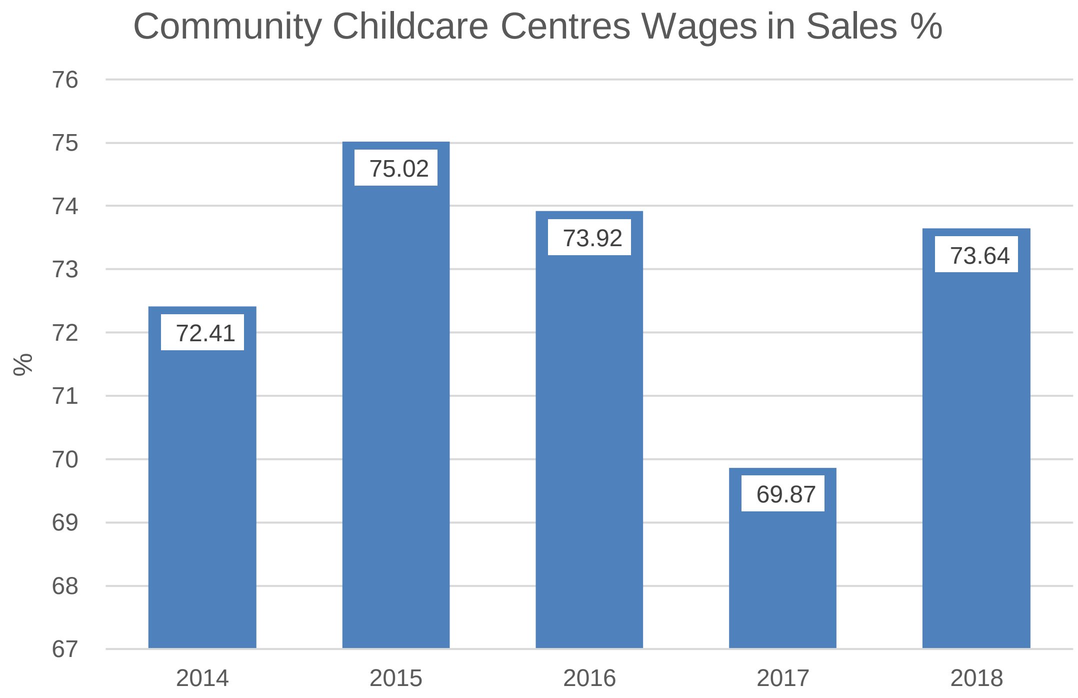
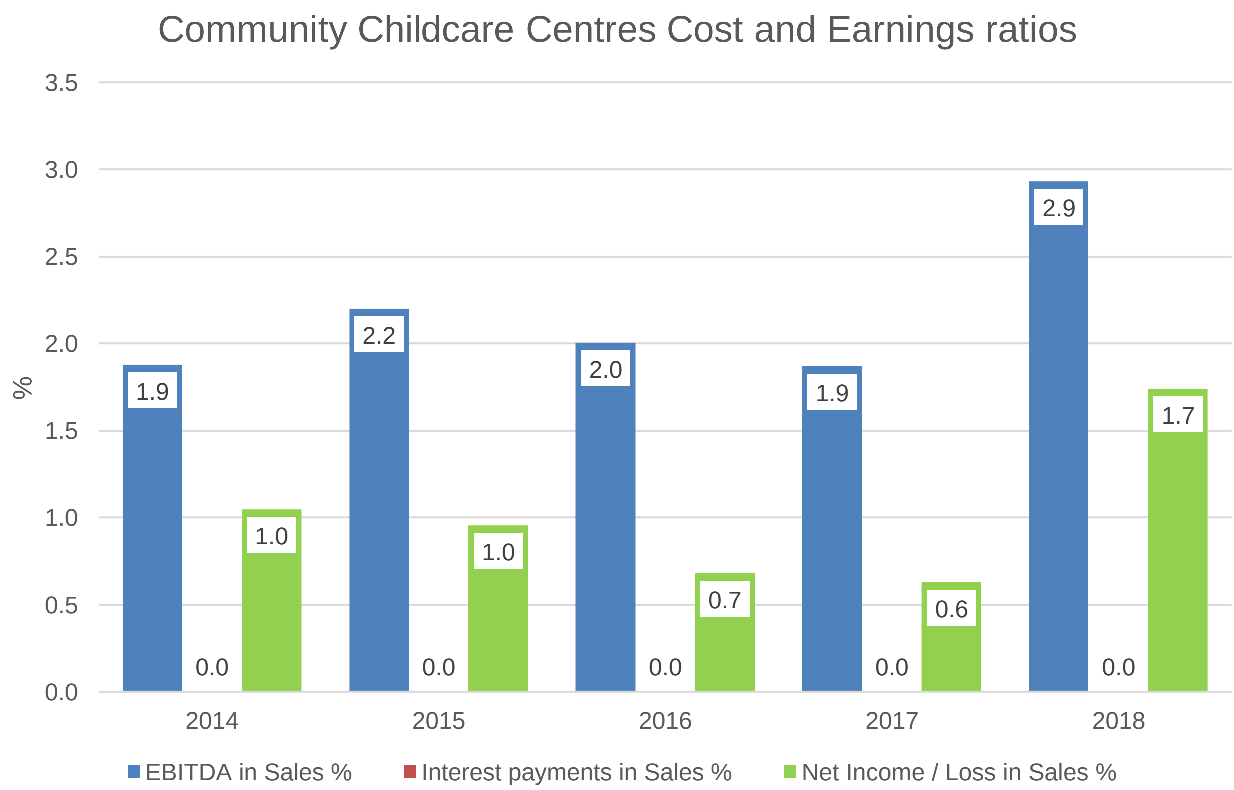


Figure 51 Cost and Earnings ratios
Source: Charity Commission for England and Wales



Section 3: Explanatory Notes

APPENDIX 3: GLOSSARY OF TERMS

Audited Accounts	Auditors are independent professionals appointed to ensure that the financial statements, as presented by the directors of a company, give a true and fair view of the actual financial performance of the company or group. In the case of a group of companies, the accounts need to be consolidated so losses in one part of the group can offset profits in another part.
Balance sheets	A year-end financial statement of assets and liabilities
EBITDA	Earnings Before Interest, Tax and Depreciation
Financial Ratios	Summary calculations designed to analyse and interpret financial performance
Financialisation	The process by which financing methods, tax minimisation and financial criteria become more powerful and dominant than say providing quality early years education or childcare.
Gearing	Also known as leverage, it is the ratio of debt to equity – signifies the relative level of indebtedness of the firm
Goodwill	An intangible asset, relating to the brand value or reputation of a firm, usually recognised at the time a nursery chain is purchased.
Holding Company	The top company which owns the whole group of companies.
Intangible assets	See Goodwill above

Leverage	See Gearing
Liquidity	The relative ability of a company to generate cash and pay its short-term liabilities
Long term debt	Liabilities which are due after one year
Profit and loss statements	An annual financial performance statement, detailing the profitability and the components of revenues and costs.
Qualified accounts	Auditor's term for audited accounts that show certain information about which he or she has certain doubts or disagreement with the audited firm's management. The reported accounts do not give a true and fair view, and the auditors need to state in their report where they differ with the management and what the implications for these differences are.
Revenue	Sales and other income generated by the company
Shareholder Equity	The amount of money invested by the owners of a company at the time of initiation. Not to be confused with the market value of shares in a company.
Small Company Accounts Exemption	Unlike large companies, small companies do not have to publish detailed audited accounts. The general rule is turnover should be less than £10 million and Balance Sheet aggregate less than £5 million.
Solvency	Ability of a firm to pay its short-term liabilities

Tangible assets	Assets which are physical like land, buildings, equipment as opposed to non-physical assets like Goodwill
Taxation	This is a complex technical area, but generally speaking, when a company is making losses, it does not need to pay taxes, and the accumulated losses can be used to alleviate taxes payable in other parts of the group. Where a company makes profits, then proportional taxes are payable. Consistent losses can be used as a strategy to minimise taxes. Tax avoidance occurs when businesses are organised in such a way that they minimise the liability for taxes and use different schemes and financial engineering to do so. This may or may not be legal.
Turnover	Annual sales of a firm

Appendix 4: Financial Ratios

Source: mainly https://www.investopedia.com/financial-term-dictionary-4769738 *and* *https://www.mondaq.com/*

RATIOS

Financial Ratios are key indicators of the financial performance of the company and are usually derived from its financial statements including income statement, balance sheet, and cash flows. These financial ratios help in analysing the company's profitability, liquidity, assumed risks as well as financial stability.

COSTS AND EARNINGS RATIOS

Costs and earnings ratios are financial *ratios* that calculates how efficiently a company is at generating profits from its revenue. These ratios are derived from items in the profit and loss statement. They measure a company's ability to turn sales and revenues into profits.

Wages to Sales	A wages to sales ratio is an accounting calculation that allows a retail business to determine the cost of its workforce relative to the sales revenue generated by the business.
EBITDA in Sales	The EBITDA-to-sales ratio is a financial metric used to assess a company's profitability by comparing its revenue with earnings. EBITDA reflects gross earnings before taxes and depreciation. More specifically, since EBITDA is derived from revenue, this metric indicates the percentage of a company's earnings remaining after operating expenses.
Interest payments to Sales	The interest coverage ratio may be calculated by dividing a company's earnings before interest and taxes (EBIT) during a given period by the company's interest payments due within the same

	period. The Interest coverage ratio is also called “times interest earned.” It shows the extent to which Sales revenue is used to pay for borrowings.
Profit / Loss to Sales	A profit margin as a percentage of net income or loss for the period, divided by total revenue. It indicates relative profitability, which can be compared with previous years.
Wages to Sales	This is the percentage of sales reflected in wage costs. It shows the relative cost of staff wages.

BALANCE SHEET RATIOS

Balance sheet ratios are financial metrics that determine relationships between different aspects of a company's financial position. They include only balance sheet items i.e. components of assets, liabilities and shareholder equity in their calculation.

Goodwill to total assets	The goodwill to assets ratio is a financial measurement that compares the intangible assets like a brand name, customer list, or unique position in an industry to the total assets of the company. The higher the *ratio*, the higher is a company's proportion of *goodwill* is to *total assets*. It is a ‘soft’ ratio, and the higher its value the greater the proportion of soft assets in a company. Soft assets are a problem when a company goes into liquidation – their value can drop significantly, sometimes even to zero.
Debt to total assets	This ratio is an indicator of a company's financial leverage. It shows the proportion of a company's assets which are financed through debt. If the ratio is less than 0.5, most of the company's assets are financed through

	equity. If the ratio is greater than 0.5, most of the company's assets are financed through debt.
Equity to total assets	The shareholder equity ratio shows how much of a company’s assets are funded by shareholder equity. The closer a firm’s ratio result is to 100%, the more assets it has financed with equity instead of taking on debt. The ratio reveals how much a company depends on debt and how financially stable it may be in the long run.
Profit/Net assets – Return on Net Assets	The return on net assets (RONA) ratio compares a firm’s net income with its assets and helps investors to determine how well the company is doing in generating profit from its assets. The higher a firm’s earnings relative to its assets, the more effectively the company is deploying those assets. It is similar to Return on Capital Employed.

DETAILED ANALYSIS FOR WORKSTREAM 3

Introduction

This part of the project analysed administrative data held by Ofsted on childcare providers. The main dataset analysed was the Ofsted Freedom of Information dataset[5]. This is a complete record of childcare providers registered on a particular date. Ofsted define childcare providers as follows:

> Childcare providers care for at least one individual child for a total of more than two hours in any one day. This is not necessarily a continuous period of time (Ofsted, 2019a: 13)

Ofsted maintains three registers for such providers. One of these is the Early Years Register (EYR):

> The EYR is for providers who care for children in the early years age group, from birth to 31 August following their fifth birthday. Registration is compulsory for such providers (Ofsted, 2019a: 11)

The focus for this analysis has been what Ofsted calls childcare on non-domestic premises:

> Childcare providers on non-domestic premises are people or organisations providing care for individual children in premises that are not someone's home. These premises can range from converted houses to purpose-built nurseries. (Ofsted, 2019a: 13)
>
> Childcare on non-domestic premises: Nurseries, pre-schools, holiday clubs and other private provision on business premises (Ofsted, 2019a: 3)

Therefore, the registration data cover childcare providers beyond the day nurseries, playgroups and preschools that might generally be thought of to cover preschool childcare.

Included on the register is the maximum number of places a provider can offer at any one time. However, although the focus of this research was preschool children,

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

under the age of five, registered places may be used by children up to the age of eight:

> Childcare places data refers to all places offered by providers on the EYR for children aged under eight years old. Most providers on the EYR are also registered on the Childcare Register (CR) because they look after children up to the age of eight years old. Therefore, the number of places in the early years age range (0–5 year-olds) is likely to be lower. (Ofsted, 2019a: 5)

Moreover, the names of some providers further suggest that they may not be providing traditional preschool childcare. For example, one provider registered as 'Fit For Sport Limited' had 60 registrations with 2,374 registered places and 'Soccer Coaching Limited' had 52 with 1,772 places. According to their website[6] , Fit For Sport run 'Extended School Clubs', including 'Breakfast Clubs' and 'After School Clubs', and 'Active Playgrounds' 'to improve lunchtime behaviour and increase activity levels'. Whilst some of these places might be used by under-fives, the majority are likely to be used by five to seven year-olds. This would serve to inflate the number of places apparently available for preschool childcare.

Furthermore, 'places' is not the same as children in attendance:

> Registered places are the number of children that may attend the provision at any one time. Registered places are not the number of places occupied, nor the number of children who may benefit from receiving places through providers offering sessions at different times of the day. Place numbers are only collected for providers on the EYR. (Ofsted, 2019a: 14)

Some children may attend more than one provider, at different times of day or different days of the week, making the number of places an overestimate of the number of children attending. Conversely, registered places may not all be used: the 2019 Survey of Childcare and Early Years Providers (Department for Education, 2019b: 8-10) reported that 73% of group-based providers had some spare capacity, and the average spare capacity per provider was 24% of places. Where places are not used the number of places gives an overestimate of the number of children.

[6] https://www.fitforsport.co.uk/

Consequently, although the Ofsted registration datasets are the most comprehensive sources of data on preschool day care, it is not possible to identify precisely those providers offering preschool nursery provision nor the number of places available for under-fives.

DATASETS

The Ofsted Freedom of Information (FOI) datasets are a complete record for all childcare providers registered on a particular date. These data were first released for 31 August 2014 and in subsequent years have been issued in March, August and December. For this study we have used data for 31 March 2018.

We have only analysed data for childcare providers on non-domestic premises (sometimes called group-based care) and on the Early Years Register (EYR), so eligible to take children under five years of age.

Providers on the EYR are inspected on a four year cycle. At each inspection they are rated on a number of quality criteria, including a rating for 'overall effectiveness'. This rating is on a 4-point scale:

1 = outstanding
2 = good
3 = requires improvement
4 = inadequate

These rating are also included in the FOI datasets. There was some change in how inspections have been carried out following the introduction of the new 'Common Inspection Framework' in September 2015 (Ofsted, 2019c), but the four grading categories have not changed.

PROVIDERS AND PLACES

For 31 March 2018 Ofsted recorded 24,326 providers on the EYR. These providers were registered for a total of 1,036,206 places[7]. The mean number of places per

[7] This figure includes estimated places, where the actual figure was not known. Ofsted recommends using this number rather than the actual places: 'If aggregating data, a more accurate indication of the size of the sector can be gained from using the 'Registered places including estimates' field instead, as this additionally includes averages where actual place numbers were unavailable.' (Data Dictionary, 31 August 2014 dataset):

provider was 42.6 and the median was 36. These numbers differ slightly from the DfE Survey of Childcare and Early Years Providers (Department for Education, 2019b), which reported fewer providers but more places. Their figures are estimated from a survey of providers, whereas the Ofsted data should include all providers. The number of providers and registered places (including estimates) from August 2014 to March 2018 are shown in Figure 1.

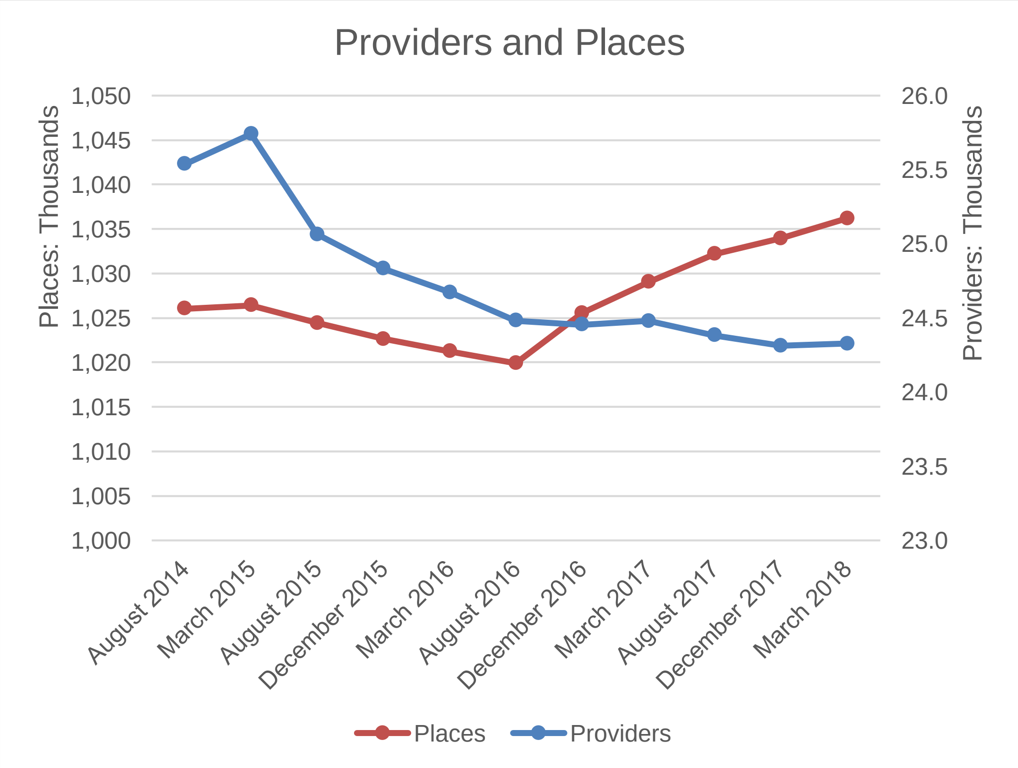


Figure 1 Number of providers and places (including estimates)

Apart from March 2015, this shows a steady decline in the number of registered providers, from a maximum of 25,741 in March 2015 to 24,326 in March 2018. Over the same period, there was a decline in the number of registered places, from 1,036,413 in March 2015 to 1,019,913 in August 2016, and then an increase to 1,036,206 in March 2018. These different trends mean that the average number of places per provider has increased, from a mean of 40.2 places per provider in August 2014 to a mean of 42.6 in March 2018.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/766621/FOI_early_years_dataset_as_at_31_August_2014_CC_new.xlsx

OWNERSHIP

In order to map childcare provision by ownership, it is necessary to be able to identify the type of ownership for each setting. However, the Ofsted database does not have information on the ownership type of its registered providers. The DfE Survey of Childcare and Early Years Providers does include information on ownership. The survey questionnaire is included in the publicly available dataset from the UK Data Service: Study Number 8453 (for 2018)[8]. It includes the following question for what they call Group Based Provision (GBP):

What type, or types, of group, organisation or individual owns or manages ["Provider_name"]?

The response categories are as follows:

1. Private (for profit) company (including employer-run childcare for employees)
2. Voluntary or community group or charity (including church(es) or religious group(s))
3. School or college
4. Local Authority

f5. Other (please specify)

For 2018, the Survey estimated that 61% of childcare providers were 'private' (Department for Education, 2019b: Figure 1).

The Ofsted dataset includes a field for the provider name, and since March 2018 also the 'registered person name'. This 'person' is often the company that owns the registered provision. These two names can be used to give an indication of which providers are private limited companies: we ran a search for 'ltd 'or 'limited' in both names (including any combination of upper and lower case). (This method was suggested to us by Colin Haslam of Queen Mary University of London.) However, there were a few false positives, and these had to be eliminated. In particular, 'Saltdean Preschool' was incorrectly included as were providers with 'unlimited' in their title, such as 'Playclub Unlimited'. (Unfortunately, there was also a company called 'Angels Unlimited Nurseries Ltd' and another called 'Kidsunlimited Limited', so although these included 'unlimited' in their title, they were part of the 'limited'

[8] https://beta.ukdataservice.ac.uk/datacatalogue/studies/study?id=8453

company set.) Of the 24,326 providers in the dataset, 11,504 (47.3%) were identified in this way as private limited companies using the registered person name and 1,967 (8.1%) using the provider name; 1,934 were identified by both methods and 11,537 (47.4%) were identified by at least one method. This is the best estimate, based on both the name of the provider and that of the registered person. This is lower than the 61% identified as 'private' in the Providers Survey: this may be because some 'private' providers are not limited companies.

As the 'registered person name' field was only introduced in March 2018, it has not been possible to examine if this percentage has changed over time.

The average number of registered places (including estimates) for limited company providers was 51 and for other providers 35. Clearly the limited company providers were larger. This difference is statistically significant in a one-way analysis of variance ($p<0.001$) but the eta-squared of .094 indicates a small effect size (Cohen, 1988), so the difference is quite small.

Deprivation

The Ofsted dataset includes, for each registered childcare setting, the deprivation quintile for the address of the individual setting. The location for each nursery is assigned to one of five quintiles of deprivation, the quintiles being defined nationally. This is done using the Income Deprivation Affecting Children Index (IDACI) scores as defining deprivation most relevant to children (Department for Communities and Local Government, 2015). If childcare providers were spread evenly across all levels of deprivation, then we would expect 20% in each deprivation band. Table 1 shows that this is almost the case, but there are fewer than expected in the most deprived quintile (16.4%) and more (23.3%) in the least deprived.

Table 1 Deprivation band by type of ownership

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

These percentages have changed very little since the first FOI dataset in August 2014: the percentage in the most deprived quintile has varied between 15.8% and 17.1%, whilst the percentage in the least deprived quintile has varied between 22.6% and 23.6%.

One of our aims in this part of the project was to assess if nurseries are available equally for all levels of deprivation. Table 1 suggests that the availability of childcare provision was only weakly related to level of deprivation: whilst the most deprived areas have fewer than the least deprived, the differences are not large.

Table 1 also shows that there was a slight variation in the distribution by deprivation between limited company providers and the rest: the limited company providers had slightly fewer settings in the most deprived quintile (15.3%) compared to the other providers (17.6%) and slightly more in the least deprived quintile (24.0% and 22.6% respectively). Although this difference is statistically significant ($p<.001$), the gamma statistics used to make the comparison is very low (.056) (Goodman and Kruskal, 1954), which is considered 'negligible' (Rea and Parker, 2014).

Quality

The rating of overall quality, based on the regular Ofsted inspections, is also included in the dataset. Table 2 shows the distribution of this quality rating for March 2018. Most providers were rated either Outstanding (22.1%) or Good (72.6%). This concentration does not leave much room for variation by type of ownership, and as Table 2 shows, that although the limited company providers had a higher percentage of Outstanding settings (24.4%) than the other settings (20.3%), the difference is very small. The difference is statistically significant ($p<.001$), but the gamma statistic (.104) is very small, indicating the relationship is not an important one.

Table 2 Overall effectiveness by type of ownership

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

There has been an improvement in average quality over time: since August 2014 there has been a steady increase in the percentage of Outstanding: it rose from 14.9% in August 2014 to 22.1% in March 2018.

A key aim of the study was to assess whether the quality of nurseries in the more deprived areas is on average equivalent to that in less deprived areas. Table 3 shows that there was a weak relationship, in that the Most deprived areas had fewer Outstanding ratings (18.7%) than did the Least deprived areas (25.2%). Conversely, the Most deprived areas had more ratings of Requires Improvement or Inadequate (6.6%) than did the Least deprived areas (4.4%). However, the gamma statistic for this relationship (-.091) is very small; whilst statistically significant ($p<.001$), its size indicates the effect size is negligible.

Table 3 Overall effectiveness by deprivation

			Most recent full inspection - Overall effectiveness				
			Outstanding	Good	Requires Improvement	Inadequate	Total
Deprivation Band	**Most deprived**	**Count**	595	2,383	152	57	3,187
		Percent	18.7%	74.8%	4.8%	1.8%	100%
	Deprived	**Count**	737	2,677	158	63	3,635
		Percent	20.3%	73.6%	4.3%	1.7%	100%
	Average	**Count**	893	2,943	173	47	4,056
		Percent	22.0%	72.6%	4.3%	1.2%	100%
	Less deprived	**Count**	1,014	3,200	158	38	4,410
		Percent	23.0%	72.6%	3.6%	0.9%	100%
	Least deprived	**Count**	1,191	3,333	162	48	4,734
		Percent	25.2%	70.4%	3.4%	1.0%	100%
Total		**Count**	4,430	14,536	803	253	20,022
		Percent	22.1%	72.6%	4.0%	1.3%	100%

Chains

Some childcare providers are part of a group, or chain. The DfE Childcare and Early Years Providers Survey includes specific questions on membership of a chain:

Is [“Provider_name”] part of a chain?

And, including your own site, how many branches are there in this chain?[9]

A report on the number of providers who identify as part of a chain is not always included in the report of the Survey, but in 2016 it was reported that 22% of group-based providers were part of a chain; 26% of these included just two sites whilst 19% had 20 or more (Panayiotou et al., 2017: p. 18).

The Ofsted dataset does not include any indicator of chain membership. However, the Ofsted Annual Report for 2018 says ‘We define a nursery and pre-school group as at least two nurseries and pre-schools on the EYR under the ownership of the same registered person’ (Ofsted, 2018: 36). So, they define a ‘group’ (or chain) as more than one registered provider with the same registered person. We have used

[9] See previous note regarding questionnaire.

the same approach to identify chains. Unfortunately, the Ofsted datasets of registered providers only started including the name of the registered person in 2018, so it has not been possible to examine chains over time.

In the March 2018 dataset 9,843 providers (40.5%) were part of a chain, under this definition of having a common registered provider name. This is much higher than the 26% identified as part of a chain by the DfE Survey of Childcare and Early Years Providers (SCEYP). The SCEYP is likely to be an underestimate of the number of providers who were part of chains: in their initial screening sample, it was noted that some providers shared a contact telephone number. This was likely to be a central number for members of a chain.

Some providers were branches of larger childcare groups and each branch in the group had the same telephone number. In order to reduce respondent burden, while attempting to minimise the impact on the weighting of the survey it was decided that a telephone number could be selected a maximum of 7 times. Thirteen telephone numbers in the sample appeared more than 7 times and were subject to capping. (McGinigal et al., 2017: p.12)

Consequently, chains of more than 7 providers would be under-represented in the sample, so reducing the estimated number. In our analysis for March 2018, we found that 1,484 (6.1%) of all providers were in a chain of more than seven. However, not including this many in the SCEYP sample could not be enough to account for the big discrepancy between the two estimates. Since SCEYP asked their interviewees if they were part of a chain, some might have replied ‘No’ as, for some reason, they did not feel part of a ‘chain’, although they would be included under the Ofsted definition: perhaps ‘chain’ suggests a large conglomerate, which they might not feel applies to them when they are only in a small group.

Providers who were part of a chain had on average more registered places: 47.4 as compared to 39.3 for non-chains. This difference was statistically significant ($p<.001$) but the effect size (eta squared = .024) is very small. Because of their larger size, this 40.5% of providers accounted for 45.1% of places.

There was a strong correlation between being part of a chain and being in a limited company. The percentage of limited company providers in a chain (56.6%) was more than twice that of other providers (25.9%), with an odds ratio of 3.7. This correlation was statistically significant (p<.001), based on a chi-square of 2,367. This gives an effect size (phi) of .31, which is a medium effect.

Chain providers were slightly more likely to be in the Most deprived areas (19.3%) compared with non-chain (14.4%): although the difference is statistically significant, the gamma statistic (.094) shows the effect is negligible. Similarly, whilst chain providers were slightly more likely to be rated as Outstanding (25.1%) compared to non-chain (20.3%), the difference was small (gamma =.142), indicating a weak effect.

CONCLUSIONS ON OWNERSHIP

Limited company owners were identified by their registered provider name. In the March 2018 dataset 47.3% of providers were limited companies. On average, they had more registered places than other providers. They also had slightly fewer settings in the most deprived quintile and slightly more settings rated Outstanding by Ofsted, but these differences were very small. Chains, or groups of providers, were also identified by their registered provider name. 40.5% of providers were identified as being part of a chain. Limited company providers were more likely to be part of a chain than other providers. Like limited company providers, chains had more registered places, were more likely to be in the Most deprived areas and were more likely to be rated as Outstanding, although all these differences were very small.

REGION

For administrative purposes, the Office for National Statistics (ONS) divides England into nine regions, and these regions show differences in the characteristics of their childcare providers. They vary in the proportion of their providers who are owned by limited companies: the region with the lowest percentage was the South West, with 35.0% and the region with the highest was the North West with 55.4% (Table 4). This difference is statistically significant (p<.001) on the Kruskal-Wallis test, but the effect size was .019, which is considered small (Cohen, 1988). (The formula for effect size on the Kruskal-Wallis test is given in Tomczak and Tomczak, 2014).

Regions also differed in their levels of deprivation. Table 4 shows percentages for the most and least deprived quintiles. The region with the highest percentage in the Most deprived quintile was the North East (30.8%), closely followed by London

(28.9%); the regions with the lowest percentage were the South East (6.6%) and the South West (7.4%). Conversely, the region with the highest percentage in the least deprived quintile was the South East (33.9%) and that with the lowest was London (11.4%). This difference was statistically significant ($p<.001$), with an effect size of .068, which is negligible.

Table 4 Provider characteristics by region

			Private Limited Company	Deprivation Quintile			
				Most deprived	Least deprived	Outstanding	Total
Region	East Midlands	Count	886	276	506	305	2,048
		Percent	43.3%	13.5%	24.7%	17.6%	100%
	East of England	Count	1,181	267	725	549	2,850
		Percent	41.4%	9.4%	25.4%	23.4%	100%
	London	Count	2,264	1,150	539	649	3,976
		Percent	56.9%	28.9%	13.6%	20.9%	100%
	North East	Count	398	237	96	163	770
		Percent	51.7%	30.8%	12.5%	25.9%	100%
	North West	Count	1,747	646	607	612	3,156
		Percent	55.4%	20.5%	19.2%	23.0%	100%
	South East	Count	2,073	307	1,140	1,002	4,628
		Percent	44.8%	6.6%	24.6%	26.5%	100%
	South West	Count	893	188	750	483	2,554
		Percent	35.0%	7.4%	29.4%	22.4%	100%
	West Midlands	Count	1,161	551	464	395	2,294
		Percent	50.6%	24.0%	20.2%	20.4%	100%
	Yorkshire and The Humber	Count	924	358	420	272	2,031
		Percent	45.5%	17.6%	20.7%	16.2%	100%
Total		Count	12,780	11,527	5247	4,430	24,307
		Percent	52.6%	47.4%	21.6%	22.1%	100%

Regions differed even less on the rating of overall effectiveness (see Table 4). The regions with the highest percentage of Outstanding ratings were the South East (26.5%) and the North East (25.9%) and those with the lowest percentages were Yorkshire and The Humber (16.2%) and the East Midlands (17.6%). Whilst this difference was also statistically significant ($p<.001$) the effect size of .005 is essentially zero.

In summary, although the regions differed a little in their percentages of limited company providers and their distributions of deprivation and overall quality, these differences were all very small.

LOCAL AUTHORITIES

A key aspect of mapping provision is to examine variation by local authority. There are 152 local authorities (LAs) in England. (Three of the LAs are very small, and have very few children (City of London, Isles of Scilly and Rutland). They have been excluded from this part of the analysis. Using the March 2018 dataset, these 149 LAs had 24,274 registered childcare providers on the Early Years Register. These nurseries had a total of 1,034,356 registered places. LAs differ widely in the numbers of providers and places they have: the minimum number of providers was 18 (Hartlepool) and the maximum 952 (Hampshire); for places it was 889 and 30,702 (the same two authorities). Of course, LAs also have different numbers of children under five, leading to different levels of demand. ONS estimates for 2018 show there were almost 3.4 million children under five in England. The least number of children in a single LA was 5,400 (Hartlepool again) and the most was 91,400 (Kent), with an average of almost 23,000. To compare LAs it is necessary to express the number of registered places as a rate per thousand children under five. This also varied between LAs, from a minimum of 111 (Walsall) to a maximum of 511 (Wokingham), with an average of 283. The ten maximum and minimum rates are shown in Table 5.

Table 5 Minimum and maximum rates of childcare places per 1,000 under 5s

Minimum		**Maximum**	
Local Authority	**Places per 1,000**	**Local Authority**	**Places per 1,000**
Walsall	119	Wokingham	545
Slough	142	Richmond upon Thames	512
Redcar and Cleveland	151	Warrington	485
Newham	155	West Berkshire	482
Rotherham	167	Trafford	457
Hartlepool	172	Cheshire East	446
Sunderland	175	South Gloucestershire	443
Wolverhampton	176	Hampshire	432
North East Lincolnshire	183	Brighton and Hove	432
Barking and Dagenham	185	Cheshire West and Chester	422

The distribution of rates is as shown in Figure 2: most LAs have somewhere between 200 and 400 places per thousand under-fives in their area.

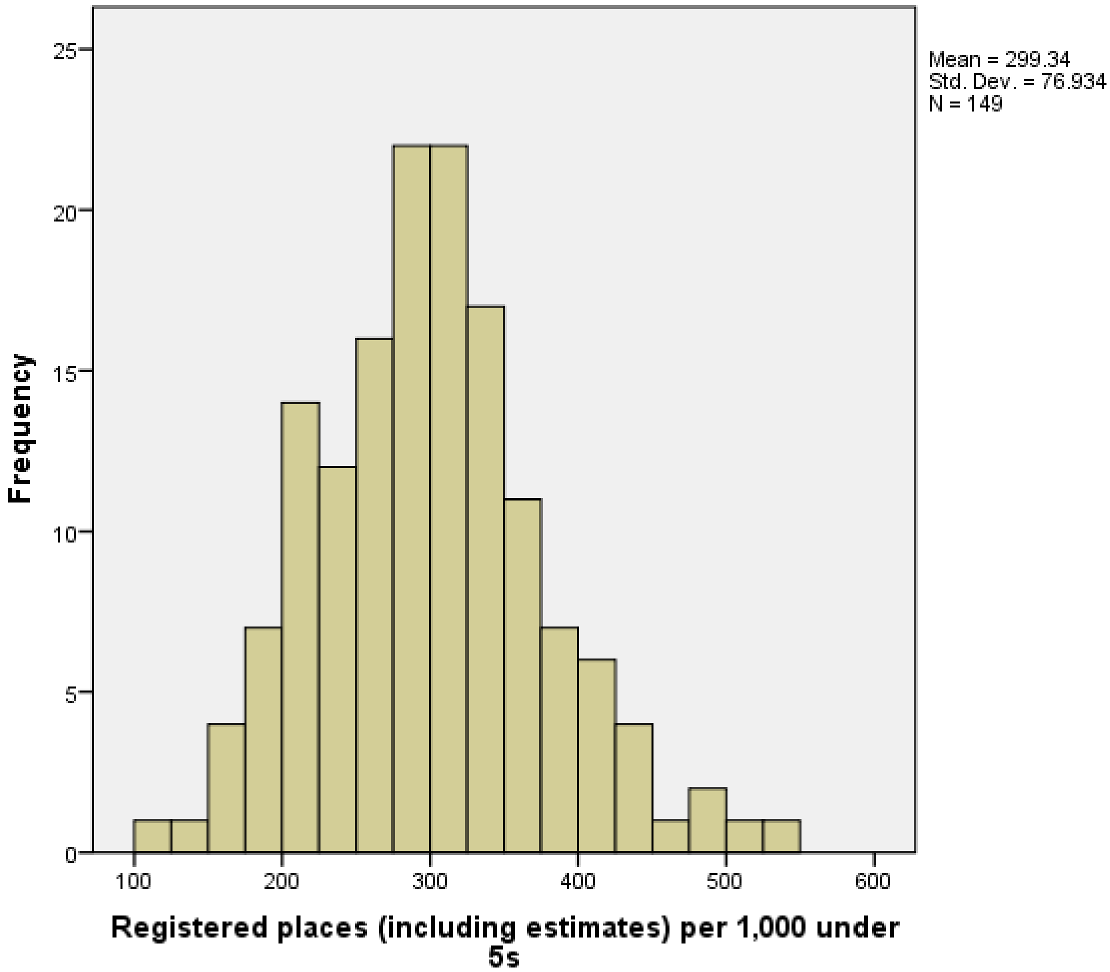


Figure 2 Rates of registered nursery places per 1,000 under 5s

STATE SCHOOLS

In addition to registered childcare, children under five may also attend school, a maintained or state-supported nursery school, nursery class or infant class or an independent school. Data on children under five attending these schools are published annually by the Department for Education: the data used here are for January 2019 (Department for Education, 2019a). The total number of under-fives in state schools was 742,391 and the number in independent schools was 27,520. As the state school number is so much greater, and as those attending independent schools may live away from the area of the school, which invalidates any geographical based analysis, further analysis of children attending school will only consider those at state schools, including primary converter academies, primary sponsor-led academies and primary free schools.

The number of pupils aged under-five in maintained or state-supported school per thousand under-fives in the area averaged 228, with a minimum of 133 (Isle of Wight) and a maximum of 401 (Hartlepool). The ten maximum and minimum rates are shown in Table 6. Most LAs have between 150 and 300 places per 1,000 under-fives.

Table 6 Minimum and maximum rates of maintained preschool education places per 1,000 under 5s

Minimum		Maximum	
Local Authority	**Places per 1,000**	**Local Authority**	**Places per 1,000**
Isle of Wight	133	Hartlepool	401
Bournemouth	135	Redcar and Cleveland	384
Leicestershire	138	Middlesbrough	360
Gloucestershire	140	Sunderland	356
Staffordshire	142	Stockton-on-Tees	347
South Gloucestershire	143	Walsall	345
Poole	143	Solihull	327
Peterborough	143	South Tyneside	319
Bromley	144	North Tyneside	311
Hampshire	145	Wakefield	311

For many children, a place at a nursery or at a school (including nursery school or class) can be alternatives. Which the parents/carers choose for their child will depend on several factors, including availability. However, the rates of availability of places across LAs is strongly negatively correlated, with a correlation of -.53 (see Figure 3). This means that LAs with higher rates of school places for under-fives tend to have fewer registered nursery places. It would seem, therefore, that private or charity (not-for-profit) nurseries are more likely to be found in areas with relatively little maintained school provision for under-fives.

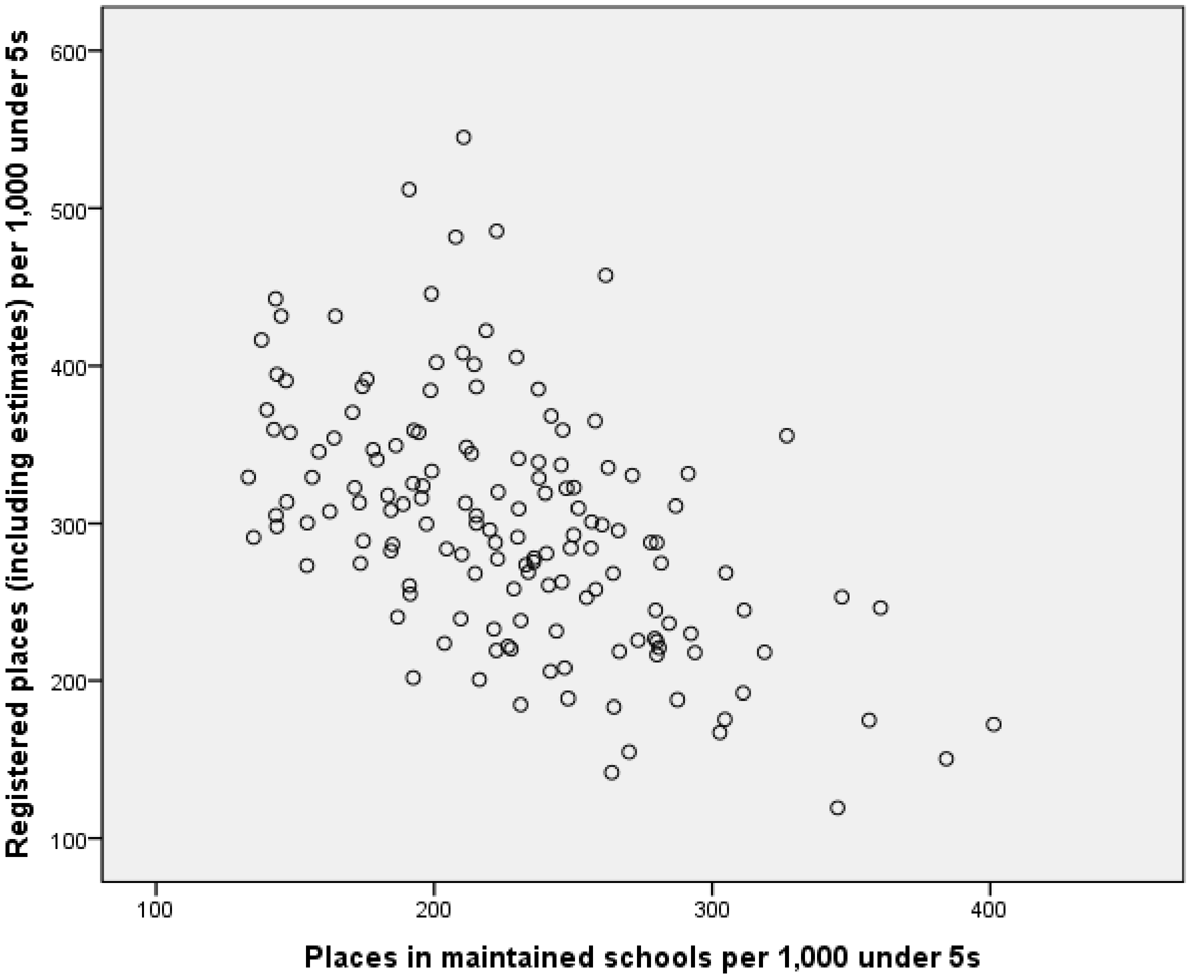


Figure 3 Childcare places per 1,000 and school places per 1,000

TYPES OF LOCAL AUTHORITY

There are five types of LA: Two Tier (the old county councils, such as Dorset or Hampshire: 33), Unitary (large towns and cities, such as Brighton or Bristol: 48), Metropolitan (large conurbations, such as Manchester or Tyne and Wear: 36), Inner London boroughs (12) and Outer London boroughs (20). These differ significantly in their levels of provision (see Table 7).

Table 7 Nursery and education places per 1,000 under-5s by type of local authority

		Type of local authority					
		Two Tier	Unitary	Metropolitan	Inner London	Outer London	Total
Registered places (including estimates) per 1,000 under 5s	**Mean**	337	304	273	294	277	299
	N	33	48	36	12	20	149
	Std. Deviation	49.4	90.9	73.7	48.9	76.7	76.9
Places in maintained schools per 1,000 under 5s	**Mean**	199	224	273	203	219	228
	N	33	48	36	12	20	149
	Std. Deviation	44.7	60.8	34.4	37.5	30.8	53.5

However, within each type there is also a lot of variation: this can be seen in Figure 4[10]. Inner and Outer London each show relatively little variation in rates of both childcare and education places. Whilst the Metropolitan authorities have on average the lowest levels of childcare provision, they have a lot of variation; they also have the highest rates of children in maintained schools, and with less variation.

[10] For a description of box plots, see https://en.wikipedia.org/wiki/Box_plot

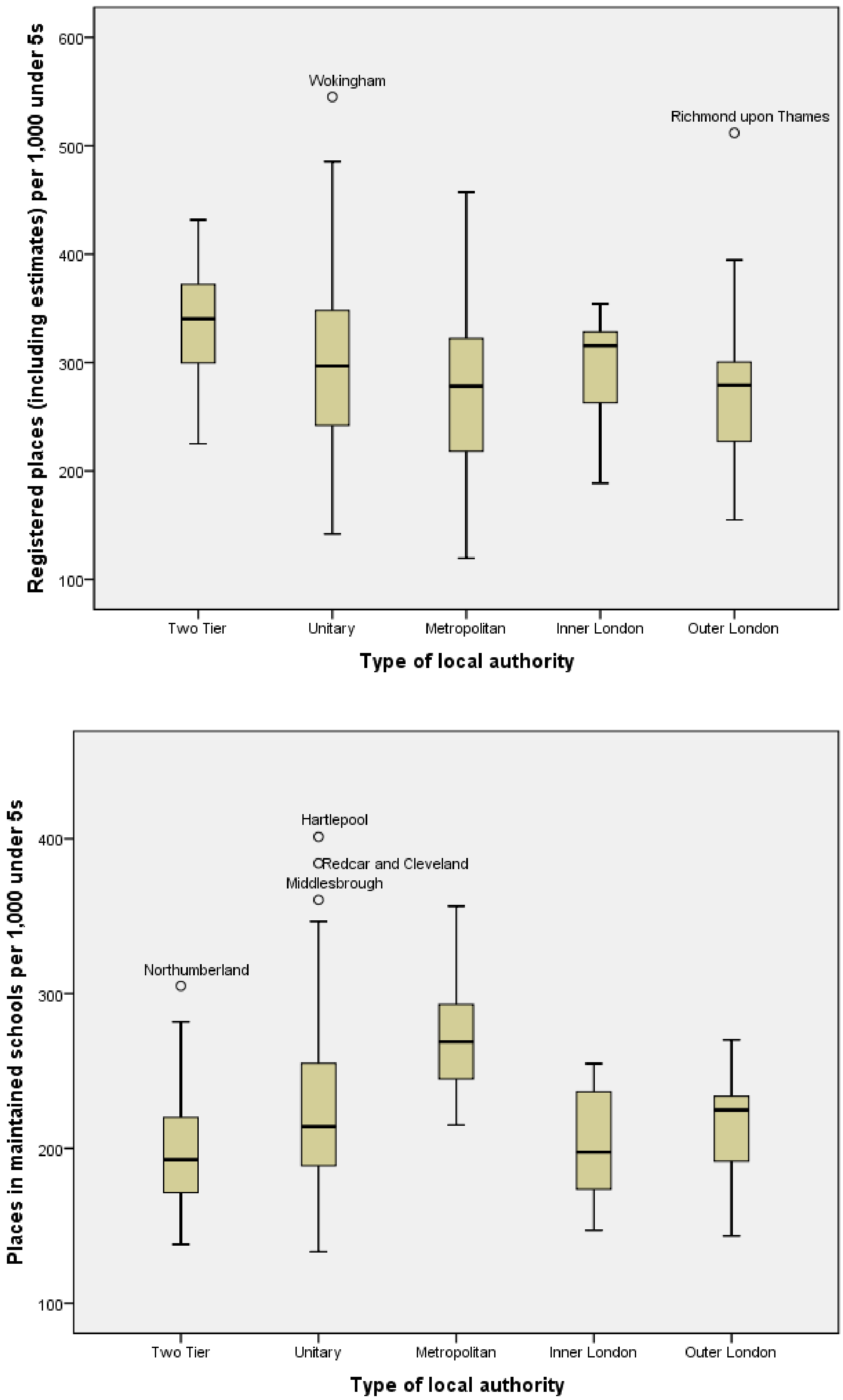


Figure 4 Box plot of childcare and education places by type of local authority

DEPRIVATION

LAs also differ in the percentage of their nurseries found in each deprivation quintile. However, just considering the most deprived and least deprived quintiles, LAs can be seen to differ enormously (Table 8); this can also be seen in Figure 5, showing numbers of nurseries in the most and least deprived quintiles. The table shows that there is a higher percentage of childcare providers in the most deprived quintile of areas than in the least, and the figure shows that the least deprived areas are less likely to have very low numbers of providers.

Table 8 LA percentage of nurseries in least and most deprived quintiles

	Mean	**Minimum**	**Maximum**
Least deprived quintile	22.0	0	59.1
Most deprived quintile	19.2	0	60.3

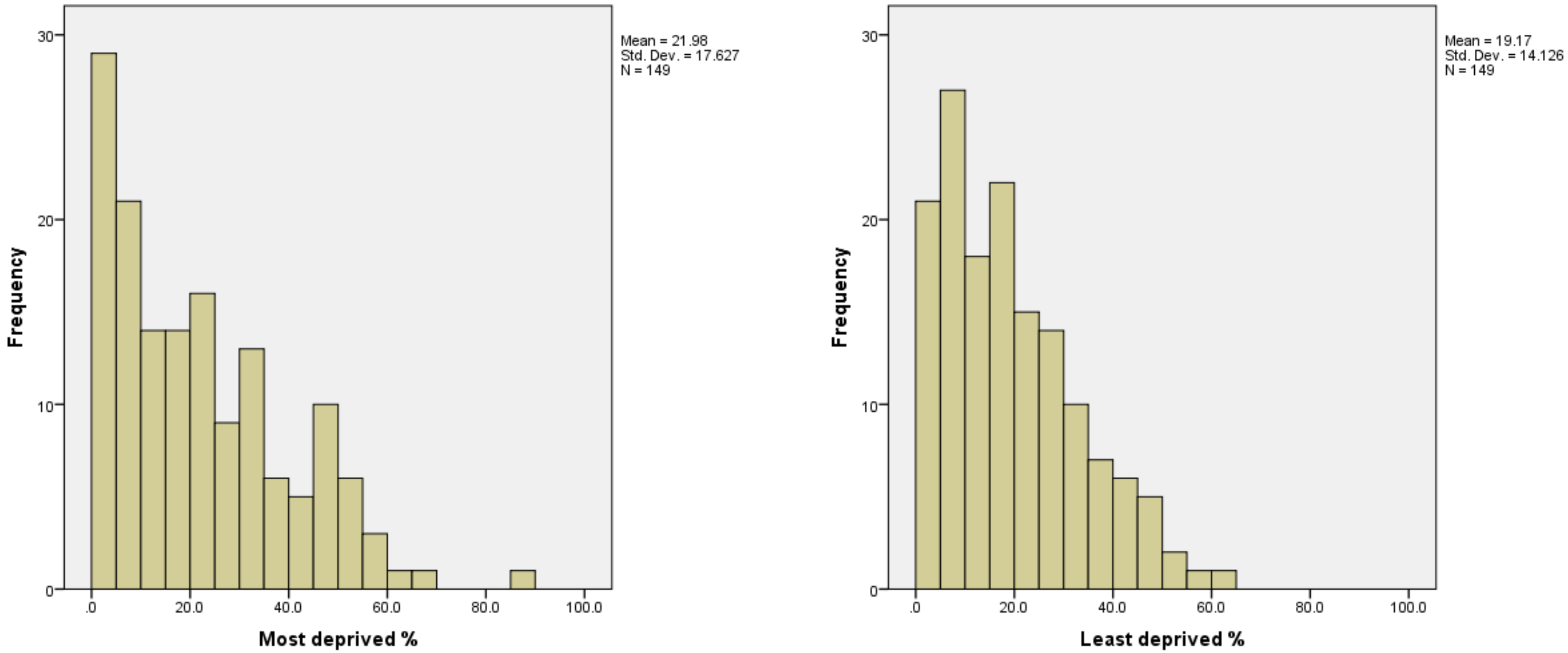


Figure 5 Percentage of childcare providers in LAs' most and least deprived quintiles

Five LAs had no nurseries in the nationally most deprived quintile: Buckinghamshire, Richmond upon Thames, West Berkshire, Windsor and Maidenhead, Wokingham, whilst one Tower Hamlets had over 80% (80.2%) and three had over 60%: Islington (68.5%), Hartlepool (66.7%) and Barking and Dagenham (60.3%).

At the other extreme, eleven LAs had no nurseries in the least deprived quintile: Barking and Dagenham, Blackpool, Hackney, Islington, Lewisham, Newham, Sandwell, Slough, Torbay, Tower Hamlets, Waltham Forest; four had more than 50%: Wokingham (60%), Buckinghamshire (55%), Oxfordshire (53%) and Richmond upon Thames (52%).

Deprivation is also linked to rates of provision between LAs. The correlations in Table 9 show a strong relationship between the number of registered places per 1,000 under-fives and deprivation, with fewer places in the most deprived areas (correlation of -.61) and more in the least deprived (.69).

Table 9 Correlations between deprivation and places per 1,000

	Most deprived %	**Least deprived %**
Registered places per 1,000 under 5s	-.61	.69
Places in maintained schools per 1,000 under 5s	.47	-.18

The relationship between deprivation and the number of places in maintained schools per 1,000 under 5s is the reverse of that for nurseries, but less strong. For the most deprived areas the correlation is .47 and for the least deprived -.18. This is also shown in Figure 6: the top two plots show the rate of registered childcare places plotted against the percentage of a LA's nurseries in the most and least deprived quintiles of areas, whilst the lower two plots show the relationship for places in maintained nursery schools.

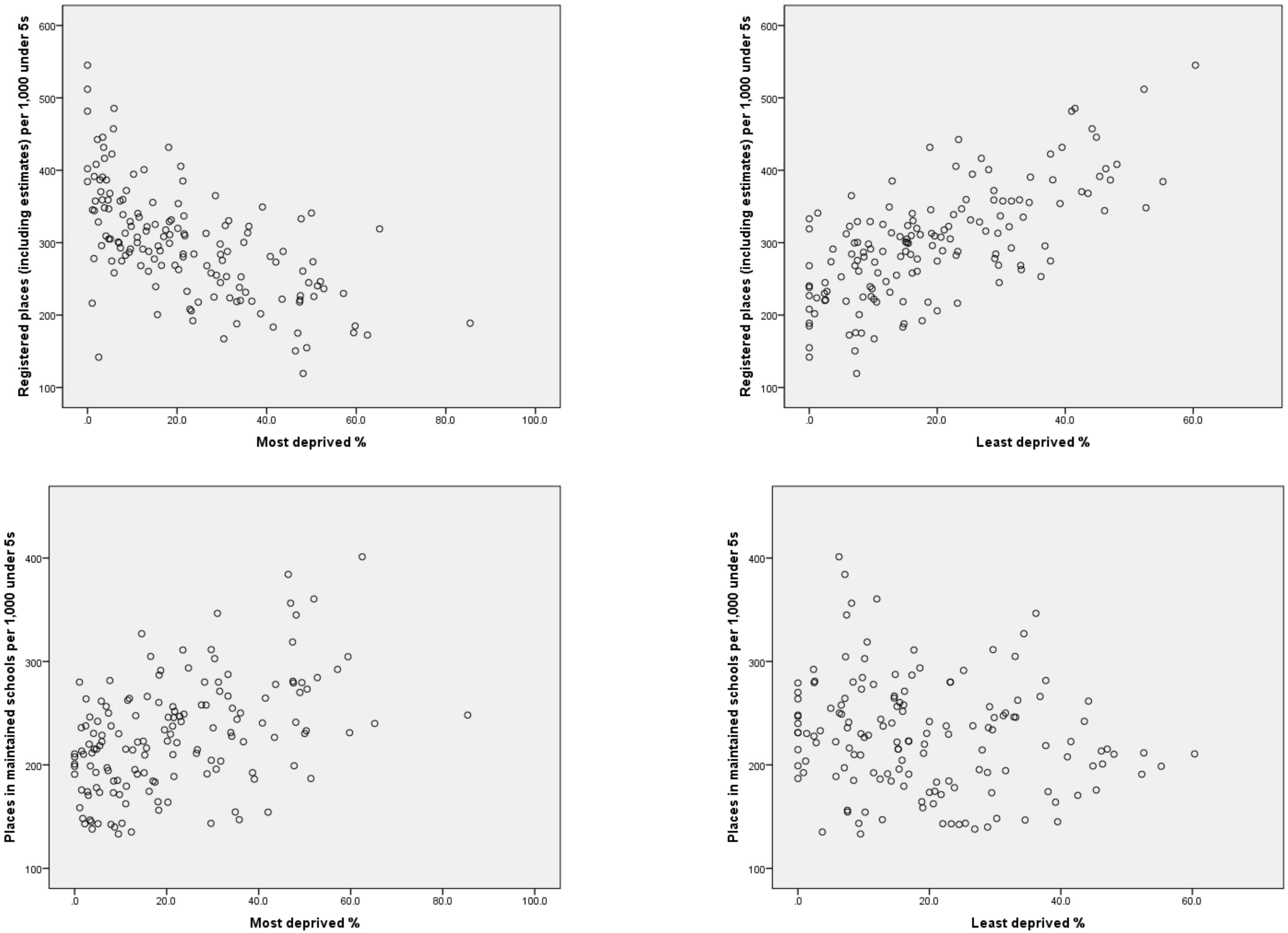


Figure 6 Registered places and places in maintained schools by level of deprivation

We have already seen that there is an inverse relationship between the rates of nursery places and the rates of school places, so some of this relationship between places and deprivation might be accounted for by LAs in more deprived areas providing more places for children aged under five in school, perhaps to compensate for deprivation. This might imply that the private-for-profit and not-for-profit sector fill a gap in provision, setting up more nurseries in less deprived areas, where there are fewer school places provided by LAs. However, this cannot be the whole story, as the correlations for childcare provision are stronger than those for school places, so something more than compensating for the absence of LA school places is at work.

CONCLUSION FOR LOCAL AUTHORITIES

Local authorities show considerable variation in the presence of nursery places within their area, relative to the number of children under five. Most LAs have somewhere between 200 and 400 places per thousand under-fives in their area, but this also varied from a minimum of 111 to a maximum of 511. The distribution of nurseries is strongly correlated with the level of deprivation, with nurseries more likely to be in the least deprived quintile of areas and less likely in the most deprived quintile. This is the opposite for places in maintained education for children under five, where the rate of places is higher in more deprived areas.

Workstream 3 Summary

In March 2018, Ofsted recorded 24,326 childcare providers on the Early Years Register. Of these, 11,504 (47.3%) were owned by limited companies. 6,528 of these were in a chain (25.7% of the total), a group with the same owner. Limited company providers had more registered places than other providers. They also had slightly fewer settings in the most deprived areas of England and slightly more settings rated Outstanding by Ofsted. However, these differences were very small. The regions showed a small variation in their percentage of providers who were limited companies, but negligible variation in deprivation or quality.

Local authorities showed considerable variation in the presence of nursery places within their area, relative to the number of children under five. The presence of childcare providers was strongly correlated with the level of deprivation, with nurseries more likely to be in the least deprived areas and less likely in the most deprived. Children under five may also attend school: the rates of availability of childcare places and school places within LAs is strongly negatively correlated. This means that LAs with higher rates of school places for under-fives tend to have fewer registered nursery places. Maintained school places were more likely to be found in areas of deprivation: this was the opposite for the distribution of childcare places.

If childcare providers were spread evenly across all levels of deprivation, then we would expect 20% in each of the one-fifth deprivation bands. However, there are fewer than expected in the most deprived fifth of areas (16.4%) and slightly more (23.3%) in the least deprived. Therefore, the availability of childcare provision was related to level of deprivation, although only weakly: whilst the most deprived areas have fewer than the least deprived, the differences are not large.

A key aim of the study was to assess whether the quality of nurseries in the more deprived areas is on average equivalent to that in less deprived areas. There was a weak relationship, in that the Most deprived areas had fewer Outstanding ratings (18.7%) than did the Least deprived areas (25.2%). Conversely, the Most deprived areas had more ratings of Requires Improvement or Inadequate (6.6%) than did the Least deprived areas (4.4%). However, size of the effect size is statistically negligible.

DETAILED ANALYSIS FOR WORKSTREAM 4

Workstream 4: Accounts of frontline managers

This workstream involved a sample survey of managers working in childcare. We wanted to examine how nurseries may be providing access to vulnerable families (for example, low income and/or families in poverty). Given the importance of accountability, emphasised in the UN report (Alston, 2018), we wanted to examine to what extent childcare nurseries involved staff and parents/carers in the operation of the nurseries.

In order to try to investigate these questions, we set out to conduct in-depth interviews by telephone with a random sample of 100 nurseries across locations of differing levels of deprivation across ten local authorities (Simon et al., 2020).

Our first approach was to identify a sub-sample of the nurseries using Ofsted data from the analysis of workstream three about location and deprivation. To this end, a sample list was drawn up from the Ofsted database of all nurseries within a stratified random sample of ten local authorities. The authorities were grouped into five types: two-tier (county councils); unitary; metropolitan; Inner London; Outer London. Within each local authority nurseries were stratified into quintiles based on their Income Deprivation Affecting Children Index (IDACI) and a random sample chosen from each quintile. This approach aimed at increasing the likelihood of capturing nurseries used by low-income parents/carers relative to a simple random sample.

A semi-structured interview schedule was developed for carrying out telephone interviews with nursery managers. This schedule aimed to ascertain the range of information, including financial information, made available by each nursery or setting, the opportunities that parents/carers had to share in discussion about the policy and practice of the nursery, over and above issues of their individual child and the extent to which each nursery was able to take account of household income and family circumstances, and community concerns.

We aimed for a sample of between 50 and 100 interviews. We planned to pilot in June 2019 and to complete data collection by end of October 2019.

Between June and October 2019, we targeted a total of 171 nursery organisations (at different time points and including the piloting phase – see table 1 below). Our approach was to contact them initially by email to give them links to our project web page and explain the study. We then followed this up with repeated phone calls (a minimum of five calls were made with each nursery at each data collection stage described below).

We carried out piloting of the interview schedule in June 2019 on an initial nine nurseries – three of whom declined to participate and six suggested re-contacting them in September when time would be less pressured for them (see table 1 below). We avoided data collection in August on advice from these nurseries and our advisory group.

In September, we carried out a second pilot of twelve nursery organisations. This twelve comprised the six organisations who we spoke with in June and who asked us to make contact them in September 2019. The twelve also consisted of a new batch of six nursery organisations we had not previously contacted. At this point, we trialled an incentives approach, to see if offering a small incentive might make a difference to our response rate. We offered a £50 book voucher to the 'new' six organisations as a 'thank-you' for their participation. However, we did not notice a discernible difference in response between the two groups – those offered the incentives were equally likely and not likely to respond to our request for an interview. As there was no difference between in response rate, we decided not to continue with the incentives.

Later in September 2019 we contacted a new batch of 50 nursery organisations, without offering incentives. As with the two pilots, these nurseries were randomly selected from across the ten local authorities and five IDACI strata, were contacted by email and followed up by phone three or four times in late October 2019.

By the end of October 2019, only a total of 12/171 had participated in an interview since we began data collection at the start of June 2019. This represents a response rate of 7% (see table 1 below). The reasons for refusal to take part (at each stage of the piloting and main data collection phases) seemed to be mostly lack of time (see Table 1 below). None of the twelve interviews were from what 'DayNurseries.co.uk' categorise as 'large nursery groups' (10+ nurseries). It may be that the local management in these large groups felt less autonomy in answering questions about their nursery.

Table 1: Response to the interviews and reasons for refusal

Phase of data collection	Numbers targeted	Acceptances	Refusals	Reasons for refusal
Piloting - June	9	0	6 – but said to re-contact in Sept	
Piloting - Sept	12 – 6 re-contacts, 6 new	2 - 1 re-contacted (not offered incentive) and 1 new (offered incentive)	10 – mix of new and re-contacted	8/10 cited lack of time; 1 new to post, 1 didn't give a reason
Main phase - Sept	50	1 new (not offered incentive)	49 – 8 of whom could not be reached within 3 attempted follow-up phone contacts	The main reasons given were that managers were too busy, were simply not interested in taking part or could see no benefit to them. A few managers were very newly in post and not feeling equipped to answer, or did not have permission to take part.
Main phase - Oct	100	9	91 - 14 of whom could not be reached within 3 attempted follow-up phone contacts	Same range as above
Total	171	12	159	

In an attempt to address the problem of 'lack of time', we developed an online survey[11] which mirrored the telephone schedule, in terms of question content (see Appendix). Although delivered by survey, the instrument was developed to mimic a semi-structured interview format with many open-ended questions so that we could undertake thematic analysis of the data. It was decided with our advisory group we would now need to abandon the approach of sampling from the Ofsted list (stratified by local authority area and deprivation) and instead to recruit a convenience sample (Vogt, 2011). However, we did include a question in the survey on location to enable

[11] Using QUALTRICS, to which UCL subscribes.

us to identify the local deprivation level (using IDACI as before) of the responding nursery.

We piloted the online survey with the help of one of our advisory group members who is the chief executive of a group of nurseries. The survey was revised and then distributed via Twitter in the last week of November 2019 and in early December. The survey was also advertised via another of our advisory group members who leads another group of nurseries and who posted to closed Facebook groups she belongs to in the field. We also advertised with help from other advisory group members to the National Quality Improvement Network for Early Years and the National Day Nurseries Association, and we advertised via contacts in our fields which include the Education Policy Institute, the Early Years Alliance and CEEDA using social media and newsletters. These efforts considerably boosted our response rates and we ended up exceeding our target of 50 to achieve 80 interviews (twelve of which include data from our interviews, Table 2). We collected the online survey data between December 9th 2019 and January 6th 2020.

Table 2: Response rate of the online survey

Phase of data collection	Numbers targeted[12]	Acceptances
December	50	73 – 16/12/2019 including 12 interviews
January		7
Total	50	80

A total of 80 nurseries completed our online survey between 16th December 2019 and 6th Jan 2020. Three quarters of nurseries who took part described themselves as ‘well established organisations (operating for over 10 years)’.

[12] Unlike the interviews, we did not restrict the numbers responding and cast our net wide but aimed to achieve at least 50 responses from a range of nurseries in terms of size and location.

Table 3: Size and type of nursery responding to our survey (self-descriptions)

Size of nursery	% (n)	Type of nursery	% (n)
A single/standalone nursery	56 (44)	For Profit	49 (39)
Small group < 5 nurseries	20 (16)	Not for Profit	46 (36)
Medium group 5-9 nurseries	4 (3)	Other[13]	5 (4)
Large group > 10 nurseries	20 (16)		
Total	100 (79)		100 (79)
Missing	1		1

Table 4: Length of time nurseries reported running for

Time open	% (n)
Up to 1 year	1 (1)
2-9 years	26 (20)
10 + years	73 (56)
Total	100 (77)
Missing	3

Only 23 percent of nurseries reported having had a change of ownership (and of those, 72% reportedly took place over five years ago).

Table 5: Percent of nurseries reporting change of ownership

Change of ownership ever?	% (n)	When was change of ownership?	% (n)
Yes	23 (18)	Within the last year	6 (1)
No	77 (60)	1-5 years ago	22 (4)
		More than 5 years ago	72 (13)
Total	100 (78)	Total	100 (18)
Missing	2	Missing	2
		Not applicable	60

We analysed the quantitative data using SPSS, the statistical package for the social sciences, and the qualitative responses (in addition to the interview data) using thematic analysis focusing on three themes: location, operation and costs, recruitment and retention issues.

Sixty-seven percent of nurseries said children attending their nurseries were from the local area and 41 percent of nurseries had children whose parents/carers were in

[13] LA maintained, charity not for profit, voluntary run not for profit and “private but not really making a profit”.

employment (we did not ask how many hours the parents/carers worked as this is unlikely to be known by the nurseries).

Table 1: Catchment of nurseries

Do the children who attend live locally?	% (n)
Yes	67 (48)
No – even mix of those who travel and live locally	33 (24)
Total	100 (72)
Missing	8

Table 2: Employment status of parents

Are the parents/carers whose children attend your nursery mostly…	% (n)
Employed	41 (29)
Not working	9 (6)
Even mix of working and not working	51 (36)
Total	100 (71)
Missing	8

We asked nurseries if they had a policy to support ‘hard up’ parents/carers or parents/carers who were going through a bad patch financially – 60 percent said yes. Eighty-two percent of nurseries also said they had a policy of offering flexible payments for parents. There were no significant differences by type of nursery (for profit versus not for profit) or nursery size or change of ownership in the past year.

Table 3: Policies to support 'hard up parents' and offering flexible payments

Policy to support 'hard up' parents/going through bad patch financially?	% (n)	Policy to offer flexible payments to parents?	% (n)
No	40 (29)	No	18 (13)
Yes	60 (43)	Yes	82 (59)
Total (N=66)	100 (72)	Total (N=66)	100 (72)
Missing	8	Missing	8

Settings that did offer support to poorer parents/carers often did not have specific written policies around this but rather took a more informal case by case approach. Managers frequently talked about trying to be flexible and using their discretion if and when parents/carers let them know they were struggling. There were some specific measures cited by nursery managers that had been taken by settings to support parents/carers in financial difficulty, these include:

- Offering weekly payment plans or flexible payment options
- Free lunches for children from poorer families
- Discounts for siblings
- Offering some completely free places for disadvantaged children for example, waiving the extra charges/service charges/consumables fee
- Offering EYPP supported places at no cost to parents
- Responding quickly (within a week) and without requiring 'notice' if parents/carers request to reduce their hours and so reduce fees
- Making no extra charges at all even though the nursery needs to financially (particularly for settings where a high percentage of families are from disadvantaged backgrounds)
- Giving a set number of children who are eligible (and using) their 15 hours two year old funding an extra 15 hours free when they reach three years if they are not eligible for the 30 hours funding. (The nursery opted to do this because they saw how children have benefitted from the 15 hours at age two and they wanted them to get the same benefit as children whose

parents/carers are eligible for the 30 hours at age three, or whose parents/carers can afford to pay privately)
- Providing help in areas beyond their remit as a care provider, for example, helping parents/carers with gas/electric card payments or providing food

Nursery managers spoke of their frustration around not being able to afford to do more to support poorer parents/carers and that the free hours underfunding puts them under immense financial pressure so there is little scope to offer much to poorer families. For example, one nursery manager commented:

> *"our intake is not as economically diverse as we would like it to be but we just can't afford it"* (Manager of a (self-defined) private single standalone nursery operating for four years).

Operation and costs

We asked nurseries to tell us if staff or parents/carers were involved in different kinds of decision making about the nursery. For all categories of decision making, staff were much more likely to be involved than parents, especially for issues related to recruitment and retention where over half of nurseries said 'staff were involved in the decision making' compared with only one percent of parents. However, 55 percent of nurseries said both parents/carers and staff were involved in decisions about the 'operation of the nursery'. In contrast, when it came to decisions about change of ownership, 61 percent of nurseries did not say they consulted either parents/carers or staff. There were no significant differences by type of nursery (for profit versus not for profit) or nursery size or change of ownership in past year.

While few nurseries said parents/carers were involved in decisions about timetabling (35% half counting the parents column and 'both' column), 67 percent of nurseries did say they offered parents/carers opportunities to appeal fees or timetabling of sessions.

Table 4: To what extent are parents/carers and staff involved in decisions about the operation of the nursery?

Who makes decisions about the following?	Staff %	Parents %	Both %	Neither %	Total	N
Staff recruitment	55	1	9	35	100%	80
Staff retention	56	1	8	35	100%	80
The way the nursery operates	29	0	55	16	100%	80
Setting of fees	35	1	16	48	100%	80
Timetabling of sessions	29	3	32	36	100%	80
Change of ownership	19	4	16	61	100%	80
Other changes	5	1	2	91	100%	80

Table 5: Do nurseries provide parents/carers with an opportunity to appeal fees or timetabling of sessions?

Opportunity for parents to appeal fees or timetabling of sessions?	% (n)
Yes	67 (47)
No	33 (23)
Total	100 (70)
Missing	10

The telephone interviews conducted with twelve nursery managers supports our findings from the survey. Managers reported that staff were regularly included in discussions and decision-making around policies and practices in the nursery; this took place both on an informal basis – for example, conversations between the manager and staff during the working day or more formally at nursery staff meetings or in supervision meetings. However, with regard to the involvement of parents/carers in decision making, none of the twelve nurseries consulted or included parents/carers in policy making or decisions around nursery fees or additional charges made to parents/carers – but all managers we spoke to reported they were open to parents/carers making suggestions and recommendations regarding day-to-day practice at the nursery. Some managers reported that changes had been made to the nursery hours available to parents/carers in order to meet their needs. An example of this given by one nursery manager was that they had noticed parents/carers were congregating in the car park in the mornings waiting for the nursery to open. Parents/carers were consulted about whether they wanted the nursery to extend their hours and so the nursery now opens 30 minutes earlier in the morning and 30 minutes later in the evenings.

All the managers in our sample discussed the importance of transparency and communication with parents and how building good, open relationships with parents was a high priority for their nursery. The term ‘open door policy’ was used when speaking about parents and their stance towards receiving ideas and input from parents about what happens at the nursery. These managers had adopted a range of approaches to communicating with parents/carers and different mechanisms for parents/carers to give their feedback about the nursery and how it operates, for example, face to face verbal communication at drop off and pick up, email newsletters, text and Facebook messaging, comment boxes, parents’ evenings and at parent-child events such as lunches, fairs, Christmas events. A few managers said that they had given parents/carers their mobile phone number so they could contact them directly if they needed to.

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

We also asked a series of general operational questions about fees and costs. Nearly all the managers in our sample said the 30 hours ‘free funding’ was insufficient to meet the costs of operating their nursery. Unsurprisingly therefore, almost three-quarters of nurseries said managers were working some of their time for free and 65 percent said they had to charge extras or make additional charges to parents.

Table 6: Is the 30 hours ‘free’ funding sufficient to cover nursery operation costs?

Is 30 hours funding sufficient to cover costs?	**% (n)**
Yes	9 (7)
No	91 (68)
Total	100 (75)
Missing	5

The vast majority of nursery managers who responded to the survey said that the free hours funding did not cover the nursery’s operating costs. The estimated shortfall that was reported by managers varied from 85p per child per hour up to £2.80 per child per hour:

> *“We haven’t had an increase in two years and each increase before that has not even come close to other costs incurred such as National Minimum Wage and the Living Wage”* (Manager of a private (self-defined) nursery part of a small group operating for 22 years).
>
> *“The funding rate here was £4.21 for four years, it didn’t go up once, then this year in April 2019, it went down to £4.00 per hour”* (Manager of a private (self-defined), single standalone nursery operating for seven and a half years).
>
> *“It does not cover the costs of the session, quality staff need professional wages. The funding is billed as free but is of course a cost to someone, in this case the nursery”* (Manager of a private (self-defined) nursery part of a large group operating for five years).
>
> *“We only receive £3.65… being teacher led, with large premises and staff on local authority wages we struggle to break even. Our break-even rate is £5.20 per hour”* (Manager of a LA maintained nursery (self-defined), part of a small group operating for ten years).

Very few nursery managers reported that the free hours funding was sufficient to cover their costs; one manager said that their nursery had opened after the free hours policy had been introduced so the business was developed and built based on that price per hour. Another nursery manager stated that they were fortunate to benefit from low rental charges on their premises and consistently high numbers of children on their books which meant that the current level of free hours funding was sufficient for them. And another nursery manager said that the funding had been sufficient until recently, but with the rise in minimum wage and escalating operating costs it would not be sufficient in the near future unless the price per hour was increased.

A particular area of difficulty reported by managers in relation to the free hours funding was the rise that they are seeing in the number of children with special educational needs or for whom English is an additional language. These children require additional and more intensive support and care which puts even greater pressure on nurseries that are already struggling financially with the free hours funding shortfall.

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

> *"[We're] struggling to pay for resources, additional staff and this has a knock-on effect especially for children with additional or special needs, before we might have been able to put in an additional member of staff for those using budgets from other areas".* (Manager of a private (self-defined) single standalone nursery operating for two years).

Nursery managers highlighted other financial outlays that heavily impacted upon their running costs and which caused them concern for their long-term sustainability, these included high business rates, high leasehold/rental rates, the VAT status of the sector and changes to the National Minimum Wage, Living Wage and pensions requirements.

> *"The cost of staff, minimum wage, pensions, have increased significantly whilst the funding has not. There have also been increases in Business Rates, Food, Energy etc. that the government do not seem to consider"* (Manager of a private (self-defined) nursery part of a small group operating for 16 years).

IMPACT OF THE FREE HOURS UNDERFUNDING

A few nursery managers from the interviews reported that they offset some of the free hours funding shortfall through the higher fees that are charged to parents/carers who are not eligible for the free hours or who want extra hours above their free entitlement or whose children are under three years of age:

> *"We charge higher fees to younger children to make up for the shortfall. Despite being able to charge for extras due to the area, most parents opt out or end up in arrears as a result so meals and extras have to be withdrawn"* (Manager of a private nursery (self-defined) part of medium sized group operating for ten years).

> *"We compensate somewhat by the charges we make for additional hours over and above the free entitlement and with the fees that we get from parents who don't get free hours"* (Manager of a private nursery part of a small group operating for 20 years).

Table 7: How many nursery managers work some of their time for free?

Are nursery owners or managers working any time for free?	% (n)
Yes	73 (52)
No	27 (71)
Total	100
Missing	9

Table 8: Do nurseries charge extras to parents/carers entitled to the 30 hours 'free' funding?

Charge for extras or make additional charges to parents/carers entitled to DfE 'free childcare hours offer'?	% (n)
No	35 (26)
Yes	65 (49)
Total	100 (75)
Missing	5

Most of the managers in our sample stated that their nursery makes additional charges to parents, including those eligible for the 30 free hours (less so for those eligible for the two year old funding), via a 'service charge'/'additional services package'/consumables charge. This typically covers special activities, play/learning resources, snacks and/or meals, waterproofs, nappies, sun cream and online journals but some nurseries use this extra charge to bridge the general cost differential between the funded rate and session rate:

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

> *"The funding does not cover the costs, we have to add an additional service charge, we don't put a cost on individual items, we have a service charge for everything that is not 'the care of the child' e.g. telephone calls, emails, paint, glue, food, so anything that doesn't cover the direct care of the child. The service charge is a set amount of £1.30p per day, when the parents think they are getting the free hours they don't like having to pay this extra service charge, this has been quite a contentious thing with some parents"* (Manager of a private (self-defined) nursery part of small group operating for 10 years)

> "*asking parents for snack donations, donations of cleaning products, running fundraising stalls as often as possible, staff working more hours than paid*

quite often, being part of the Fairshare food programme and cutting every expense to the bone" (Manager of a not for profit (self-defined) single standalone nursery operating for 30 years).

Some nursery managers reported that the financial difficulties they are experiencing because of the free hours underfunding meant that they had to limit the number of places they make available at their nursery for funded children:

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

Other impacts of the underfunding reported by managers included reducing their operating hours to make ends meet, not replacing broken play/leaning resources that cost more than a few pounds and not being able to improve the premises.

> "*We are struggling to pay for resources, additional staff and this has a knock-on effect especially for children with additional or special needs, before we might have been able to put in an additional member of staff for those using budgets from other areas, it just has an impact on the quality of what we can we want to provide quality care but the funding undermines this*". (Manager of a private (self-defined) single standalone nursery operating for two years).

A few managers commented on the impact that the free hours underfunding has had on staffing and the quality of care that their nursery is able to provide:

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

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

Recruitment and retention issues

As we comment earlier in this report, recruitment and retention are common issues of concern for the sector. We found similar results in our survey with 74 percent saying recruitment was an issue for them in the past year. However, only 36 percent said retention had been an issue for them in the past year.

Table 9: Is staff recruitment an issue?

Has staff recruitment been an issue for the nursery in the past year?	**% (n)**
No	26 (19)
Yes	74 (53)
Total	100 (72)
Missing	8

Table 10: Is staff retention an issue?

Has staff retention been an issue for the nursery in the past year?	**% (n)**
No	64 (46)
Yes	36 (26)
Total	100 (72)
Missing	8

Survey respondents were asked whether they had experienced difficulties in recruiting and retaining staff in the past year and if so, to provide further details of this. Most nursery managers stated that there is a lack of qualified and experienced early years practitioners and that most applicants who respond to job vacancies are often lacking in qualifications and/or experience; there were particular concerns around the lack of availability of Level 3 qualified staff.

These managers also said that the funding problems mean that settings are not able to pay their staff a decent wage and that combined with the long hours means that the more qualified and experienced staff are leaving the sector altogether to get better paid work in less skilled jobs, for example, in retail:

“*Staff have left for higher paid jobs in supermarkets, higher pay and a less demanding job”* (Manager of a private (self-defined) single standalone nursery operating for seven and a half years).

“We are finding it difficult to recruit as we have been unable to increase wages to a level we would like – local retailers are offering higher wages – this is a direct result of low funding levels”. (Manager of a private (self-defined) nursery part of a small group operating for 16 years).

“*Restrictions on income due to funding, holding our private fees for the fifth year running and constant rise in wages, contributions and bills means that we cannot afford to pay staff what they are truly worth. Few people are prepared to take on the huge responsibility this workplaces on them, even with potential job satisfaction at making a profound difference to children’s early years development, when they can earn much more stacking shelves or working production lines with little responsibility and emotional accountability*”. (Manager of a private (self-defined) nursery part of a small group operating for twelve years).

“The Pool is shrinking fast, who would enter an occupation where you study for years to earn minimum wage”. (Manager of a private nursery (self-defined) part of a small group operating for 15 years).

Respondents reported that many applicants tend to be young and just out of college and that they were often not committed to the job or reliable. This has a knock-on effect for the nursery both financially (because they have to get expensive agency staff at short notice when people don’t turn up for work or frequently call in sick) and for the quality of care that is provided to children and especially children with SEN or additional needs.

We also asked about staff conditions in the nursery. We found that only 15 percent of staff in the nurseries we surveyed said they belonged to a union. However, most nurseries offered a range of staff support within their salary packages such as paid holidays (78%), pensions (94%), paid sick leave (42%), and discounts on childcare (64%).

Table 11: Do staff belong to a union?

Do any staff belong to a union?	**% (n)**
Yes	15 (11)
No	85 (61)
Total	100 (71)
Missing	9

Table 12: What do nurseries include in their staff packages? (Multiple response question)

Does nursery offer any of these as part of the staff package?	**% Yes (n)**
Paid holidays	78 (54)
Pension	94 (65)
Paid sick leave	42 (29)
7Discount on childcare	64 (44)
Other[14]	35 (24)
Total	100 (216)
Missing	0

In the survey, respondents were asked to outline the changes that they would like to see to Government policy to improve things for the childcare sector. The majority of nursery managers (60 out of 80) said that the funding rate for the free hours needs to be increased to reflect the real costs of the care that nurseries provide; an increase in funding rates for SEN and EAL children was also cited as an area that needs to be urgently addressed. Managers felt that changes to funding rates would have a range of beneficial impacts including making it possible for nurseries to pay their staff reasonable wages which would make the sector a more attractive place to work. They believed this would result in a stronger workforce of more qualified and experienced staff who would be more likely to stay in post which would have a

[14] Things here included a cycle to work scheme, all staff annual parties, insurance policies, paid lunches, counselling, flexible working, free training schemes, extra pay for overtime, personal fitness/training schemes.

knock-on effect of improving the quality of care and education provided to children especially to those with SEN and additional needs:

> *"I would like to see the funding increased to reflect the true costs rather than the Government telling parents it's "free childcare" when it's actually not and its costing the childcare sector who are picking up the shortfall. Most of my staff don't get much more than minimum wage because of this. The Government are pricing nurseries out of the market. Parents don't understand that the money for the free hours isn't enough, they don't understand why the Government says it's free but the nurseries are saying it's not enough"* (Manager of a not for profit (self-defined) single standalone nursery operating for 22 years).

> *"For it to be funded at a fair rate, to be able to offer a wage that reflects the skills of my staff, to be able to replace and renew resources and to offer children a wider range of opportunities and experiences."* (Manager of a private (self-defined) single standalone nursery operating for 14 years).

Several managers talked about the need for greater respect and recognition for the early years childcare sector, one manager stated that the childcare workforce are often viewed as "unskilled babysitters" and that they are treated and paid as such. There were calls for greater recognition of the professionalism of early years professionals:

> *"I would like governments to properly recognise the importance of the early years".* (Manager of a private (self-defined) single standalone nursery operating for 14 years).

> *"The Government doesn't trust the sector, that the money they give is being spent in the right way and that early years practitioners know what they are doing and are doing a good job. This Government does not recognise or respect early years care and education, the focus is primary and up and the Government only care about school readiness".* (Manager of a not for profit (self-defined) single standalone nursery operating for 22 years).

Some managers wanted to see an increase in the number of funded hours for those currently eligible for two year old funding and whilst others said that the 15 hour and 30 hour funding polices should be universal:

> *"The children who qualify for the two year old funding really need to have more hours paid for, it's not fair that these most disadvantaged children only get 15 hours and other children benefit because other children can get 30 hours cos their parents are working or can pay privately. The problem is the Government sees the beneficiary of this 'free money' as the parent not the child so they don't want to give more to these disadvantaged parents because they see them as living a lazy lifestyle and want them in work – they're not investing for the long term for children's futures and to break the cycle".* (Manager of a private (self-defined) nursery part of a small group operating for five years).

Other changes that managers would like to see to improve things for the sector included funding for staff training and continuing professional development (CPD), improvements to the quality of early years training courses and qualifications providers and easier access to wider support services for children such as speech and language therapy.

A few managers highlighted the current VAT status of nurseries and business rates as problems that need addressing:

> "A big issue is VAT status, nurseries are exempt from VAT which sounds good but it means we can't claim back VAT, we should be a zero-rated industry rather than an exempt industry… we get charged more per square metre than most other businesses because we are childcare, we pay about £120,000 a year in business rates across our three sites, we are a utility, a necessary service and the Government are taxing us inordinately – we don't make a profit as a business, it stifles any type of new initiative or imagination, people are just getting by". (Manager of a private (self-defined) nursery part of a small group operating for five years).

APPENDIX: SURVEY FORM USED IN WORKSTREAM 4

The actual online survey script is provided below.

CHILDCARE IN ENGLAND

Thanks for clicking on the link to consider taking part. Researchers from University College London are conducting a research study on childcare in England. As part of this research we are running an online survey for Nursery and Pre-school managers to find out about their nursery, how it operates and current challenges; this is with a view to informing policy and practice for the sector. This is an independent study funded by the Nuffield Foundation, it is not funded by, or connected with, the Department for Education. Gathering information in this survey from Nursery/Pre-school Managers such as yourself is really important. Your views will help inform policy and practice for the childcare sector. The data you provide will be kept confidential to the research team. The names of nurseries and any other identifying information will not be published or used in our final report or other outputs. This survey is designed to be completed by managers of individual nurseries/with reference to individual nursery sites. If you are the owner or manager of a nursery group then please could you select one nursery in the group and answer the questions in relation to that site. If you have any questions or if you would prefer to take part in a telephone interview with one of our researchers to answer the questions contained in this survey. Thank you again for your help with this research.

Q1 Name of nursery

____

Q2 Local Authority where the nursery is located

____

Q3 Postcode of nursery *(this information will only be used to identify the level of deprivation of the area the nursery is situated in)*

____

Q4 Your job title at the nursery

____

Q5 How long have you been working at this nursery (please state number of years)

____

Q6 Type of nursery

- ○ a single/standalone nursery (1)
- ○ part of a small nursery group (fewer than 5 settings) (2)
- ○ part of a medium nursery group (5-9 settings) (3)
- ○ part of a large nursery group (10 or more settings) (4)

Skip To: Q7 If Type of nursery = a single/standalone nursery
Skip To: Q6a If Type of nursery = part of a small nursery group (fewer than 5 settings)
Skip To: Q6a If Type of nursery = part of a medium nursery group (5-9 settings)
Skip To: Q6a If Type of nursery = part of a large nursery group (10 or more settings)

Q6a Has the nursery group expanded/added sites in the past year?

- ○ Yes (1)
- ○ No (2)

Q7 Is the nursery:

○ private operating for profit (1)

○ not for profit (2)

○ Other (please give details in box below) (3)

____

Q8 How long has this nursery been operating? (please state number of years)

____

Q9 Has the nursery ever changed ownership?

○ Yes (1)

○ No (2)

Skip To: Q10 If Has the nursery ever changed ownership? = No

Q9a Was the change of ownership:

○ within the last year (1)

○ 1-5 years ago (2)

○ more than 5 years ago (3)

Q9b Did the change of ownership change the way the nursery operates in any way?

- ◯ No (1)
- ◯ Yes (please give details in box below) (2)

____

Q10 Is the funding you receive for the free hours sufficient to cover your costs?

- ◯ Yes (please explain why in the box below) (1)

____

- ◯ No (please explain why in the box below) (2)

____

Q11 Does the nursery charge for extras or make any additional charges to parents who are using the DfE 'free entitlement'?

- ◯ No (1)
- ◯ Yes (please give details of additional charges in the box below) (2)

Q12 Do most of the children who attend the nursery:

- ◯ live locally (1)
- ◯ travel to get to the nursery (e.g. near parent's place of work) (2)
- ◯ an even mix of local and those who travel (3)

Q13 Are the parents of children at your nursery:

- mostly employed (1)
- mostly not working (2)
- an even mix of employed and not working (3)

Q14 Does the nursery have any policies towards parents who are a bit hard up or going through a bad patch financially?

- No (1)
- Yes (please give details in the box below) (2)

Q15 Does the nursery offer flexibility regarding payment?

- No (1)
- Yes (please give details in the box below) (2)

Q16 How does the nursery manage non-payment?

Q17 Has staff recruitment been an issue for the nursery in the past year?

- No (1)
- Yes (please give details in the box below) (2)

Q18 Has staff retention been an issue for the nursery in the past year?

○ No (1)

○ Yes (please give details in the box below) (2) ____

Q19 Does the nursery offer any of the following as part of the staff package? (please tick all that apply)

▢ paid holidays (1)

▢ pension (2)

▢ paid sick leave (3)

▢ discount on childcare (4)

▢ other (please give details of other aspects of the staff package in the box below) (5) ____

Q20 Do any of the nursery staff belong to a Union?

○ Yes (1)

○ No (3)

Q21 Are the nursery owners or managers working any time for free?

- ○ Yes (1)
- ○ No (2)

Q22 Is there any opportunity for discussion or appeals if parents don't like the times they are being offered or the fees they have to pay?

- ○ Yes (1)
- ○ No (2)

Q23 Please indicate who is involved in decisions about/consulted on each of the following (please tick all that apply)

	Nursery staff (1)	Parents (2)
Staff recruitment (1)	☐	☐
Staff retention (2)	☐	☐
The way the nursery operates (what happens in day to day practice) (3)	☐	☐
Setting of fees (4)	☐	☐
Timetabling of sessions available/offered to parents (5)	☐	☐
Change of ownership e.g. takeover or sale of nursery (6)	☐	☐
Other changes (please specify other changes in the box below) (10)	☐	☐

Q24 In an ideal world, what changes would you like to see to Government policy to improve things for the childcare sector in the future?

____

Thank you for taking the time to complete this survey, it is very much appreciated

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