KINDERGARTEN LANDLORD:

SHOULD NORWEGIAN TAXPAYERS FINANCE PROFITS FOR ONE OF THE WORLD'S LARGEST ASSET MANAGERS?

A REPORT BY
THE CENTRE FOR
INTERNATIONAL CORPORATE
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Centre for
International
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Accountability
and Research

This report has been researched and written by the Centre for International Corporate Tax Accountability and Research (CICTAR) working in close collaboration with the Norwegian alliance "Campaign for the Welfare State" (For velferdsstaten - FV).

For the purposes of this report, the words "tax avoidance", "tax minimisation" or other similar derivatives refer to a range of strategies, many of which are legal. This report makes no specific allegations of illegal activity or behaviour.

Some of the structures and processes outlined in this document are subject to ongoing changes.

Information regarding the content of this report has been shared with Brookfield and other companies named, and a number of specific allegations and questions were put to them in advance of the publication of this report.

We have received responses from Brookfield and some information in this report has been amended in light of those responses.

A full statement from Brookfield is provided at the end of this document.

They additionally noted that:

(CICTAR's) "apparent ongoing concerns around Brookfield's tax practices are unfounded, Brookfield has strong governance policies in relation to taxes", and referred us to their Tax Governance Framework, their Tax Risk Management Policy, and their 2022 ESG Report, all of which are available on their website.

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Executive Summary

Norway operates one of the most effective welfare states on the planet, underpinned by both tax and regulation. This has been increasingly clear in recent decades in the early childhood and care (ECEC) sector, where Norway has achieved universal access to ECEC services, significantly increasing the number of kindergartens across the country whilst capping prices for households. This all comes at a cost, and the Norwegian Government invests billions of kroner to deliver quality public services; roughly two percent of GDP covers ECEC services alone.

This report looks at the expanding role of profit-seeking private sector actors in Norwegian kindergartens. It focuses on a number of recent corporate deals that appear to have enabled significant profit extraction for the owners of corporate kindergarten chains, Laeringsverkstedet and Trygge Barnehager. These case studies are used to explore the increasing "financialisation" of public services – in this case Norwegian kindergartens – in which financial actors and motivations shape how services are delivered, and who benefits.[i]

The analysis focuses on a number of deals:

» In 2020 Laeringsverkstedet, the country's largest private kindergarten chain, entered into a "sale-leaseback" agreement with Swedish "social infrastructure" investor Samhällsbyggnadsbolaget I Norden AB (SBB), in which the real estate assets associated with 138 kindergartens were sold to SBB and then leased back for ongoing rental payments.

» In late 2021, SBB entered into a second sale-leaseback agreement with Trygge Barnehager, Norway's second largest kindergarten operator, for 142 properties.

While the long-term rental costs of these deals are significantly higher than the price paid by SBB, the availability of capital that had previously been tied up in the real estate assets enables significant financial opportunities. The report looks at how sale-leaseback agreements and other similar arrangements in other sectors and jurisdictions have impacted firm-level cashflow, impacting the ability to deliver services, ensure decent work and guarantee financial sustainability. For Laeringsverkstedet and Trygge Barnehager, the sale-leaseback agreements allow these corporations to continue to expand.

Subsequent events demonstrate just some of the considerable risks associated with financialisation. The owners of both chains appear to have shifted significant riches out of the country to minimise liability under changes in Norway's wealth tax rules and may be minimising liability under other elements of Norway's tax system.

Weeks after the Trygge Barnhager deal SBB shares went into freefall, shedding more than 80% of their value in ten months. Rising interest rates threatened the Swedish property market,

[i] Financialisation refers to the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies." *See Endnote 1.*

decimating SBB's cashflow and putting its highly-leveraged model of aggressive expansion on ice. SBB broke up its empire by sector, selling a 49% share in its portfolio of roughly 600 Nordic real estate education assets – including the LV and TB kindergarten properties – to Canadian global asset manager Brookfield.

While Brookfield toyed with a complete buyout of the education portfolio (via Educo AB, registered in Sweden), in late 2023 they settled on a deal that saw Brookfield purchase only a small additional stake, but take "sole control" of the education real estate assets. Brookfield Super-Core Infrastructure Partners (BSIP) – a Fund established by Brookfield in 2018 to invest in low-risk infrastructure assets, now claims sole control of the properties. The report looks at existing allegations against Brookfield of aggressive tax planning and its extensive use of offshore secrecy jurisdictions including Bermuda and Luxembourg. It then reviews available information about BSIP's complex tax structure, including subsidiaries in Luxembourg, Bermuda and Barbados.

This paper provides a critical analysis of the role of profit-seeking actors in the private ECEC sector. While private sector involvement has been used to achieve universal access, it has also created significant opportunities for profit extraction and tax minimisation. As the Norwegian Government reviews the Kingergarten Act, we hope that this discussion supports an understanding of the extent and risks of financialisation in the sector, the importance of considering real estate within the rubric of regulation, and how the private equity model can impact the quality of service delivery.

1. Introduction

For half a decade, the *Centre for International Corporate Tax Accountability and Research (CICTAR)* has documented the increasing "financialisation" of publicly-funded services like health, care and education in other countries.

Financialisation refers to the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies."[1] In the last two decades private investors, such as private equity firms and asset managers, have made significant advances into the provision of public services, including in health, care and education sectors. Simon et al argue that financialisation underpins 'for-profit' models, which often pursue:

> 'growth through loss-making' and to minimise the amount of tax they pay – tax is to be treated as a cost to be minimised rather than a distribution of profits to governments which provides critical infrastructure and services. The effects of financialisation include using property as a collateral for business growth and acquisition. This enables quick expansion but builds up structural risk and reduces resilience.[2]

In other sectors, these trends have been accompanied by declining quality of service, deteriorating working conditions, significant profit extraction and aggressive tax minimisation schemes. Financialisation in the early childhood education and care sector (ECEC) means the increasing importance of profit-seeking actors – in this case corporate kindergarten groups, "social infrastructure" property companies, and asset management funds – determining how public funds are spent in pursuit of universal childcare services.

Since the early 2000s, Norway has seen significant growth in the for-profit kindergarten model, followed in 2022 and 2023 by a number of important international financial acquisitions of Norwegian kindergarten real estate. Working with the Norwegian alliance "Campaign for the Welfare State" (For velferdsstaten - FV), this briefing paper provides details on those recent transactions. The deals in question are made between Norwegian early childhood education and care (ECEC) providers Laeringverkstedet and Trygge Barnehager, Swedish real estate company Samhällsbyggnadsbolaget I Norden AB (SBB), and Brookfield Corporation, a giant Canadian global alternative asset manager.

Details of these transactions and other similar deals are presented here in the hope that they will help Norwegian taxpayers, kindergarten parents and regulatory authorities to better understand the risks involved with the financialisation of the sector and its effects on the delivery of public services, like ECEC.

CICTAR and FV seek to support the Norwegian Government in its efforts to regulate profit extraction, guarantee service quality and to safeguard working conditions in the ECEC sector.

1.1 “Sole control”

Far away from the kindergartens themselves, and the public debate on regulating private interests in the sector, in late 2023 Norwegian[3] and Finnish[4] competition authorities approved applications by the company Solna BidCo AB. This company is owned by Brookfield Corporation, a giant Canadian global investment company. The approval meant that Brookfield had acquired “sole control” of SBB EduCo AB, a property company with a portfolio of nearly 600 educational facilities across the Nordic region. In addition to 138 LV and 142 TB Kindergartens, the portfolio also included 13 kindergarten properties owned by the Norwegian chain Espira.

The “SBB” part of the name referred to a stressed Swedish property company – Samhällsbyggnadsbolaget I Norden AB (known as “SBB”) – which had presumably become increasingly desperate to offload property assets as rising interest rates exploded SBB’s finance costs. Included in this portfolio is a group of 280 Norwegian early childhood education and care (ECEC) facilities operated by Laeringsverkstedet (LV) and Trygge Barnehager (TB), together accounting for around five percent of the entire Norwegian ECEC sector. This was the second time within just a few years that this kindergarten real estate had changed owners, having been sold to SBB in the preceding years.

The new owners, Brookfield, appear to be the beneficiary of the former owner SBB’s ample hubris. When interest rates were low, SBB entered into sale-and-leaseback agreements with Norwegian kindergarten operators, pushing company debt to a new high. In a media statement at the time of the TB deal, SBB CEO Ilija Batljan explained that the company “ha[s] the financial capacity to continue to support the expansion of important social infrastructure together with the segment’s operators.”[5] Less than a month later, rising rates pushed the shares of the highly leveraged SBB into freefall, losing three quarters of their value in just six months. Brookfield’s arrival was a lifeline to SBB, in which the kindergarten real estate – crucial components of an effective and functioning welfare state – took on a new life as bargaining chips for profit-seeking investors.

This transaction – and the deals that led to it – deserve close scrutiny. For-profit kindergarten owners have recently made headlines by shifting billions of kroner – wealth that appears to be largely funded by Norway’s public finances – to Switzerland. At the same time, recent CICTAR research into Brookfield’s complex corporate structures and its excessive reliance on tax havens, including Bermuda and Luxembourg, suggests an “apparent pattern of aggressive tax avoidance consistent across its global operations”.[6] The question of whether a global asset management firm subject to these kinds of allegations should be positioned to extract ongoing rental revenue from publicly-funded ECEC services in Norway – and indeed across Scandinavia – has received limited public discussion.

And yet, there are reasons for concern. In a press release announcing the Brookfield-EduCo deal, SBB characterise Norwegian kindergarten property as "strong and predictable, low-risk, inflation-secured cashflows backed by "AAA" government funding."[7] In the Nordic context where welfare is largely publicly-funded, real estate investment in welfare is very low risk. Every child in Norway has a legal right to attend a publicly-funded kindergarten from the age of one. The objective for investors like SBB and Brookfield is to earn money with as little risk as possible. The political and democratic objective for the ECEC sector in Norway is to provide a day care service of high quality to all families, regardless of their financial situation. These two objectives may be viewed as being at odds with one another.

1.2 Report outline

This report provides a brief history of the transactions that led to Brookfield's ownership of nearly 600 largely publicly funded education facilities across the Nordic region. It first looks at the private ECEC market in Norway, and the establishment and rapid expansion of the major players LV and TB in that market. It then looks at how sale-leaseback agreements helped LV and TB transcend the barriers imposed by that rapid expansion, and the specifics of the deals with the new landlord, SBB. This section details findings from reports about sale-leaseback arrangements in care sectors from countries like the UK, France and Belgium, before analysing current available information on the relatively new LV and TB deals with SBB.

We then shift our focus to the bundling of those educational facilities (alongside others) by SBB in a separate company, EduCo (later renamed Nordiqus), and the sale of a majority shareholding of that company to a Brookfield controlled fund called Brookfield Super Core Infrastructure Partners ("BSIP"). This section looks at existing allegations of profit-shifting behaviour by Brookfield across a number of investments, as well as looking at how the tax structure of that fund and other investments in that fund could be structured to minimise current and future tax obligations.

Global examples demonstrate that the more profit-shifting and profit extraction that occurs, the less money is available to provide and support essential public services. Those receiving services and the workers providing them are negatively impacted. The public pays more while the quality of services may decline.

2. ECEC in Norway

Early childhood education and care (ECEC) is not compulsory in Norway, but all children are entitled a place in a publicly-subsidised kindergarten from the age of 1 until the age of 6 when they start school. Kindergartens are under the responsibility of the Norwegian Ministry of Education and Research, while the Norwegian Directorate for Education and Training is responsible for the development of new kindergartens.[8] Kindergartens are regulated by the Kindergarten Act, first enacted in 1975. The law has been reformed several times, and is also currently under revision. The Kindergarten Act is supplemented by the Framework Plan for Kindergartens.

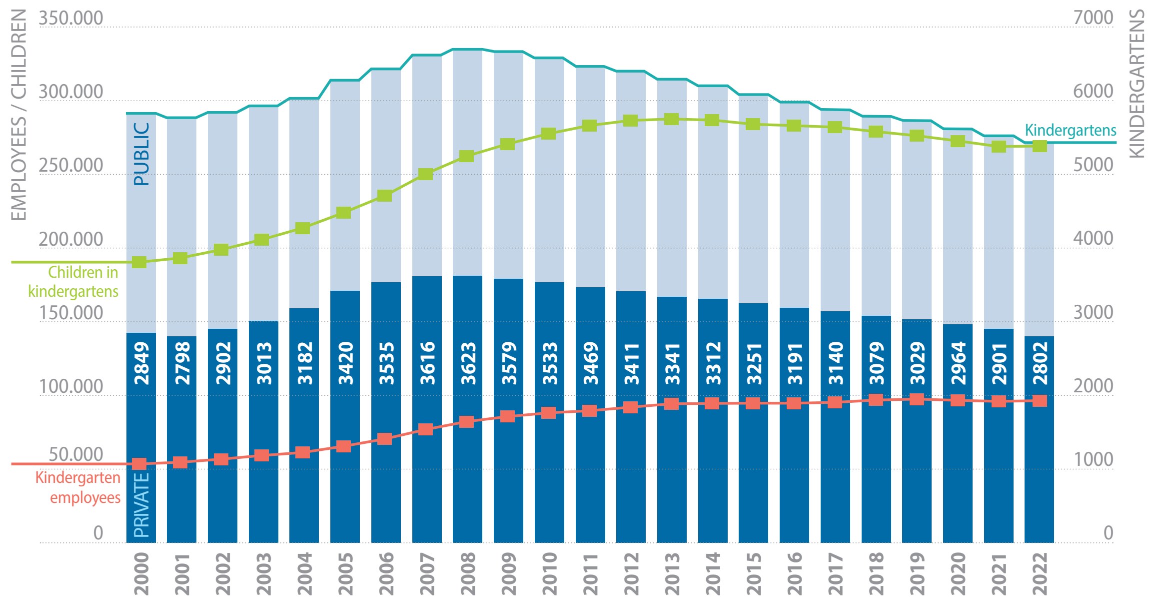
2.1 The role of the private sector in Norwegian ECEC

In many parts of the world, the early childhood education and care sector exhibits a relatively high degree of private provision. This is certainly the case in Norway, where today 53 percent of early childhood education and care facilities – formally named *barnehage* (kindergarten) are run by the private sector.[9] There are also a small number of *familiebarnehager* (family childcare homes), making up around 1.5 percent of the total sector.

In 1998 the Norwegian Government set a goal of offering universal full or part-time access to child care by 2000, and making municipalities responsible for reaching this goal.[10] A coalition of parties was formed to reform kindergarten financing, demanding increased local and national funding to cover 80% of costs, along with a proposed maximum parental contribution. In 2003 a broad coalition in the parliament reached an agreement on achieving universal coverage and reducing parent fees, backed by national funding through earmarked grants.[11] This agreement opened the Norwegian kindergarten sector up for profit-seeking actors.

Major features of the reforms implemented from 2003 were a massive public investment for both public and private institutions, beneficial loans form the Norwegian State Housing Bank, and the introduction of a maximum fee in 2004.[12] Under these conditions, the private sector has accounted for the majority of new kindergarten developments over the past two decades. In 2009 access to barnehager became a statutory right.[13]

Figure 1: Kindergartens, children and employees in Norway



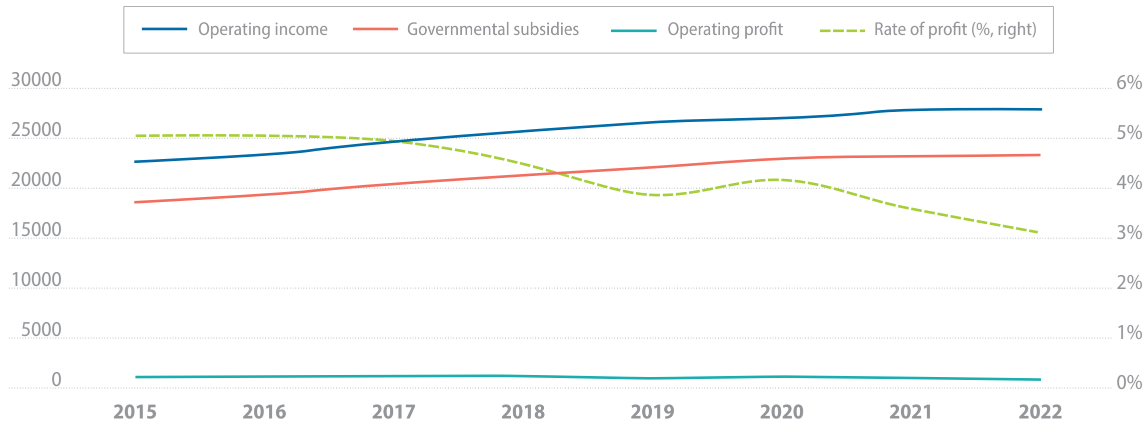
Source: Statistisk Sentralbyrå, see endnote 14.

Under these policies, the total number of children in kindergartens grew by 40 percent (82,005 children) from 2003 to 2013.[14] From 2003 to 2007 the number of private kindergartens grew by 20 percent (603 kindergartens) as operators took advantage of subsidised financing opportunities to expand. The number of kindergartens peaked in 2008 (at 6705), however the number of children in care continued to rise until 2013 (reaching 287,177), indicating a period of consolidation and then contraction in both the public and private sector.

Today, 40 percent of Norwegian private kindergartens are part of a chain or group, and the largest five chains make up 22 percent of the private market.[15] Norway has a strikingly high percentage of children attending barnehager – 93 percent across the 1 to 5 age groups, reaching 98 percent for five-year-olds.[16]

Private providers today receive generous state funding, with regulation requiring that private kindergartens receive the same degree of municipal funding as public kindergartens. In 2022 the share of operating expenses in private kindergartens covered by government subsidies was 85%,[17] with the remainder of funding coming from parent co-payments that are regulated by government (many kindergartens also require additional charges to fund meals, charged at cost).

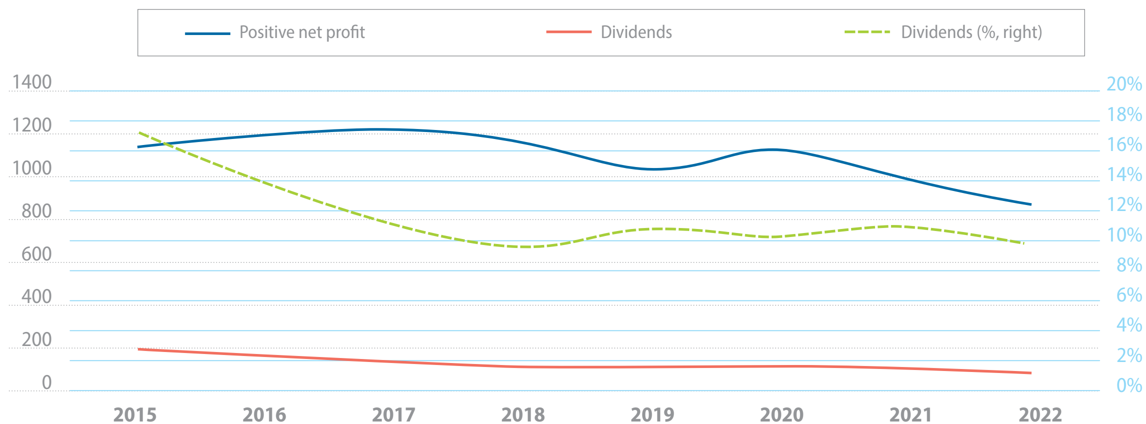
Figure 2: Private kindergarten income and profits (NOK million)



Source: Statistisk sentralbyrå, See endnote 18.

Margins in the sector, however, have been on the decline.[18] From 2015 to 2022, operating income across the sector rose at a compound annual growth rate of 3 percent, however operating profit declined at a corresponding 13 percent per year. As a result, in 2015 net profit after tax made up around 5 percent of the aggregated operating income of private kindergartens, however by 2022 that number had almost halved, to 3.1 percent.

Figure 3: Private kindergarten profit and dividends (NOK million)



Source: Statistisk sentralbyrå, See endnote 19.

The distribution of dividends show a similar trend.[19] In 2015, 17 percent of net profit was allocated to dividends, however by 2018 this had fallen to 10 percent, scarcely moving in the following years. Data shows that over this period, the vast majority of net profit was allocated to either increasing firm equity (as much as 84 percent in 2016), or as intra-group contributions (almost 80 percent in 2017). In other words, these firms have not distributed large dividends. Instead, these firms – not uncommon for private family controlled businesses – have built market share through further investment or holding capital within company structures.

From a parent's perspective, kindergarten financing in Norway is based on a voucher system, wherein "the money follows the child". The principle of "equal treatment" means that public and private kindergartens both receive the same financial contribution per child. Furthermore, there is no difference in the law between for-profit and non-profit private kindergartens, who receive the same financing and treatment by the government.

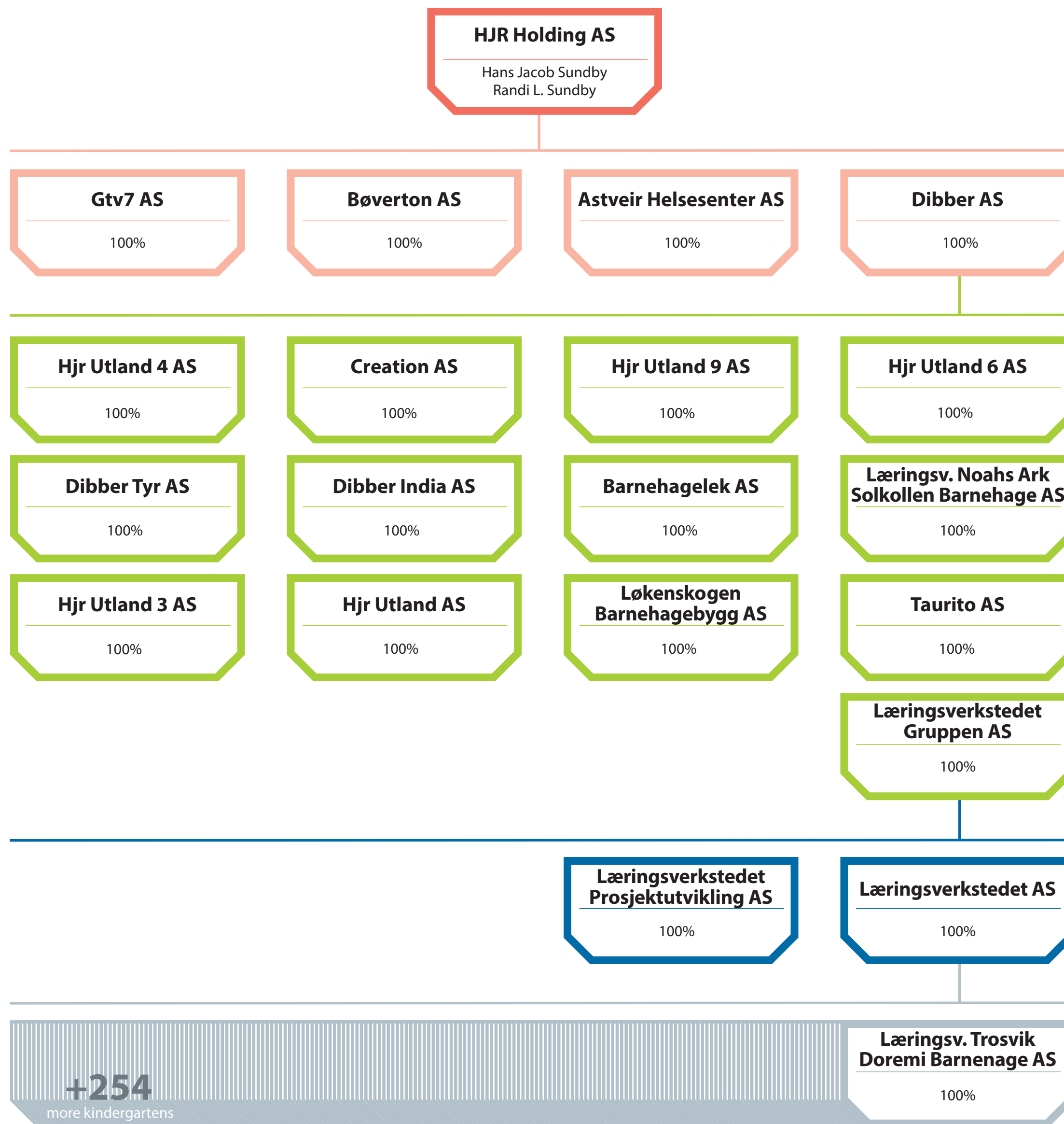
In 2015 Norway spent 2.0 percent of GDP on ECEC, amounting to an average of around US$18,500 per child. This is not only the highest across the Nordic region, but it is more than twice the OECD average of US$8,759 per child.[20] This scale of public investment presents major opportunities for private investors to generate returns from the ECEC sector. However, the foregoing discussions suggest that this is unlikely to rely on dividend distribution alone. Meanwhile, the sparse population distribution and prevalence of both national and municipal regulation means that these markets are rarely internally competitive. Sophisticated operators have been able to develop significant scale, both through the construction of new facilities and acquisition of other groups.

Sections 2.2 and 2.3 respectively will look at Laeringsverkstedet and Trygge Barnehager. Both have enjoyed generous public subsidies from the Norwegian Government, covering the operating costs of ECEC services as well as, in some instances, financing the development of new ECEC facilities.

2.2 Laeringsverkstedet

Laeringsverkstedet (LV), which translates to "the Learning Workshop", is the largest early childhood education and care provider in Norway. Formed in 2004, in the wake of Norway's private sector ECEC reform, by married couple Hans Jacob Sundby and Randi Lauvland Sundby, LV today operates 254 kindergartens across Norway,[21] accounting for around 8 percent of private kindergartens. In 2019 prior to the execution of its sale-leaseback agreement, LV had annual revenue of NOK 4.1 billion (US $399 million) and had accumulated assets of NOK 6.1 billion (US $596 million).[22]

Figure 4: Laeringsverkstedet | Dibber. Corporate ownership chart per january 2024.

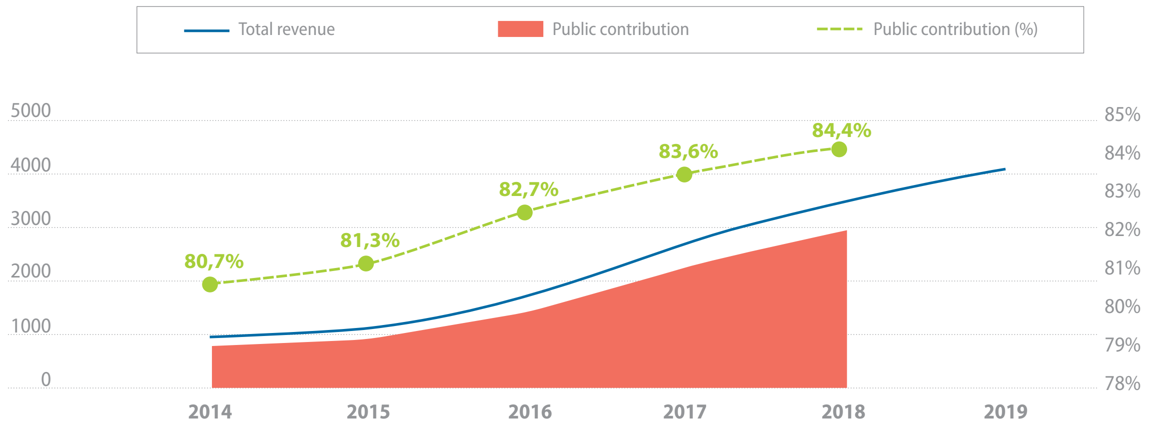


Source: proff.no

LV Gruppen AS is the parent company of LV AS and is described in annual reports as an operating and real estate company for kindergartens. LV Gruppen AS also owns LV Prosjektutvikling AS, a property development company focused on kindergartens.[23] LV Gruppen AS is owned by Dibber AS, which claims to operate some 600 early childhood and other educational facilities across 10 countries,[24] providing education and care services to more than 40,000 children.[25] Dibber is owned by HJR Holding AS,[26] which is ultimately owned by its founders, the Sundbys.

Noting that the number of private sector kindergartens peaked in 2008 and the number of children attending kindergartens peaked soon after in 2013, the focus of private expansion in the kindergarten sector would have to shift, from construction to acquisition.

Figure 5: Public funds as a proportion of revenue (NOK million)

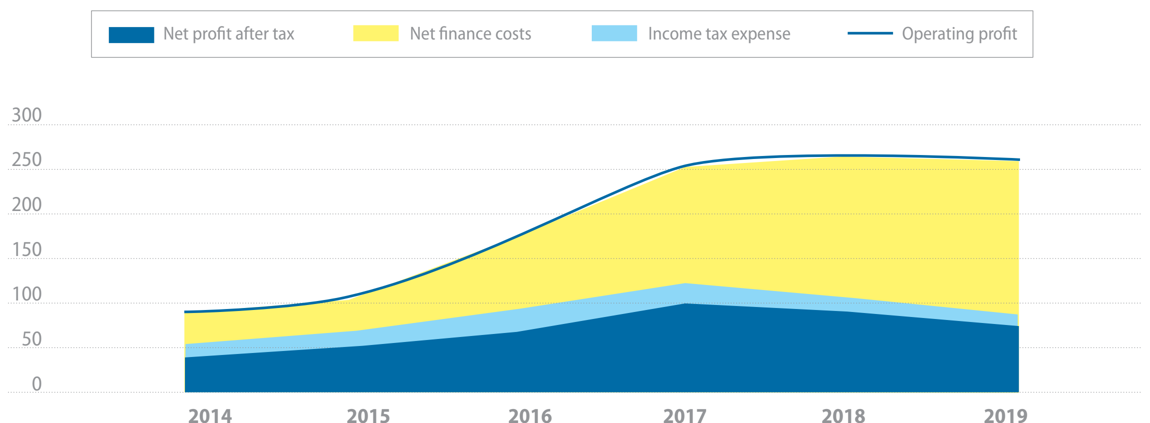


Source: Company accounts, see Endnote 27.

We can see this change of approach in LV's accounts.[27] The company experienced immense growth in the late 2010s, acquiring hundreds of new and existing kindergartens (and other educational facilities) across Norway and Sweden. In the five years from 2015 to 2019, the total number of educational placements it provided increased by 248 percent (from 7000 to 24,350), while LV's total group revenue increased by 261 percent. In line with national regulation, its accounts show that public funding accounts for more than 80 percent of LV's revenue throughout this period, climbing to almost 85 percent by 2018.[28]

As industry strategy pivoted more towards acquisition, private sector borrowing became increasingly important to LV's expansion. Over 2014 to 2018, LV's debt levels (both liabilities to financial institutions and bond loans) rose in lockstep with the total value of its plant, property and equipment. These essentially cancelled each other out, suggesting that, without a significant capital gain in the value of those underlying assets, the value of the company was primarily driven by the value of other (mostly intangible) assets.

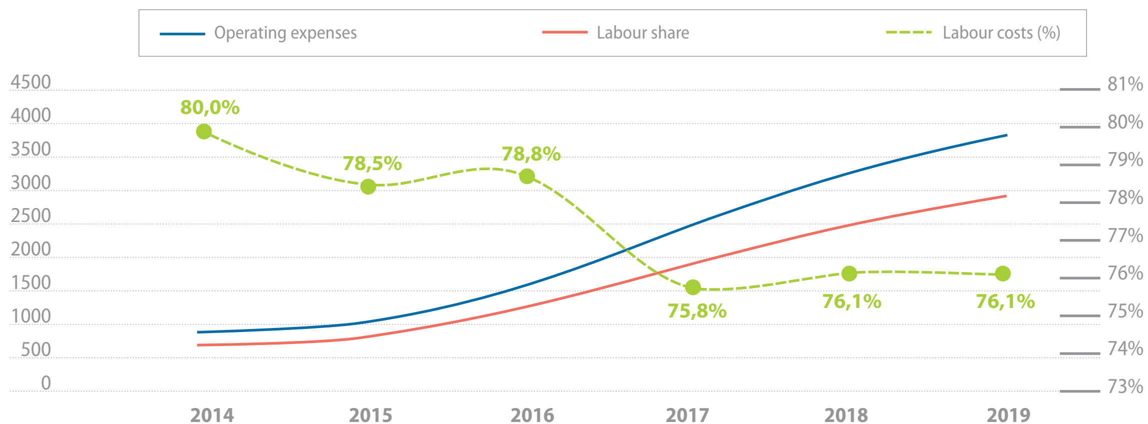
Figure 6: Profit, tax and finance costs (NOK million)



Source: Company accounts, see Endnote 27.

The impact of this on the company's cashflow, however, seems to have been difficult to manage. Growth in debt-servicing costs squeezed net profit after tax, and from 2017 onwards profit began declining. From 2014 to 2019, net finance costs increased four times as fast as net profit after tax and, by 2019, finance costs swallowed up two-thirds of operating profit. In addition, a sector wide staffing norm was implemented by the Norwegian government in 2018/19, shrinking LV's scope to generate profits even further, as they had to improve their staff-to-child ratio (thereby raising staffing costs) to fulfill the minimum requirements. As a result, LV's owners were not seeing the benefit of new incoming revenue from the kindergartens, as most of the surplus left over after paying operating costs were being put towards paying off the company's creditors. Companies that are unable to meaningfully increase cash profits can present problems to shareholders.

Figure 7: Labour costs as a proportion of operating expenses (NOK million)



Source: Company accounts, see Endnote 27.

The workforce, too, likely felt the squeeze. Over the same period, the labour share of operating expenses fell from 80 percent to 76 percent. This is against the backdrop of a significant expansion of staff numbers, from 1,560 in 2015 to 5,855 in 2018. LV's staff-student ratios bounced around, presumably driven by acquisitions, child age, and regional labour markets.

Statistics from The Norwegian Directorate for Education and Training (UDIR) show that the largest for-profit ECEC providers in Norway, including LV, have particularly low labour costs compared to both municipal and other types of private providers.[29] Regarding staff-child and nursery teacher-child ratios, the pattern is the same.[30] Even though staffing norms have been implemented for both staff-child and teacher-child ratios.

There may be several reasons for this. Firstly, staffing numbers indicate that operators such as LV, hire just enough (or as close as they can come) to fulfil the staffing norms minimal requirements. As opposed to other providers, many of whom have staffing levels exceeding the minimum. This will result in differences in labour costs. Additionally, official information shows that the biggest daycare groups, including LV (and TB), employ far fewer child and youth workers than other providers. Child and youth workers are not part of any staffing norm, so providers are not legally obliged to hire them, but they have more training (and thus cost more) than unskilled staff/workers.[31] We also have information that for profit daycare providers on

average employ younger staff than non-profit and municipal providers. Younger staff usually cost less than older staff (both in regard to salary and pension costs).[32]

Low staffing and high profitability

As illustrated by the graphs below, numbers provided by The Norwegian Directorate for Education and Training (Utdanningsdirektoratet) show that both Læringsverkstedet (LV) and Trygge Barnehager (TG) have had low staffing for years.

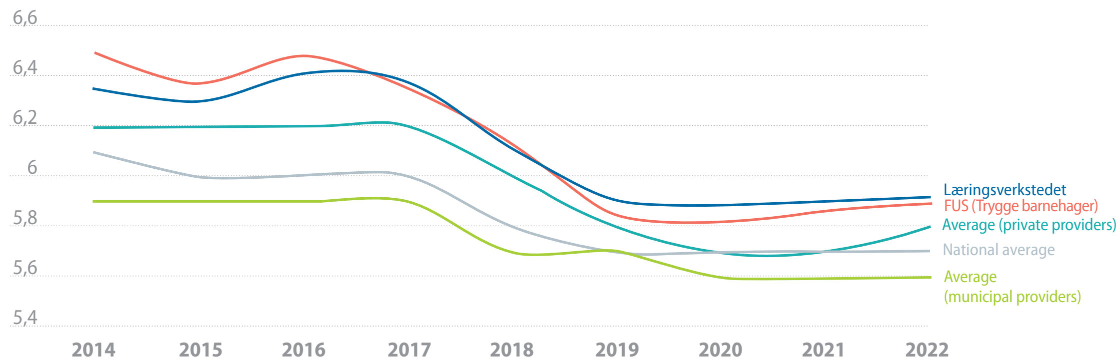
Staff-to-child and nursery-teacher-to-child ratios in LV and TG have been lower than average (national, municipal and private) since at least 2016.

Sufficient staffing is an important prerequisite for a high-quality service, both to provide sufficient care and for educational purposes. Staffing related costs are also the largest expense for daycare operators. In Norway, labour costs in daycare amount to around 80% of total expenses on average. Fewer staff and/or fewer trained staff means lower labour costs.

A connection between low staffing and high profits has been made in Norway. A report from Telemarksforsking (Telemark Research Institute) in 2021, found that "Differences in labour costs are (…) the most important factor in explaining differences in profitability" amongst daycare providers, and that lower labour costs is the most important explanation for higher profitability.[ii]

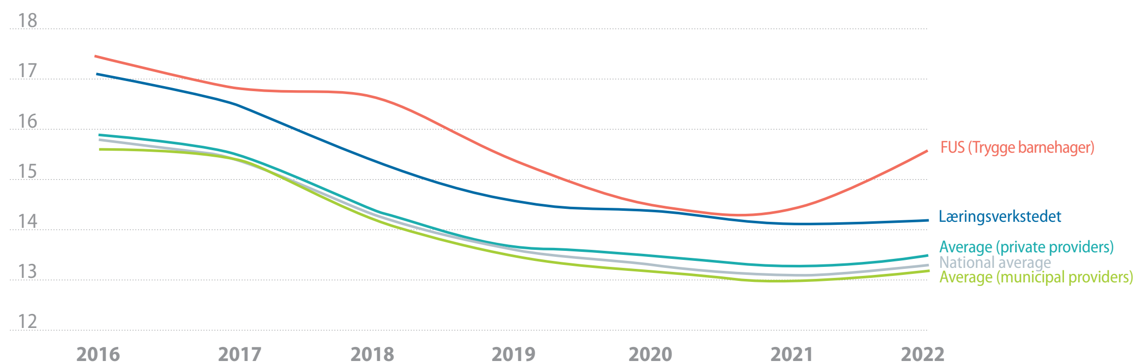
[ii] Jørgen Jelstad "New analysis of private kindergartens: The large groups chose high profits over staffing" (27 September 2021) Utdanningsnytt. https://www.utdanningsnytt.no/private-barnehager-okonomi/ny-analyse-av-private-barnehagerstorkonsernene-valgte-hoye-overskudd-fremfor-bemanning/297252

Figure 8: Staff to child ratio



Source: Utdanningsdirektoratet.

Figure 9: Nursery teacher to child ratio



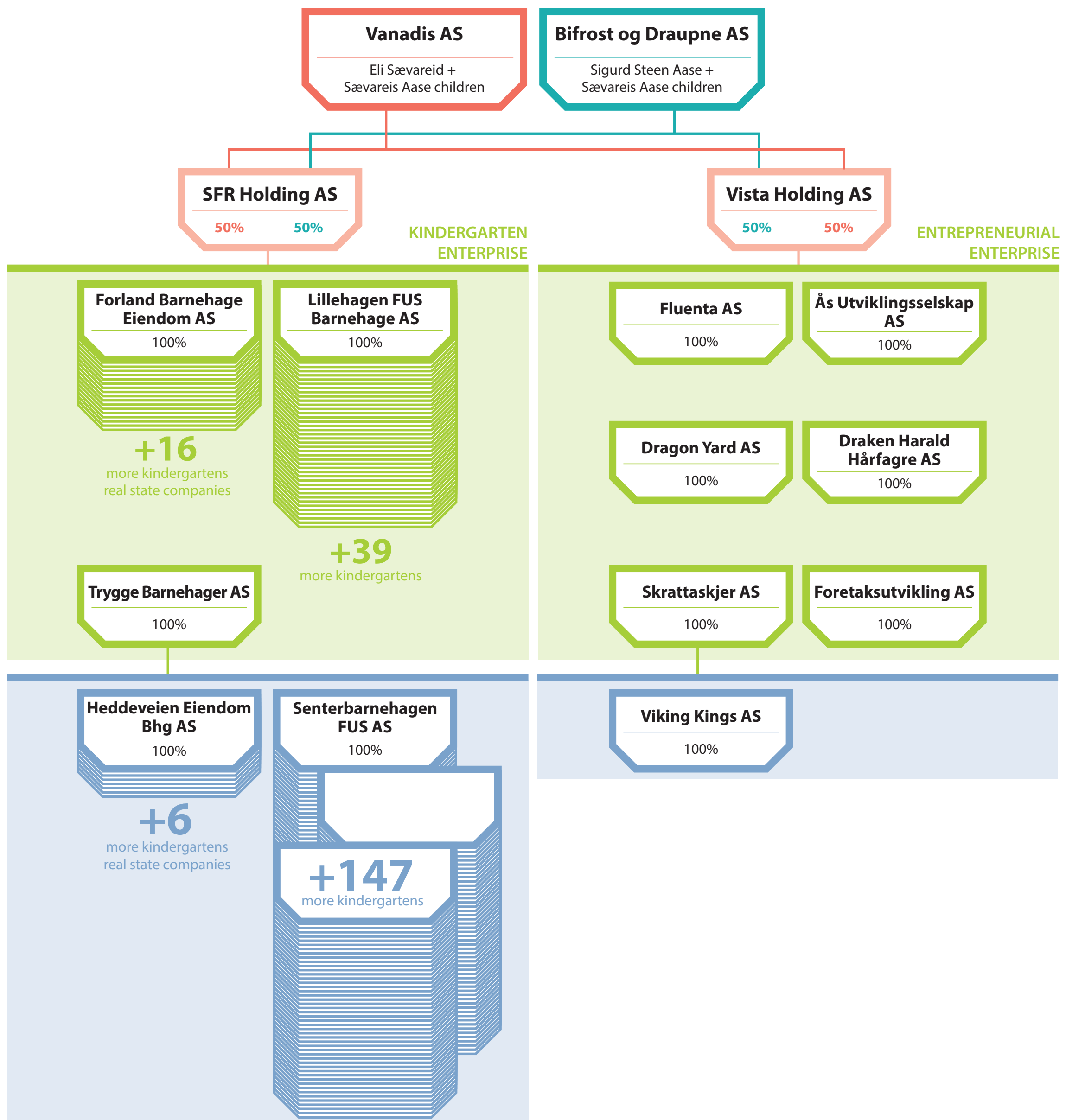
Source: Utdanningsdirektoratet.

2.3 Trygge Barnehager

Trygge Barnehager (TB) – Safe Kindergartens – is the second-largest private ECEC provider in Norway. Trygge Barnehager was also established by a couple (since divorced) – Eli Sævareid and Sigurd Steen Aase – who started a kindergarten in Haugesund in 1986 after the Municipality told them they wouldn't be able to get placement.

Trygge Barnehager AS was thus founded, in 1987 and has carved out a space as a contracting company that builds and buys kindergartens. In its time, it has built over 500 centres, and in 2007 the couple established the FUS kindergarten chain, which now operates over 183 kindergartens across the country.[33]

Figure 10: Trygge Barnehager. Ownership chart per january 2024.



Source: proff.no

Company records show that Trygge Barnehager is fully owned and controlled by Sævareid/Aase and their three children, Urd, Gaute and Eystein. The family business is, as of today, separated into two branches: The kindergarten enterprise, with parent company SFR Holding AS, and an entrepreneurial enterprise, with Vista Holding AS as parent company (see ownership charts). Both SFR Holding AS and Vista Holding AS are owned 50:50 by Bifrost og Draupne AS and Vanadis AS, which are again owned by several different companies, all fully owned by separate members of the Aase/Sævareid family.[34]

Both the kindergarten and entrepreneurial branch are part of the Vista Holding Group (not to be mistaken for the forementioned Vista Holding AS). According to themselves, Vista Holding Group "operates worldwide through its 2500 employees in Norway, Poland, France, the United

Arab Emirates and the United States", and its interests and operations "spans from farming of sea urchins, archeology, oil and gas industries, marine bioprospecting, remote sensing". However, the Norwegian kindergarten enterprise constitutes the largest part of the group's business.[35]

In 2017, TG made headlines when FUS showed financial income of NOK 910 million, despite operating profits before financial income of only NOK 42 million. At the time Trygge Barnehager was owned by SFR Holding AS, half owned by Sævareid and Aase through a number of companies, including Vanadis AS and Draupne AS.[36] Sævareid and Aase defended the move as increasing the share capital of the individual kindergartens, however in 2018 the couple extracted 143 million from the parent company, SFR Holding.[37] In 2023 the firm made headlines again when it became known that one of the Aase/Sævareid family, son Eystein Sævareid Aase, was relocating to Switzerland, joining LV owners and tax refugees Hans Jacob and Randi Sundby.[38]

While both Laeringverskstedet and Trygge Barnehager expanded rapidly neither company delivered significant cash profits to shareholders, with the vast bulk of owner capital tied up in assets. In the following section we will see how this impasse has given way to the "financialisation" of the Norwegian early childhood education and care sector.

3. Financialisation of the ECEC sector

As stated in the introduction, 'financialisation' refers to the "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies."[39] Financialisation of the early childhood education and care sector means the increasing importance of profit-seeking actors – in this case corporate kindergarten groups, "social infrastructure" property companies, and asset management funds – determining how public funds are spent in pursuit of universal childcare services.

In the last two decades private investors, such as private equity firms and asset managers, have made significant advances into the provision of public services, including in health, care and education sectors. Simon et al argue that financialisation underpins 'for-profit' models, which often pursue:

> 'growth through loss-making' and to minimise the amount of tax they pay – tax is to be treated as a cost to be minimised rather than a distribution of profits to governments which provides critical infrastructure and services. The effects of financialisation include using property as a collateral for business growth and acquisition. This enables quick expansion but builds up structural risk and reduces resilience.[40]

A recent British study of 'for profit' childcare providers, for example, found a predominate use of private equity models of expansion and acquisition, "characterised by borrowings and debt, with a focus on short-term financial returns."[41]

In recent years, both LV and TB have engaged in corporate deals that have effectively separated out financial control of the ECEC service from the underlying property assets (the 280 kindergartens) where those services are provided. This separation generates financial opportunities for the private firms that provide these services, by allowing them to use additional capital to expand. However, these practices also generate risks, for the firms involved, for taxpayers and for the parents who contribute to ECEC operator revenue.

The acquisition of these properties by SBB – labelled "social infrastructure" assets – demonstrates how these risks can play out in real time, as the interests of shareholders are placed ahead of young children and the taxpayers that support their education and care. This financialisaton, creating separate investment assets out of the underlying real estate, has been a global trend that has allowed investors to profit

while the quality of public services supported by government funding often deteriorates. Typically, the operating companies that provide the ECEC services pay rents to the company that owns the properties where the kindergartens are located. Simply put, the more profits are extracted from real estate ownership, indirectly linked to the provision of care, the less funding is available to provide the services themselves.

3.1 LV-SBB sale-leaseback agreement

In July 2020 it was announced that LV had entered into a sale-leaseback agreement with Swedish landlord Samhällsbyggnadsbolaget I Norden AB (SBB) for 138 preschools across Norway.

In a sale-leaseback agreement, a company sells the underlying assets – usually a property-based asset – and then leases them back from the purchaser. This frees up capital for other investment purposes, or to distribute to shareholders as dividends. For LV, where fixed assets – primarily its kindergarten facilities – accounted for the roughly three-quarters of total assets in 2019, a sale-leaseback agreement seemed like an ideal way for the company's owners to address the earnings shortfall as debt-servicing became increasingly costly.

Under the deal, the 138 properties were sold for NOK4.25 billion (US$447 million), and leased back for a period of 35-years, at an annual rent of NOK251.4m (US$26.5 million). This annual rent equates to roughly 6 percent of the purchase price. Crucially, the transaction would be financed by NOK 2.85 billion (US$299.8 million) in cash and NOK1.4 billion (US$147.3 million) worth of D-shares, issued at a price of SEK 31 per share.[42] Those shares are preferential – meaning they distribute dividends to shareholders ahead of other classes of SBB share – and were expected to pay an annual dividend, capped at SEK2 per share.

The average sale price for these properties worked out to NOK30.8 million (US$2.95 million), a significant amount. The annual rent of NOK251.4 for the 138 properties works out to an average annual rent-per-property of NOK1.82 million (US$173,975) per property per year, or NOK151,812 per month (US$14,470).

These numbers are relatively high, compared to other types of private providers. If we look, for example, at two sample municipalities In Norway – Færder and Rælingen – and sort the private kindergartens according to rent levels, SBB-owned kindergartens (from both Læringsverkstedet and FUS/TB) actually have the highest rent levels in both municipalities (when measured as a percentage of income), in some instances close to double the proportion of rent of other kindergartens.

Figure 11: Rent levels for private kindergartens, Færder and Rælingen municipalities

NAME OF KINDERGARTEN	MUNICIPALITY	RENT (% OF INCOME)
Læringverkstedet Randineborg barnehage (SBB)	Færder	11
Læringverkstedet Tiriltoppen barnehage	Færder	11
Smidsrød FUS barnehage (TB) (SBB)	Færder	10
Steinerbarnehagen Stjerneskudd	Færder	7
Hundremeterskogen barnehage	Færder	3
Teie Kirkes barnehage	Færder	2
Barnas Have barnehage	Færder	0
Brattås barnehage	Færder	0
Læringsverkstedt Knerten Føynland barnehage	Færder	0
Steinerbarnehagen Labakken	Færder	0
Tomter FUS barnehage (TB) (SBB)	Rælingen	12
Hektneråsen FUS barnehage (TB) (SBB)	Rælingen	10
Østre Strøm FUS barnehage (TB) (SBB)	Rælingen	9
Petrine barnehage	Rælingen	6
Bjørnehi familiebarnehage	Rælingen	0
Blåbærgrenda barnehage	Rælingen	0
Espira Tristilbakken barnehage	Rælingen	0
Tangen barnehage	Rælingen	0

Source: The Norwegian Directorate for Education and Training, BASIL 2022.

According to information from The Norwegian Directorate of Education and Training (Udir), the biggest groups/chains do appear to spend a larger proportion of their income on rent than other private kindergartens. Part of the rent increase stems from providers having separated out and sold properties, which the kindergartens lease back from the buyer. These kindergartens also often pay significantly more than they would have in depreciation costs if they owned the building themselves, according to Udir.

LV's relatively high rent is fixed over the lifetime of the lease. By the time the lease is concluded the market may have increased significantly. However it is important to note that the sale-leaseback contracts between LV and SBB are so-called "triple-net" leases,[43] meaning that in addition to rental payments, the lessee promises to pay expenses such as maintenance, real estate taxes and building insurance, expenses that are usually the responsibility of the landlord. Triple-net leases make the actual cost for LV's SBB-owned kindergartens even higher than the rent level itself. Additionally, given these rental costs components are the most sensitive to inflationary pressures, SBB – or any subsequent landlord – will be largely immune to rising cost pressures over time.

On 31 August 2020 it was announced that SBB was issuing an additional 44.2 million class D shares pursuant to this deal.[44] The deal made LV into SBB's 8th largest shareholder and SBB's then-largest tenant.

3.2 SBB and the Swedish property boom

Across the Nordic region, the rise and fall of SBB has become emblematic of the boom-and-bust cycle of the Swedish property market. SBB was established in March 2016 by former Social Democratic mayor and municipal commissioner Ilija Batljan. Rent-controlled housing makes up much of the SBB portfolio, however SBB's property remit is broader than just housing: in just a few years the company built a sprawling portfolio of "social infrastructure", with growth fueled by a relatively long and stable period of low interest rates. "As chief executive", writes the Wall Street Journal, "[Batljan] has bought health clinics, schools and even police stations and leased them back to local governments. Swarms of individual investors rushed into SBB stock."[45]

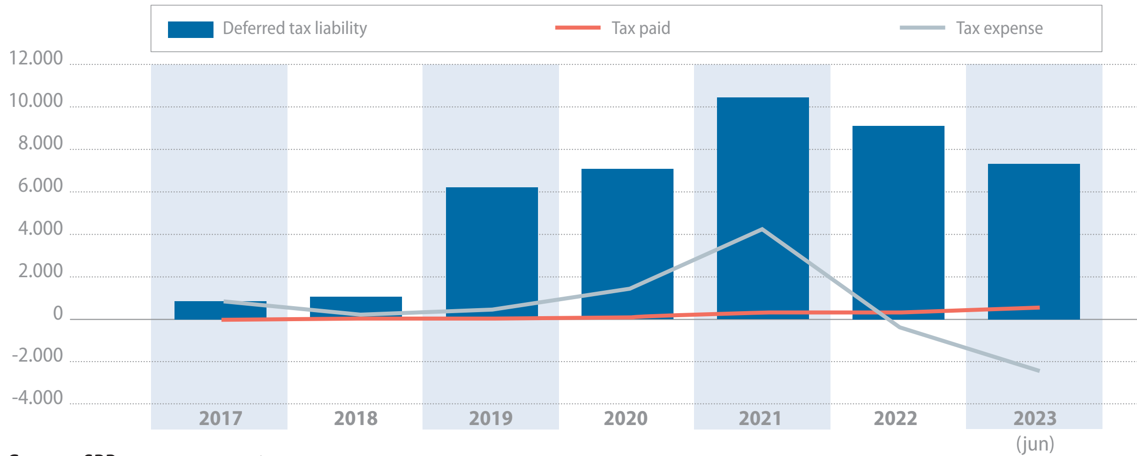
Figure 12: Market Summary > Samhallsbyggnadsbolaget | Norden AB Class B

Source: SBB Share price (google).

Today, those investors include global asset managers like Blackrock (5%) and Vanguard (3%), and Nordic pension and investment funds (e.g AB Arvid Svensson at 4%, Compactor Fastigheter AB at 3.3% and Länsförsäkringar Fondförvaltning AB at 3.2%).[46] SBB shares were initially floated in 2018 at around SEK10, and crossed SEK20 in late 2019. Shares rallied again in the months around the LV purchase, reaching close to SEK30 in November 2020, before more than doubling – to SEK65 – over the next year, when the TB deal took place. Until today, Batljan remains the largest shareholder, with 8.3 percent of capital invested and 31.6 percent of voting rights.

SBB's ascent unfolded against a backdrop of ultra-low interest rates. As early as 2015, the Swedish Central Bank dropped its policy rate below zero, where it stayed until May 2022.[47] The effect of these low rates can be seen on SBB's financial position. SBB's rental revenue almost tripled in the two years from 2019 to 2021 to almost SEK6 billion.[48] This was, however, dwarfed by the increase in the value of SBB's property portfolio, which rose SEK 29.4 billion over the same period. In those two years, total assets nearly doubled – from SEK 104.2 billion (US$10.3 billion) to SEK194.5 billion (US$19.2 billion).

Figure 13: SBB tax liability (SEK million)



Source: SBB company reports.

And, while rising property values contribute to net income and therefore the rate of taxation, those costs were deferred to deliver dividends to shareholders, then offset against later losses. We can see this in the chart above, in which minimal tax is paid while SBB's tax liability surges. As profit goes negative in 2021, so too does its tax expense for the year, with additional cash tax payments reducing the tax liability somewhat.

In 2022 much of this approach changed. The combined impacts of supply chain pressure and the Russian invasion of Ukraine pushed fuel, food and fertiliser prices to new highs, rippling across prices throughout European economies as well as much of the world. At the beginning of the year, the Swedish annual inflation (consumer price index) rate was 3.7 percent, however by December 2022 it was peaking at a massive 12.3 percent.[49]

Swedish house prices peaked in March 2022, beginning to decline as interest rates rose. By June 2023 they had declined 17 percent.[50] SBB immediately faced sharp increases in borrowing costs on its SEK78.8 billion (US $7.8 billion) in long-term debt. Finance costs rose 156 percent from 2021 to 2022. Even relatively small interest rate changes mean that highly-leveraged property companies could quickly have their income wiped out by debt servicing cost, forcing them to sell assets, putting further downward pressure on property prices. By January 2023 the IMF was warning the Swedish Government about risks associated with its housing and commercial property markets.[51]

3.3 TB follows suit

In December 2021 Norwegian ECEC provider Trygge Barnehager (TB), entered into a similar sale-leaseback agreement with SBB, regarding a further 142 preschools across the country. These properties were sold at a price of NOK4.58 billion (US$511.6 million) and leased back at an annual rent of NOK262 million (US$29.3 million).[52]

The SBB press release at the time was silent to the question of whether D-shares had comprised any part of the consideration of the agreement, however the question was later clarified by *Finansavisen,* who noted that, "[i]n contrast to Laeringsverkstedet, the transaction was settled in cash, and Trygge Barnehager has thus avoided losing part of the gain due to a drop in SBB's share price."[53]

The average sale price of a kindergarten under this agreement comes to NOK 32.3 million (US $3.1 million), even higher than the LV deal. Further, once the impact of the D-shares are excluded from the LV deal, it shows that the TB properties sold for substantially more per property. As with the LV deal, average annual rents of NOK1.9 million (US$180,963) per year, or NOK158,213 (US$15,080) per month seem excessive.

The property sales at substantial prices produce immediate short-term gains for the owners of LV and TB. However, the high ongoing rental costs – paid separately to SBB – may serve to siphon public funding away from actual front-line care for many years to come. While generous public support has enriched the owners of these companies, Norwegian children and taxpayers may be the losers in these deals if rental payments reduce funding for care far into the future.

3.4 Unmasking the sale-leaseback agreements

While sale-leaseback agreements alleviate some of the risks associated with property ownership (i.e. having too much capital tied up in real estate assets), they are themselves not without risk. These deals lock the seller/lessee into certain rental payments and interest rates that can't be adjusted unless the new owner also agrees. This can be particularly punitive in periods of rapid or significant change, such as during the cost-of-living crisis where interest rates have surged to the highest levels in decades in many jurisdictions.

Owners may use sale-leaseback agreements to free up capital from real estate to other investments, or it allows the seller to trade off its debt in exchange for ongoing rental costs. As for the services provided, rental payments often weigh heavy on budgets and therefore can result in significant reductions in quality. Sale-leaseback deals can be an efficient tool to extract huge amounts of tax funding from welfare services. And, as we will see, there are specific peculiarities to the LV-SBB deal that raise additional financial risks. The widespread effect of higher costs and reduced quality as a result of private equity and real estate investments have, for example, led the Biden administration in the US to require higher levels of disclosure on property transactions and payments for nursing homes.[54]

The Centre for International Corporate Tax Accountability & Research (CICTAR) has documented the use and consequences of sale-leaseback agreements in a number of instances, focussing particularly on the social care sector. A December 2021 report by CICTAR into HC-One, the largest UK care home operator, revealed that interest, lease and debt payments to related parties were used to extract significant profits from public funding while the company's private equity owners demanded increased public funding and residents and workers suffered from declining standards.[55]

CICTAR principal analyst Jason Ward told the BBC that it is a "common private equity tactic to move money out of the operating companies and to the ultimate investors in a way that maximises their profit". In response to the research, Jeremy Hunt MP (now Chancellor of the Exchequer) told the BBC that this was "the unacceptable face of capitalism, because this is

a sector that is under enormous pressure. It is wholly inappropriate given the purpose of the sector is to look after literally the most vulnerable people in our society."[56]

"Caring for people or profit? The financial engineering & real estate investment of Groupe Orpea" is a joint report by CICTAR, Fédération CFDT Santé-Sociaux and the Fédération Santé Action Sociale CGT (February 2022).[57] The report is about Groupe Orpea, then-Europe's largest for-profit care home company, and showed how the company pursued a strategy of massive expansion, buying up care homes across Europe (focused on France and the Benelux countries). Its expansion was largely debt-funded, and as debt-servicing began to outstrip operating profits, Orpea took the decision to transfer the ownership of some care home real estate to Luxembourg holding companies, selling those properties to external buyers at a profit, and then leasing the properties back:

> Luxembourg property-owning companies can be convenient vehicles for foreign investors to buy and sell properties in European countries without incurring tax on the resulting gains. If the property-owning company is in Luxembourg and is owned by another Luxembourg company, as in the sales described above, any capital gains should accrue to the top Luxembourg company without being taxed in Luxembourg, in accordance with EU and Luxembourg tax law. And since the shares of a holding company and not the property itself is being sold, the gain may also not be taxed in the country where the property is located.[58]

In this instance, the sale-leaseback agreement allows the seller to trade off its debt in exchange for ongoing rental costs. The report highlights how certain properties had been purchased by Luxembourg-based holdings companies whose shares were held by companies registered in Panama and the British Virgin Islands. In June 2023, the Judicial Court of Nanterre opened judicial investigations into breach of trust, fraud, aggravated misuse of corporate assets, organised money laundering and private corruption, remanding in custody Orpea's former CEO, deputy CEO, and CFO.[59]

A February 2023 CICTAR report, "Extracting Profits Through Care Home Real Estate",[60] looked at the practice of sale-leaseback agreements used by Care UK, one of the largest UK aged care operators. In 2010 Care UK was acquired by private equity firm Bridgepoint, who established a Luxembourg property company whose subsidiaries were responsible for developing new care homes. Once built, the properties were rented to Care UK or sold to third-party investors. Care UK's largest landlord was Aedifica UK, a subsidiary of Belgian healthcare real estate company Aedifica SA.

A subsequent June 2023 CICTAR report, "Caring for the bottom line: How taxpayers subsidise profits from care home real estate",[61] looked at Belgian-based real estate investment trust (REIT) Cofinimmo, one of Orpea's largest landlords that also manages real estate for large for-profit operators like Korian, Colisee, DomusVi, Care-Ion and Stella Vitalis.[62] In 2021, for example, Orpea paid contractual rents of EU18.8 million (NOK214 million) to Cofinimmo.[63] From 2017 to 2022, its share of healthcare properties out of total assets rose from 42 percent to 62 percent,

much of which relates to the heavily state-subsidised fees of care home and assisted living residents.[64] From 2017 to 2021 the company enjoyed average operating profit margins of a startling 82.4 percent, while also enjoying a slim 3.35 percent corporate income tax rate, as a result of Belgium's low-tax regime for property investors.[65]

3.5 Shorting the landlord

Important details of the LV-SBB sale-leaseback agreement were revealed in a series of reports published by Viceroy in 2022. Viceroy – a short-selling research agency based in Delaware – noted that a part of the compensation paid to LV for the kindergarten real estate was the SBB D-shares. The dividends from those shares were effectively a rental subsidy, reducing the overall cost by – according to our calculations – as much as 35 percent. This, they argued, had the effect of artificially inflating the value of the underlying property, enabling SBB to borrow even more to continue increasing the total portfolio.[66]

Citing data from Utdanningsdirektorat (Norwegian Directorate for Education and Training), Viceroy argue that the effective rent paid per child by LV is more than triple the Norwegian average, and that the rent charged on SBB properties is more than double the national average.[67] They note that:

> [b]y charging high rents and (poorly) hiding rent support via SBB-D dividends, SBB is able to "prove" to its investors and its valuers that its properties are worth more than they really are. In the event of LV, we believe SBB recorded revaluation gains of ~50% in the same year it bought the properties.[68]

To our knowledge this point about revaluations has not been substantiated by any other publications. And of course, Viceroy is not an uninterested party in these proceedings. Regardless, this analysis caught the ear of regulators.

A few days later, LV set out its disagreements with Viceroy's analysis in a response letter to the Ministry of Education. LV described how in 2019, company management had carried out a long-term assessment of funding options before deciding on the sale-leaseback arrangement, then began discussions with a number of possible partners before deciding to proceed on the SBB deal.

LV trenchantly disagreed with Viceroy's characterisation. LV explain that dividends received from the D-shares were not used to cover the rent, noting that "the recipient of the D shares was therefore not Laeringsverkstedet, but the owner company of Laeringverkstedet."[69]

> "As mentioned above, it is the owner of Læringsverkstedet who has received the SBB shares and therefore receives dividends on the shares in a usual way. The shares are listed on the Stockholm Stock Exchange and are traded there.
>
> One can freely buy and sell their shares there and everyone who owns D shares in SBB receives the same dividend per share and at the same time. There is nothing special

about our D shares, there is no link to rent payments or rent level and we can sell the shares whenever we want.

There is also no link between the kindergarten operation in Læringsverkstedet and these D shares. Whatever may happen to the D shares, this will not have any consequence for Læringsverkstedet."[70]

As noted above, Laeringsverkstedet is owned by Dibber AS, owned by the Hans Jacob and Randi Lauvland Sundby through HJR Holding AS. SBB's online list of largest shareholders reinforces this position; Dibber AS is listed as the largest single D-shareholder, holding some 23 percent (44.2 million) of all the D-shares.[71]

LV further contend that the earnings statement developed by Viceroy doesn't take into account lapsed capital costs associated with building ownership, stating that "our preliminary accounts for 2021 show a surplus of approximately NOK 50 million for Laeringsverkstedet. This includes an ordinary year of rent and no dividend income from SBB shares. This shows that Laeringsverkstedet is fully capable of paying the set rent level."[72] In a subsequent communication to the Ministry, Viceroy stated that the effect of this arrangement was no different: either that LV would be generating profits at the cost of the Norwegian taxpayer, or incurring losses that may require it to be financially supported by its parent company.[73]

SBB-D class shares provide preferential dividends – meaning that they get paid out in preference to other classes of shares – that were capped at 2 SEK per year. At this rate, Dibber AS's 44.2 million shares could net as much as NOK88.4m per year.

Coincidentally however, as the Viceroy reports came out in March 2022, the D-shares also began their precipitous decline, roughly halving in value by mid-June and testing Viceroy's theory. In November 2022 *Finansavisen* claimed that the "Sundby family has lost NOK 365 million from the drop in SBB's share price. Now their shares are "only" worth NOK 832 million."[74]

Those losses, however, would later prove to be illusory. In May 2023 *Finansavisen* reported that while the D-shares were now worth only NOK 360 million on paper – a quarter of their original value – annual accounts for Dibber AS suggested that the shares had a guaranteed value of at least NOK 1.4 billion.[75]

To this end, SBB's 2022 annual report notes that "SBB holds a financial guarantee attributable to one previous transaction … that entails SBB guaranteeing that the price of its Class D shares has been classified as a derivative measured at fair value in the income statement."[76] Elsewhere, it is noted that SEK1.07 billion of blocked cash equivalents "refers to funds deposited with [Norwegian bank] DNB attributable to a financial guarantee reported as a derivative."[77] "In other words", writes *Finansavisen* journalist Per Stefan Præsterud, "the married couple are guaranteed to receive NOK 1.4 billion if they were to sell their shares."[78]

This amount simply adds to the cash wealth of the couple. In the 2021 accounts for HJR Holding AS, held by the Sundbys, the Board write that the gain netted by the company came to NOK 2.16 billion (US $212 million).[79] Similarly, TB annual reports note that the money from the SBB deal meant the company could pay off all its bank debts and release assets pledged as collateral. As a result, *Finansavisen* report that the married couple behind TB were left with NOK 1.3 billion (US$124 million).[80]

3.6 Escaping Norwegian tax rules

On 1 November 2022 Norway's centre-left Government announced increases to the state wealth tax rate, from 0.3 percent to 0.4 percent for net wealth above NOK20 million (US$1.8 million). This is levied on top of the 0.7 percent municipal wealth tax rate, bringing the total wealth tax rate to 1.1 percent.[81] In anticipation of this change, the *Financial Times* reported that public filings to Norway's population registry had shown that at least 30 billionaires and millionaires had taken up Swiss residency in the preceding year.[82]

Hans Jacob and Randi Lauvland Sunbdy made headlines that month announcing their move to Switzerland, however Hans Jacob insisted the move wasn't motivated by tax. This was disputed by Associate professor at the Department of Jurisprudence and Governance at BI Eivind Furuseth, who argued that the move could see them escape a significant capital gain and wealth tax liability.[83] Furuseth told *Fagbladet* that under Norway's exit tax rules[84] the couple may be able to avoid paying tax on the capital gain of selling their shares if they live abroad for five years, at which point they are instead liable to pay tax under their new host country's tax regime, in this case the lower-tax Switzerland. This exemption changed on 29 November 2022,[85] at the same time the new wealth tax rate entered into force.

Sundby responded that *Fagbladet's* allegations amounted to "frivolous claims" and noted that he also had not calculated how much he would avoid in wealth taxes.[86] A few days later, however, Sundby seemed to tell a different story: "On average, we have had a profit of 32 million over the past five years. The wealth tax, if we were to live in Norway, would be NOK 36 million with the government's proposal for the state budget … So it is clear that when the wealth tax is higher than the income from the company, then there are very difficult framework conditions in Norway".[87] Newspaper *Utdanningsnytt* reported that the move to Switzerland reduced the couple's taxable assets from over NOK 1.4 billion in 2021 to just NOK 6 million in 2022, reducing their tax bill from NOK 21 million in 2021 to NOK 2.6 million in the following year.[88]

The Sundbys were not the only ones to jump ship after cashing in on Norwegian ECEC funding. In January 2023 they were joined by Eystein Sævareid Aase, son of Sigurd Steen Aase and Eli Sævareid, a thirty percent shareholder of Trygge Barnehager.[89]

4. Assets under management

The families that own both LV and TB appear to have shifted significant wealth out of Norway in time to escape new law changes. Much of this wealth has been financed by Norwegian taxpayers and parents, money that was intended to improve the welfare of Norwegian children. There is a particular irony when companies that have benefited from public spending have now structured their affairs in such a way as to minimise liability to the very taxes that make government spending possible.

At the same time that this was unfolding, over the border in Sweden LV and TB's new landlord – SBB – was experiencing severe financial trauma. By October 2022, rising interest rates had wiped out 83 percent of SBB's peak share value, with shares now trading just above SEK11. Desperate, SBB needed an injection of cash to meet borrowing costs while also distributing cash to shareholders. As finance costs increased, SBB identified the assets that made the most sense for sale – those that were, in effect, subsidised by some of the wealthiest taxpayers on the planet.

4.1 Enter Brookfield

In a November 2022 agreement, "Brookfield Super Core Infrastructure Partners" – a perpetual fund established by Canadian asset manager Brookfield in 2018 with a focus on low-risk infrastructure investment – acquired a 49% share of EduCo, a new subsidiary established by SBB to control its SEK44.9 billion (US$4.3 billion) educational infrastructure portfolio.[90] This "Super Core Infrastructure Fund" and other Brookfield investment funds rely on commitments from major global pension funds and sovereign wealth funds as 'limited partner' investors.

Under the deal, Brookfield will pay SEK 9.2 billion (US$881 million), and the transaction also enables two separate earn-outs after six years, up to a maximum of SEK1.2 billion (US$115 million). In addition, SBB agreed to provide a SEK 14.5 billion (US$1.39 billion) intercompany loan to EduCo at a 3 percent interest rate, substantially below market rates.[91] EduCo will also enter into an asset management agreement with SBB, with SBB paying out 1.8% of net operating income per annum.

Brookfield is a Canadian alternative asset manager with over US$800 billion (NOK8.8 trillion) in assets under management. It focuses primarily on investments in real estate, renewable power,

other kinds of infrastructure and private equity. In 2022 Brookfield had revenue of US$92.7 billion (an 18 percent increase in 2021) and net income (distributable earnings) of US$5.2 billion.[92] That year, 16 percent of Brookfield's total revenue – US$14.7 billion – came from its infrastructure division, a 23 percent increase on the previous year.[93]

The asset management industry exploded in the wake of the Global Financial Crisis, as regulators clipped the wings of the big banks seen as responsible for the crisis, and investors looked for new ways to invest and deliver returns.[94] Asset management firms initially targeted the real estate industry, buying up swathes of stressed housing and commercial property, later pivoting towards other infrastructure projects.

The most widely-known asset managers are the so-called 'Big Three' universal owners – Blackrock, Vanguard and State Street – who take shareholdings across a wide range of large companies in most markets. Asset managers now control some 30 to 40 percent of the S&P 500, a phenomenon political economist Benjamin Braun labels "asset manager capitalism", in which asset managers are exercising growing influence across many of the corporations that exercise significant control over society.[95] Brett Christophers distinguishes this approach from "asset manager society", in which asset managers aim to purchase all or a majority of shares of companies and take them private.[96] Brookfield tends towards the latter model, often purchasing entire companies or assets.

In 2022, two-thirds of Brookfield's revenue came from just three countries: the United Kingdom, United States and Canada.[97] However, its presence appears to be expanding into other parts of Europe, as well as the Global South. In 2021 Brookfield and Swedish pension fund operator Alecta partnered to purchase a 49 percent stake in the tower business of Swedish telecommunications multinational Telia Company in Finland and Norway.[98] It is our understanding that this is Brookfield's first investment in the Nordic region, with the EduCo transaction its second. However, the models of financialization, profit extraction and tax minimisation are consistent across other property companies and asset managers.

Viceroy also made harsh criticisms of the Brookfield-SBB deal. In a separate report, they took issue with the stated transaction price, and note that the SEK14.5 billion in financing provided to EduCo from SBB (at 3 percent) is substantially below market rates.[99] Moreover, they note that "the Brookfield transaction will significantly impact SBB's yield and its ability to continue paying dividends."[100]

In January 2023 the deal was executed, with SBB transferring the 49% share of the education portfolio to Brookfield in exchange for an initial transfer of SEK6.6 billion (US$581 million), with SBB noting that these funds were used to pay down debt.[101] In the short-term, the Brookfield deal appeared to give SBB the required liquidity to meet the cost of maturing bonds and credit facilities.[102]

4.2 Brookfield's tax affairs

A number of organisations have now highlighted Brookfield's questionable tax arrangements. A 2023 report by Canadians for Tax Fairness argued that over the fifteen years from 2005 to 2019, Brookfield paid an average corporate tax rate of around 5 percent.[103] The statutory combined federal and provincial corporate income tax rate in Canada is 26 percent.[104]

A previous CICTAR report from June 2023 looked at Brookfield's significant use of tax havens in Bermuda and Luxembourg, presenting case studies that appear to show instances of profit-shifting from the United Kingdom, Australia, Colombia and Brazil.[105] It argues that "Brookfield

appears to have a heavy reliance on offshore related party debt to reduce income tax obligations where profits are earned, and shift interest income offshore or into other tax-free structures".[106]

The EduCo transaction took place via a fund established by Brookfield in 2018 called Brookfield Super-Core Infrastructure Partners (BSIP). Investment funds use the word "core" to describe relatively low-risk low-return infrastructure investments, with Brookfield defining core as "investments in lower-risk essential assets with long-term visibility of cash flows. It also includes specific attributes that make the investment resilient in most economic environments and should produce strong risk-adjusted returns."[107]

Norwegian ECEC assets align closely with this conception. They are very low risk because the Norwegian government guarantees a public subsidy per child. Norwegian public finances are backed by a strong currency, which is effectively underwritten by the revenue received through the state oil industry and investment returns from its sovereign wealth fund. Though the policy and economic mix may be different, the overall situation across the ECEC sectors of other Nordic countries, and indeed much of the broader education sector, is also similar. Around the world, publicly funded services, and/or the underlying real estate, have attracted significant investments from Brookfield and other private equity investors due to favourable demographics, reliable increases in funding, resistance to economic cycles and low risk.

SBB's market communications reflects this approach. Nordic social infrastructure is described as among "the world's safest asset classes", in which "100% of lessees are sovereign or public-financed leaseholders and highly-related Swedish residential assets".[108] At the time of the deal, the EduCo portfolio – described by SBB as "Europe's largest public education social infrastructure portfolio"[109] – consisted of 585 assets across the Nordic regions, with 302 in Norway (equal to 39% percent of the total value of the deal).[110] The 280 LV and BT properties make up the bulk of these Norwegian assets. The portfolio comprised "preschools, primary schools, upper secondary schools and universities in the Nordics are public funded as well as supported by strong demographics."[111]

Investor material presents a map of Europe that shows EduCo's current geographical focus in the Nordic region, with arrows pointing to potential markets, including Germany, France, Poland, Latvia and the United Kingdom. To this end, SBB's 2022 annual report notes that Brookfield and SBB "have agreed to prioritize growth within Europe over the upcoming years", noting that a strategy was being developed for this purpose.[112]

4.3 The Super Core tax structure

Many Brookfield funds appear to be designed in such a way as to facilitate active tax minimisation practices. Similarly, BSIP's complex corporate structure has features that appear to support this objective, including subsidiaries in Luxembourg and holding companies in Bermuda and Barbados. This section looks at some of that structure, and ownership structures relating to existing investments by BSIP.

As of November 2023, 286 investors had collectively committed more than US$ 9 billion to Brookfield Super Core Infrastructure Partners.[113] Existing investments show a stronger European focus than other Brookfield funds. In 2019 BSIP acquired a portfolio of shareholdings in Spanish health and infrastructure public private partnership concessions, including in the Majadahonda hospital in Madrid, a section of the Barcelona metro and three transport hubs in Madrid.[114] In 2021 the Ontario Teachers' Pension Plan and BSIP upped its shareholding in Scotia Gas Networks to 50 percent, which controls two (out of eight) UK regulated gas distribution networks in Scotland and Southern England.[115]

The fund is now managed by Brookfield Asset Management (BAM), which is a separately listed company.[116] BAM owns a 25% interest in Brookfield Corporation's asset management business and the remaining 75% is owned by Brookfield Corporation.[117] The creation of BAM as a separate listed company at the end of 2022 was designed to give "investors direct access to the asset management business on a pure-play basis for the first time."[118] Substantially, all of BAM's "distributable earnings [are] derived from stable and predictable fee-related earnings…"[119]

A "Partnership", including "current and former senior executives of Brookfield", owns 100% of BAM's Class B Shares.[120] "The Partners collectively hold direct, indirect and economic interests… representing approximately 18% of the Manager's issued and outstanding" Class A Shares.[121] "Limited partners" in BSIP (i.e. its investors) appear to include the public pension funds for government workers in the US states of Oregon and South Carolina, several major counties in the state of California, and Swedish pension fund operator Alecta. Brookfield executives benefit directly from the fees earned from the investment management business. In 2023 sales commission and finder's fees expenses were reported as $54.5 million.[122]

A March 2023 filing to the US Securities and Exchange Commission lists Brookfield Super-Core Infrastructure Partners (ER) SCSp, incorporated in Luxembourg as connected to BSIP.[123] We have been informed that the Manager of the General Partner of the BSIP fund is Brookfield Asset Management Private Institutional Capital Adviser (Canada) LP, based in Canada. BSIP GP Sarl, also incorporated in Luxembourg, acts as the general partner of Brookfield Super-Core Infrastructure Partners (ER) SCSp and two other "special limited partnerships" that are feeder funds, BSIP Euro Feeder, SCSp and BSIP GBP Feeder SCSp.[124]

Luxembourg has been listed on filings as a place of business in US Securities and Exchange Commission (SEC) since BSIP's 2018 establishment, alongside Ontario and New York (Brookfield Corporation is dual-listed in Toronto and New York).[125] The Tax Justice Network estimates that Luxembourg is responsible for almost 6 percent of global tax losses, ranking fifth in the Financial Secrecy Index and sixth in the Corporate Tax Haven Index.[126] 2023 filings now also list Delaware as an additional place of business, while related subsidiaries in Singapore, London and Hong Kong are listed as recipients of sales compensation.

BSIP GP Sarl was previously a subsidiary of BHAL Global Corporate Limited in the UK and its immediate owner was Brookfield International Corporate Finance Ltd, incorporated in Bermuda.[127] A Luxembourg filing from December 2022 indicates that ownership of BSIP GP Sarl has since changed to BHAL International Limited, a firm incorporated in the UK that has yet to make an annual filing.[128] More recent UK filings from other companies in the group indicate that this new BHAL entity took over operations from the previous BHAL entity and is still owned via Bermuda through a different but similarly-named entity, Brookfield Corporation International Finance Limited.[129]

Another UK entity, BSIP UK Holdco Limited "is held by Brookfield Super-Core Infrastructure Partners…" and holds the previously mentioned hospital and infrastructure investments in

BSIP Holdco Spain SL in Spain.[130] This entity had loans receivable from BSIP Finco (Barbados).[131] No record of a Barbados company could be identified, but several companies with names similar to BSIP Finco are incorporated in Bermuda. BSIP UK Holdco Limited has also listed several substantial loan notes, with interest rates of 5.75%, on The International Stock Exchange (TISE) in the tax haven of Guernsey.[132] These notes all appear to have now been cancelled, redeemed, withdrawn, or otherwise replaced.[133]

It is a frequent tactic of private equity firms to list notes on the TISE so that interest payments to offshore related entities shift profits and artificially reduce taxable income. Listing the notes on a "recognised stock exchange" – like the TISE in Guernsey – creates an exemption from UK withholding taxes on interest payments to bond holders.[134] It should be noted that there are currently no loans in the Nordiqus structure that have been listed on the Guernsey exchange.

The relative newness of the EduCo share acquisition limits the information available on whether its tax structure is being used, or will be used, to shift profits. However, the complex and shifting structures via tax havens like Luxembourg, Bermuda, Guernsey and possibly Barbados raise major concerns that Brookfield has set up its Super-Core Infrastructure Partners fund to minimise taxation where profits are generated and maximise fee income for its exclusive "Partnership". Corroborating this will require further monitoring as EduCo files results for its first financial year and onwards.

4.4 Brookfield takes control

At the SBB 2023 AGM in April 2023, a resolution was adopted proposing that a business-as-usual SEK 2 per share be distributed to holders of ordinary D-Shares.[135] On 8 May, however, when the ratings agency S&P Global announced a credit downgrade of SBB shares to junk status,[136] the SBB Board announced it would postpone the payment of dividends until ahead of the 2024 AGM, in an apparent attempt to strengthen SBB's liquidity.[137]

Viceroy considered that the failure of D-shares dividends would result in substantial negative earnings for LV (a position that LV refuted). Regardless, losing the D-share dividends at a time when interest rates are already high no doubt does present cash flow challenges for the Sundby's businesses. At the very least it limits the speed of future acquisitions, however it could also put additional pressure on the quality of early childhood education and care services being delivered, as well as potentially impacting employment standards. Where cash flow is limited in this way, firms are likely to look to existing sources of revenue – taxpayers and parents – to up their contributions.

Maximum kindergarten costs are regulated by the Norwegian Government at NOK 3000 per month (US $325), and the Government has recently announced that this will be reduced to NOK 2000 (US $217) in August 2024.[138] ECEC costs funded by the state, however, are continuing to rise.

According to numbers from Statistics Norway (SSB), municipal/public subsidies to private kindergartens amounted to NOK23.37 billion (US$2.23 billion) in 2022, rising from NOK 19.4 billion (US$1.85 billion) in 2016. The number of children in private facilities declined slightly in the same time period (from 139.553 I 2016 to 131.741 in 2022), meaning that the average amount per child transferred from the municipalities/state to private ECEC-providers rose from approximately NOK 139,000 (US$13,280) in 2016 to NOK 177,000 (US$16,910) in 2022, a 27 percent increase.[139] A report from advisory and auditing firm BDO, commissioned by the Ministry of Education and Research, shows that building related expenses in private ECEC-facilities rose more than the general increase in prices can account for in the years from 2016 to

2020. Facilities transitioning from owning their own property to paying rent saw an especially sharp rise in building related costs from 2019/2020 onwards.[140]

It is also important to point out that the state's expenses dealing with private ECEC providers extends well beyond the transferred subsidies. Expenses connected to supervision and control of the private providers, both financial and otherwise, are estimated to be substantial.

The increasing sophistication of corporate ECEC chains like LV and TB now have significant power to influence ECEC policy debates, but also to exert influence over the underlying fiscal questions of the setting of the level of subsidies. As landlord for a significant swath of kindergartens in the Nordic region, Brookfield too is invested in the question of public subsidies for ECEC.

Discussions about a proposal which would have seen Brookfield take control of the remaining 51% of the EduCo portfolio took place in the first half of 2023. In June the Swedish Financial Supervisory Authority announced it had opened a probe into accounting practices at SBB with regard to its 2021 annual report.[141] In the meantime, the company noted it had already initiated a strategic review – advised by JPMorgan and Swedish bank SEB, which included the options of a partial or complete sale.[142]

Talks collapsed in July,[143] however a few months later it was announced that Brookfield would be acquiring a further 1.16% share of EduCo for SEK 242 million (US$23.2 million), making it the majority shareholder with a 50.16% holding. Part of that deal would see EduCo repay its intercompany loan from SBB, with SBB receiving SEK 7.8 billion.[144] At the same time, SBB announced a new "decentralised" group structure, dividing up its total asset portfolio into education, community, and residential portfolios.[145] By November 2023 SBB announced that cash proceeds from the transaction would be used to buy back some of its bonds at discounted prices.[146]

On 29 September, the Norwegian Competition Authority was notified that a company called Solna Bidco AB – a Brookfield subsidiary – had made an application to acquire sole control of SBB EduCo.[147] On 4 October the Finnish Competition and Consumer Authority was notified "of an arrangement in which Solna Bidco AB, which is indirectly wholly owned by the asset management company Brookfield Corporation, acquires exclusive control over SBB EduCo AB." The acquisition was approved on 16 October.[148] In November EduCo was renamed Nordiqus.[149]

The language of "sole" or "exclusive" control suggests that Brookfield may have got the better end of this deal. While Brookfield's 50.16 percent shareholding constitutes a bare majority, the words exclusive control - rather than just majority control – seems to suggest that it gets complete decision-making power over the future of the portfolio.

Given the track record of Brookfield and other global private equity investors, we are concerned that this could result in significant profits being extracted from Norway's well-funded early childhood education system (reducing money for actual services) and with profits shifted offshore, further undermining the tax base in Norway that funds those services.

5. Conclusion

Financialisation of public services creates opportunities for profit-seeking actors, but comes with risks for service quality, workers, taxpayers and the society as a whole. As in the aged care examples mentioned in section 3.4, the financialisation of early childhood education and care puts pressure on the quality and conditions of largely publicly-funded service delivery. The separation of real estate assets from service delivery creates revenue streams that incentivise the involvement of rent-seeking international investors. The financial stability of those investors, as well as relationships with other third parties presents potential risks for taxpayers and parents.

The current regulatory processes intended to update the Kindergarten Act are important steps in bringing the regulatory framework in line with new corporate developments. Debates about the role of the private sector in public services have long identified the distribution of dividends as a barrier to improving the delivery of those services. While correct, they represent only one way by which profits are extracted from public services.

The separation of kindergarten real estate from ECEC service delivery, the assignment of ownership rights, and the ongoing payment of rents are similarly important areas for engagement and monitoring to ensure decent service delivery. In addition, the structure of the LV-SBB deal – which implicitly relies on the SBB D-shares delivering ongoing revenue – presents barriers to decent service provision and the ongoing financial sustainability of the firm.

Further, while the annual rent for those properties is theoretically fixed, it can be amended with the mutual agreement of the parties. Where the state is made to shoulder responsibility for funding any shortfall from rising rents, the interest of the leaseholder and the landlord may align. This puts the state in a difficult position, as the refusal to cough up extra funds could impact the quality of service delivery, which is its primary responsibility.

The ECEC sector and kindergarten real estate have created opportunities to generate significant private wealth derived from taxpayer money. The public funding that should be going into improving workers' wages and conditions, purchasing resources and material to support the delivery of ECEC services

As the Norwegian Government reviews the Kingergarten Act, we hope that this report supports an understanding of the extent and risks of financialisation in the sector, the importance of considering real estate within the rubric of regulation, and how the private equity model affects the quality of service delivery.

6. Post-script

On 23 January 2024, *Fagbladet* reported that in the wake of the Viceroy allegations, the Norwegian Directorate of Education and their nursery inspectorate had undertaken a preliminary investigation of the prices and rents of properties that LV had sold and leased back from SBB.[150] According to the article, The Authority is considering demanding repayments of NOK37 million related to three properties: NOK16.3 million (US$) regarding Forus Kindergarten in Stavanger, NOK15.3 million (US$) regarding the Kristiansund sports kindergarten and NOK5.9 million (US$) regarding the Hellemyr Solkollen Kindergarten, alleging that this money would have been better spent in support of children's care.[151]

A final conclusion has yet to be reached on the case, and LV will have the opportunity to respond. Unsurprisingly, Viceroy appear to approve of the action taken thus far,[152] and it is possible that these investigations will extend more broadly than just the three properties concerned. Regardless of the outcome, these actions underscore the importance of the ongoing reforms to the Kindergarten Act, and the central role of real estate transactions within that.

7. Statement from Brookfield

Specific allegations were put to Brookfield in written form prior to the publication of this report. They requested the following statement be shared.

> *Nordiqus has a long track record of providing critical social infrastructure services to education providers across the Nordics. It is held in a perpetual fund which is managed in Canada, with the backing of committed and long-term infrastructure investors.*
>
> *Nordiqus is managed by Brookfield, a Canadian corporation and listed on the New York and Toronto stock exchange. Brookfield is a long-term investor that owns and operates critical infrastructure, renewable energy and real estate assets all over the world. These assets are owned by corporate subsidiaries in their local jurisdictions where all applicable corporate income taxes are paid in compliance with local tax laws.*

> *Our effective tax rate is influenced by several factors, some of which are not reflective of cash taxes paid, therefore can be significantly misleading. For example, in line with IFRS accounting standards, we report our income to include non-controlling ownership interests, whereas our reported tax provision includes only our proportionate share and not the share attributable to our investment partners. We would also note that jurisdictions around the world have substantially different corporate tax rates and offer important tax incentives for investment, for example in sectors such as renewable energy in which Brookfield is a recognized global leader.*

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