

Response to the CMA Early Years Education and Childcare Market Study

Introductory comments

As a family-owned private day nursery, operating from our own dedicated premises and providing early years education and childcare for more than 20 years from this setting, we very much welcome the CMA's interest in understanding the challenges currently facing the sector.

Our experience leads us to believe that the most significant issue affecting provider sustainability is not primarily a lack of competition within the childcare market, but a government funding model that has increasingly failed to keep pace with the genuine financial cost of delivering high-quality early years education and care.

The sector has experienced substantial increases in employment costs, including wage costs and other employment-related financial obligations, alongside an increasingly challenging labour market. Providers face persistent shortages of both qualified and unqualified practitioners, with significant difficulties recruiting and retaining experienced staff when pay levels within early years are often uncompetitive compared with other sectors.

At the same time, government-funded childcare entitlements have expanded substantially. As a consequence, government funding now represents a significant—and for many PVI providers, majority—proportion of income.

This fundamentally changes the economics of the childcare market. Providers now have increasingly limited ability to determine their own core pricing while continuing to bear responsibility for rising employment costs, premises, utilities, training, regulatory compliance, resources, investment, business rate and normal commercial risk.

We therefore encourage the CMA to consider the sustainability of the funding model as a central issue within its market study.

The present challenges should not simply be viewed as evidence of shortcomings in competition or provider pricing practices. In our view, they are increasingly the consequence of a funding system in which the amount paid for government-funded hours does not necessarily represent the genuine cost of providing those hours to the standard children and families reasonably expect.

Providers cannot absorb such differences indefinitely. The inevitable consequences are pressure on profitability and investment, greater reliance on charges for additional services, restrictions on the way funded places can economically be offered, reductions in capacity and, ultimately, provider closure.

The long-term consequence must therefore be fewer providers, fewer childcare places and reduced parental choice—the opposite of what a well-functioning childcare market should achieve.

1. What are the main challenges facing childcare providers?

In our experience, the principal challenges are interconnected:

Funding inadequacy and cost inflation.

Government funding has not consistently kept pace with the rapidly increasing cost of delivering high-quality childcare. This is particularly significant because the expansion of funded entitlements means providers are increasingly dependent upon inadequate rates over which they have no control.

Workforce shortages.

Recruitment and retention have become critical concerns. The sector needs skilled, committed and experienced practitioners, yet providers are competing for employees against sectors capable of offering higher salaries, better hourly rates, shorter hours and with considerably less responsibility.

Increasing employment costs.

National wage policy and wider employment costs, eg pension contributions, have substantially increased providers' expenditure. Staffing is the largest operating cost for most nurseries, in our experience accounting for 65 % of overall expenditure, meaning even relatively modest percentage increases can have a major impact on sustainability.

Recruitment, training, and apprenticeships.

There appears to be insufficient incentives for talented individuals to enter early years, undertake apprenticeship training, qualify and then remain within the profession. Our own recent recruitment experience reinforces this concern.

Restricted ability to recover increased costs.

In an ordinary competitive market, a business experiencing substantial cost inflation can

reconsider its prices. The increasing dominance of government-funded hours means that this mechanism is progressively restricted for early years providers.

These factors are now combining to force providers to reconsider staffing structures, opening hours, availability of places, and the type of provision they can sustainably offer.

2. How well is the childcare market working for providers, children and families?

There remains strong demand from families for high-quality childcare and considerable commitment, expertise and innovation from providers to deliver this with the framework of the current voluntary contribution model.

The market is increasingly distorted by the extent to which government determines both the amount of childcare parents are told is "free" and the level of funding providers receive for delivering it.

The expansion of funded childcare means this is no longer a marginal part of the market. It has become central to the economics of operating many nurseries.

A market cannot function normally if providers face rapidly increasing costs while having limited ability to alter the price received for an increasingly large proportion of their service.

We therefore encourage the CMA to consider whether some of the practices currently being examined—including additional charges and different models for offering funded places are symptoms of this underlying economic problem rather than its cause.

3. What is the impact of government-funded childcare on providers?

The expansion of funded entitlements without equivalent recognition of providers' true operating costs creates critical financial exposure for providers.

Government effectively becomes the principal purchaser of a substantial proportion of childcare provision, but providers remain responsible for the commercial risk associated with delivering it.

This creates a distorted market in which the purchaser has considerable influence over price, while the supplier continues to carry the risks associated with inflation, employment legislation, staffing shortages, premises maintenance, utilities, regulatory compliance, training and investment.

We believe the CMA should examine whether this is sustainable.

4. What is the impact of additional charges and charges for optional services?

We recognise the importance of transparency for parents. Families should be able to understand what government funding covers, what a provider charges additionally, and what services or products those charges relate to.

Where the government's funding rate does not cover the genuine cost of delivering a funded place, providers have limited options. They must absorb the shortfall, restrict the way funded places are offered, reduce costs, or generate additional income.

For providers, charges associated with meals, consumables, additional activities, extended services or other provision - not included in the basic childcare funding rates - have consequently become a necessary means of closing the funding gap and supporting overall financial viability.

Asking providers to offer this as a voluntary contribution just does not make economic sense.

What concerns us is that this approach attempts to restrict providers' ability to recover legitimate costs. Removing the mechanism through which a provider bridges a funding deficit does not remove that deficit. It simply transfers financial loss back to the provider.

Over time, that will result in reduced investment, lower capacity or provider closure.

5. How does the current system affect affordability and equality of access for families?

Our principal concern is that every child should have access to excellent early years education and care regardless of their family circumstances.

The present funding structure creates an inequality that it is intended to prevent.

If the public funding available for a child's place is insufficient to meet the cost of high-quality provision, providers are forced to recover that difference elsewhere.

Parents can consequently feel that they must pay additional amounts to access the level or type of provision they want for their child and have been mis sold the concept of free childcare.

We do not believe this represents a satisfactory long-term settlement for children, families, or providers.

Government funding should reflect the genuine cost of delivering high-quality early years education, allowing children to benefit from excellent provision without either parents or providers routinely having to bridge the difference between public funding and actual delivery cost.

This would create a fairer and more transparent system.

6. What impact are workforce issues having on childcare provision?

We consider workforce sustainability to be one of the greatest threats facing the sector.

Early years practitioners undertake skilled, responsible, and important work. The quality of children's experiences is fundamentally dependent upon the quality, stability, and experience of the people educating and caring for them.

Yet providers increasingly struggle to offer salaries that compete effectively within the wider employment market.

This creates difficulties at every stage: attracting people into the profession, encouraging them to undertake qualifications, retaining them once qualified, developing experienced practitioners / educators and creating the future generation of nursery leaders.

The early years profession should be regarded as a valued and rewarding long-term career.

A sustainable funding model must therefore do more than meet today's minimum operating costs. It should enable responsible providers to pay competitive salaries, invest in apprenticeships and professional development, retain experienced staff, and provide meaningful career progression.

Investment in the early years workforce is ultimately an investment in children.

Stable, experienced and well-supported practitioners provide continuity for families, improve children's experiences, and strengthen the resilience of the sector.

Without intervention, we believe workforce shortages will increasingly constrain capacity at exactly the point when government policy is increasing demand for funded childcare.

7. What factors affect providers' ability to expand or invest?

For a private provider, investment requires confidence that capital committed today can generate a reasonable and sustainable return over the longer term. This is not the case in the current climate.

PVI providers make substantial investments in premises, equipment, resources, staff, training, technology, and regulatory compliance. Those providers also bear commercial risk.

We believe it is important that government policy making recognises this fundamental characteristic of private provision.

A sustainable business must generate more than simply enough income to meet its immediate costs. There must be sufficient return to maintain premises, replace equipment, improve facilities, develop employees, withstand unexpected costs and finance future investment. There must also be a reasonable return for those who have invested capital and accepted the financial risk of running the business.

We therefore encourage the CMA to recognise explicitly that reasonable profitability and return on investment are not inconsistent with the delivery of high-quality childcare.

They are prerequisites for a healthy childcare market.

A funding model that allows responsible providers merely to survive rather than thrive is unlikely to attract investment or deliver the resilient childcare infrastructure that government and families require.

8. What are the consequences if providers cannot operate sustainably?

The ultimate consequence is not simply reducing provider profitability. It is reduced supply. Providers facing sustained financial pressure may reduce capacity, alter operating hours, restrict funded places, postpone investment, or leave the market altogether.

This has direct consequences for families.

Fewer providers and a reducing workforce mean fewer available places, less geographical accessibility and reduced choice between different educational approaches and types of setting.

There is therefore a danger of a cycle developing:

inadequate funding → reduced provider margins → reduced investment → workforce difficulties → reduced capacity/provider closures → fewer places and less parental choice.

We believe preventing this cycle should be an important consideration for the CMA.

9. What is the appropriate role of private providers within the future childcare market?

We encourage the CMA and government to acknowledge the vital contributions made by private, voluntary, and independent providers.

Private providers have invested substantial private capital in creating the childcare infrastructure on which government increasingly relies to deliver its public policy commitments. They have invested in premises, employees, training and resources and have carried the commercial risks associated with doing so.

Government policy should therefore recognise that financial sustainability and reasonable return on investment are not at odds with the delivery of a good public service. On the contrary, they help maintain parental choice, encourage innovation, and ensure providers remain willing to invest.

There is a significant difference between extracting excessive profits from a publicly supported service and earning the reasonable commercial return necessary to maintain and reinvest in a sustainable private enterprise.

We encourage the CMA to recognise that distinction.

10. What is the relationship between PVI provision and school-based nursery provision?

The relationship between PVI and school-based nursery provision is unclear. We believe greater transparency is required regarding government's long-term strategic vision for early years provision. Providers need a better understanding of how government envisages the respective roles of PVI providers, and school-based nursery provision will evolve over the coming years.

Recent policy developments and investment in school-based provision, when considered alongside the increasing financial pressures experienced by independent providers, have created a perception that school-based provision is increasingly being prioritised.

If increasing school-based provision at the expense of independent PVI provision represents an intentional strategic policy direction, we believe government should articulate that clearly and provide the evidence and impact assessment supporting that approach.

If that is not the intended policy direction, then serious consideration should be given to whether current funding and regulatory arrangements are nevertheless producing that outcome unintentionally.

There are important questions that consequently deserve examination:

Are school-based and PVI providers operating on genuinely comparable financial terms once premises, capital investment, employment costs, overheads and wider public-sector support are considered?

What assessment has been made of the comparative public cost of creating additional school-based capacity versus sustaining existing high-quality PVI capacity?

How will government ensure meaningful parental choice is maintained and the consequences for children, families and local communities if the number of independent providers continues to decline?

We believe answers to these questions would provide important reassurance and clarity to providers and their employees who have invested many years in developing the UK's early years infrastructure.

11. Could the funding system operate differently?

In principle, we do not see any necessary alternative to the current funding system - only that the funding needs to be adequate to cover the actual cost of high-quality childcare provision. Perhaps the government could reduce the number of 'free' childcare hours it offers but pay the provider the actual economic cost of provision.

12. What changes would most improve the childcare market?

Our principal recommendation is that government funding should be based upon a realistic and regularly updated assessment of the full economic cost of delivering high-quality early years provision.

That assessment should include appropriate provision for:

- competitive workforce salaries;
- National Minimum/Living Wage and employment-cost increases;
- appropriate staffing ratios and management capacity;
- recruitment and retention;
- apprenticeships and professional development;
- premises and occupancy costs;
- food, consumables and educational resources;
- utilities, insurance and regulatory compliance;
- administration associated with funded provision;
- maintenance and capital reinvestment;

- reasonable contingencies and business resilience; and
- a reasonable and sustainable return on private capital and investment.

We would also encourage a longer-term workforce strategy designed specifically for early years, including measures to improve recruitment, qualification, career progression, professional recognition, and retention.

Finally, the government should provide greater clarity about the intended long-term balance between PVI and school-based provision so that private providers can make informed decisions about investment.

Concluding comments

We strongly support the principle of government investment in early years education.

Our concern is that the ambition of expanding funded childcare must be matched by an economic model capable of sustaining the organisations and people required to deliver it.

Government cannot indefinitely expand what parents are entitled to receive without ensuring that the organisations responsible for delivering that entitlement are adequately funded.

If high-quality childcare costs more to provide than government is prepared to fund, the difference does not disappear. It must ultimately be borne by the provider, by parents, through reduced quality or capacity, or through providers leaving the market.

We believe the better solution is to confront that economic reality transparently.

Every child should have the opportunity to benefit from excellent early years education irrespective of their family's ability to make additional payments. Achieving that objective requires government funding that reflects the genuine cost of quality provision.

At the same time, the government should recognise that PVI providers are businesses. They have invested private capital, employed substantial numbers of people, carried financial and regulatory risk, and have played an essential role in building the country's childcare capacity.

A successful early years policy should therefore allow good providers not merely to survive, but to invest, develop and thrive.

That means providing sufficient funding to support quality, competitive employment, workforce development, investment, and a reasonable return on capital.

We would encourage the CMA to consider the current market through that wider lens. Additional charges, restrictions on funded places, workforce shortages, reduced investment and provider closures should not be considered as isolated problems. They may instead be different manifestations of the same underlying issue: **a growing mismatch between the public's ambition for funded childcare and the economic resources made available to deliver it.**

Addressing that mismatch would, in our view, do more than any other intervention to secure a diverse, competitive and sustainable early years market that provides genuine choice for parents and excellent outcomes for children.