

# Federation of Small Businesses Consultation response:

Early Years Education and Childcare Services Market Study –  
Statement of Scope

July 2026  
FSB  
[fsb.org.uk](https://fsb.org.uk)

24 July 2026

To whom it may concern,

## **RE: Early Years Education and Childcare Services Market Study – Statement of Scope**

FSB welcomes the opportunity to provide a response to the above consultation.

FSB is a non-profitmaking, grassroots and cross-party business organisation that represents members in every local community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.7 million small and medium business owners and the self-employed.

Small businesses employ over 60 per cent of the private sector workforce and there are almost 4.4 million self-employed individuals in the UK. Similarly, the early years education and childcare sector is overwhelmingly composed of small businesses: independent childminders, single-site nurseries and small nursery groups which account for the majority of childcare delivered in the UK. Policies affecting the funding, regulation and cost base of this sector therefore fall directly and on small firms and on the families who depend on them.<sup>1</sup>

FSB welcomes the CMA's decision to undertake this market study. However, our central concern remains the financial sustainability of small providers, and the risk that a study framed principally around competition and consumer outcomes could misdiagnose the sector's core problem. In our members' experience, the defining feature of this market is not weak competition or poor conduct, but a Government funding environment that does not reflect the cost of delivery.

### **The key points raised throughout this response are:**

- The sector is made up of small businesses operating on very slim margins with a median income-to-cost ratio of just £1.01:£1, and around a quarter of nursery classes and a third of childminders below £0.80.<sup>2</sup> With these slim margins, and a 39 per cent fall in childminder numbers since 2018, evidence suggests that there is a supply-side sustainability crisis, rather than a competition failure.
- This is because the Government funding rate that does not reflect the cost of delivery, most acutely three- and four-year-olds, compounded by rising employer National Insurance Contributions (NICs) and National Living Wage (NLW) costs that have not been matched by funding uplifts.
- Consequently, additional charges to parents are largely a rational response to underfunding.

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<sup>1</sup> Savills, [Children's Day Nursery Market Update – 2025](#), September 2025; Department for Education, [Childcare and early years provider survey](#), December 2025

<sup>2</sup> Competition & Markets Authority, [Early Years Education and Childcare Services Market Study – Statement of Scope](#), 1 July 2026

The CMA must distinguish clearly between opaque or unfair charging and legitimate cost recovery. Restricting charges without fixing the rate would accelerate closures and reduce the supply of childcare.

- The regulatory and funding playing field is not level between small private, voluntary and independent (PVI) providers and school-based or private-equity-backed operators.
- Although the study focuses on England, the CMA should draw directly on Scotland and Wales, where the exemption of childcare providers from business rates has demonstrably supported provider sustainability and growth.

We have not responded to every question in this consultation, only to those on which we are able to provide a valuable perspective, based on our expertise and our engagement with small childcare providers.

### **Scope of Market Study**

FSB agrees with the proposed services scope and with the focus on England. It is right to include childminders, group-based providers and school-based settings, and to consider the full range of business models and scales, from single-site providers up to larger groups.

We would, however, urge the CMA to make three changes to the proposed scope of the investigation. First, the financial sustainability of small and single-site providers and childminders should be a named priority, and the cost of regulatory compliance should be examined as a cost driver. Providers report substantial “supernumerary” time spent on compliance rather than care – in one member’s case around ten hours of leadership time each week – which is not reflected in the funded rate.

On geography, whilst England is the correct focus, the CMA should actively learn from Wales and Scotland, where the exemption of childcare providers from business rates has been a material driver of sustainability and growth. One FSB member operating in Wales grew from three nurseries to ten, and from 65 to 150 staff, over eight years, attributing this substantially to the removal of business rates. Finally, we would caution against any scope that treats additional charges purely as a consumer-facing conduct question - they must be examined alongside funding adequacy.

### **A well-functioning market for childcare**

We broadly agree with the CMA’s articulation of a well-functioning market, but the characteristics as drafted are weighted towards the demand and consumer side. We would like to add two points to this definition.

Firstly, an explicit supply-side criterion that providers can recover their efficient costs of delivery and generate a surplus sufficient to reinvest and expand. Without this, “availability of supply” and “effective competition” are not achievable. Where, as in this sector, Government funds and effectively sets the price for most of the provision, a well-functioning market requires that the funded rate reflects the efficient cost of delivery and is set on a transparent, predictable, multi-year basis. Otherwise, the Government removes the market’s normal mechanism for cost recovery without providing a viable alternative.

We also ask the CMA to consider that the characteristic of “effective competition on price” sits awkwardly in a market where a large and growing share of provider revenue is a fixed, Government-set rate. Several of our members describe the sector as a monopsony, in which government controls both the fees providers may charge and much of the cost base they face. The CMA’s framework should acknowledge that this is a heavily administered market rather than a conventional one.

In our view, the sector does not currently display the characteristics of a well-functioning market. The CMA's own evidence is telling: a median income-to-cost ratio of £1.01, with around a quarter of nursery classes and a third of childminders below £0.80. One of our members across multiple sites calculated an operational cost of roughly £12.75 per hour across all ages, against a three- and four-year-old funded rate of around £5.33 – a rate that, in members' words, "drops off a cliff" for that age group.

### **Information, consumer choice and market practices**

The Government's policies and messaging make it difficult for families to make informed choices about their childcare provision. The language of "free hours" and "30 hours" is widely misunderstood: the 30-hour entitlement covers 38 weeks, equivalent to around 22 hours a week if stretched across the year and does not cover consumables. Members report that parents – particularly parents of the youngest children, who do not yet think in school terms – frequently arrive expecting an entirely free service and are surprised by legitimate charges. The CMA should examine how government communicates entitlements, and we would support clearer, standardised language, for example describing the entitlement in weekly hours across the full year.

On market practices, FSB supports clear, comparable and transparent disclosure of charges as it can help families make informed choices and improves competition for SMEs against operators who bundle or obscure their fees. However, we urge the CMA to distinguish sharply between opaque or unfair charging, which is a legitimate target for scrutiny; and cost-recovery charging under an inadequate funded rate, which is not.

The recent restrictions on consumables charges – following updated statutory guidance and the High Court ruling on mandatory additional charges – have removed providers' flexibility to make up shortfalls and risk producing a two-tier system, in which some families opt into paid extras and others do not.<sup>3</sup> That outcome is at odds with the inclusive ethos on which many small settings operate. Caps or bans on charges and a lack of rate reform would worsen consumer outcomes by reducing access and quality of childcare.

### **Competition in the sector**

The sector is best understood as a heavily administered, near-monopsony market, in which government sets both the dominant revenue rate and much of the cost base. Price competition is therefore muted with small providers competing on availability, flexibility and quality, and are disciplined far more by the funded rate and by regulation than by competitive pressure. The CMA should be realistic that introducing more competition will likely not change what is fundamentally a funding-shortfall problem.

Where the CMA does examine competitive dynamics, there are structural asymmetries in the sector. For instance, private-equity-backed and larger group operators have access to financing, and can spread fixed costs across multiple sites, in ways that single-site providers and childminders cannot. The CMA Statement of Scope and our members report on the accelerating corporatisation of the sector, with independent providers increasingly at risk of closure or acquisition, and the number of

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<sup>3</sup> Local Government & Social Care Ombudsman, [Judge upholds Ombudsman's decision in nursery fees case](#), 12 February 2025

private-equity-backed places has more than doubling between 2018 and 2024.<sup>4</sup> Additionally - when compared to school-based provision - private, voluntary or independent providers face additional costs such as business rates and standard staff:child ratios with no extra support. In the case of school-based provision, business rates are paid by DfE, and school settings can run more generous ratios. Given that staffing represents 70-88% of provider costs, that is a significant cost advantage compared to small providers. Taken together with corporatisation and school-based provision, if the study is concerned with the long-term health and diversity of supply, this consolidation dynamic warrants attention.

### Information and regulatory frameworks

Ofsted registration and Early Years Foundation Stage compliance impose largely fixed costs that fall disproportionately on small and single-site providers and childminders, who cannot spread them across scale. The steep decline in childminder numbers is consistent with a combined regulatory and financial burden driving exits from the sector.

We would also draw attention to the inconsistency and burden of local authority administration and audit. Providers report that local authority funding administration is inconsistent and burdensome, with some authorities applying attendance-based adjustments far more strictly than others. This creates uncertainty over clawbacks and makes it harder for providers to plan financially, especially where guidance is interpreted differently across areas. Some authorities fund the booked session pragmatically – as is standard in Wales, a model some of our members regard as fairer and more workable – while others claw back for minor attendance discrepancies, including variations of as little as 15 minutes.

Beyond the funded-rate gap, the specific barriers falling hardest on smaller businesses include:

- Business rates on non-domestic premises, from which providers in Scotland and Wales are exempt, and which the DfE already meets for school-based nurseries.
- Rising employer NICs and NLW costs, not matched by funding uplifts, which have raised delivery costs materially and compressed providers' ability to reward experienced staff. The Early Education Childcare Coalition estimates these changes have increased delivery costs by around 4.5 to 4.9 per cent without commensurate increases in government funding.<sup>5</sup>
- Acute recruitment and retention difficulty: recruitment advertising is a significant cost burden providers face; apprentice completion rates run below 50 per cent; and qualified staff frequently leave for better-remunerated school-based roles with superior pensions.
- An uneven playing field with school-based provision, which operates under apparently more relaxed ratio and regulatory requirements. Members give worked examples in which a school-based setting can staff a group of children that private, voluntary or independent settings would be required to staff at several times the level.
- Upfront registration and compliance costs, premises and planning constraints, and – for childminders specifically – domestic-premises rules, insurance and professional isolation.

We would stress that small providers value proportionate quality and safety regulation, and the best possible care for families whilst offering proportionality and consistency for the smallest providers.

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<sup>4</sup> Competition & Markets Authority, [Early Years Education and Childcare Services Market Study – Statement of Scope](#), 1 July 2026

<sup>5</sup> Early Education and Childcare Coalition, [Modelling provider delivery costs](#), 2026

FSB would welcome the opportunity to contribute further evidence as the study progresses, including provider cost data and case studies from our members.

Yours sincerely,

[Redacted Signature]

Federation of Small Businesses

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