

SUBMISSION TO THE COMPETITION AND MARKETS AUTHORITY

Early Years Education and Childcare Market Study



Purpose of this submission

This submission provides first-hand evidence from a small independent provider about funding adequacy, cross-subsidy, workforce pressures, increasing statutory expectations, local authority processes, provider sustainability, competition and parental choice. It also asks the CMA expressly to consider a market investigation reference under section 131 of the Enterprise Act 2002.

Submitted: July 2026

Executive Summary

[REDACTED]

[REDACTED] Our experience is that the early years market is no longer functioning effectively for small independent providers, particularly in relation to funded places for three- and four-year-old children.

The central problem is arithmetic. The local authority funding rate we receive for three- and four-year-olds has fallen from £7.38 per hour in 2025 to £6.67 per hour in 2026. This is a cash reduction of £0.71 per hour, or 9.6%, at the same time as wages, Employer National Insurance, food, utilities, insurance and compliance costs have increased. We estimate the real-terms reduction to be approximately 16%.

We remain viable only by cross-subsidising older funded children from the substantially higher rate paid for younger children and by charging separately for meals, consumables and enrichment. These charges are not evidence of excessive profit. They are a response to a funded rate that does not meet the cost of delivery.

Our evidence supports the following conclusions:

- The adequacy and design of government-funded entitlement rates must remain central to the study. Examining additional charges without examining the shortfall that causes them would misdiagnose the market.
- The large difference between age-related funding rates distorts provider incentives and can affect which children settings are financially able to admit.
- Small independent providers face materially different risks from large groups and must be represented directly in the CMA evidence base.
- Local authority administration, funding processes, retained amounts, provider agreements and the reduction in practical specialist support should remain within scope.
- Nurseries are carrying a growing burden of SEND identification, referral, family support, health promotion and transition work without corresponding funding.
- A market study resulting only in non-binding recommendations may not be sufficient to address structural problems. The CMA should make a market investigation reference under section 131, with funding adequacy and public-body conduct expressly within scope.

1. About Our Setting

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The nursery [REDACTED] is currently graded Outstanding by Ofsted. We are proud of that judgement. However, maintaining the same standard is becoming increasingly difficult because available resources must first be directed to safeguarding, statutory compliance, staffing ratios and remaining solvent. Enhancements that previously contributed to exceptional quality are increasingly difficult to fund.

As a standalone provider, we do not have the purchasing power, central administrative functions, access to capital or economies of scale available to large nursery groups. A relatively small movement in the hourly funded rate, wage costs or occupancy can therefore have a direct and immediate effect on viability.

2. The Principal Challenges

Three interrelated pressures now dominate our business:

1. Funding rates, particularly for three- and four-year-olds, that do not meet the cost of delivery.
2. Difficulty recruiting and retaining suitably qualified staff at pay levels the funding model can support.
3. Increasing statutory, regulatory, SEND, public-health and family-support expectations without corresponding funding or practical support.

3. Funding Adequacy and Cost of Delivery

3.1 Funding rates received

The funded rate for three- and four-year-old children is the single greatest threat to the sustainability of our setting. The figures below are the rates received by our setting from our local authority, based on our own records.

Age group	2024/25	2026/27	Cash movement	Estimated real-terms position
Three and four years	£7.38	£6.67	-£0.71 (-9.6%)	Approx. -16%
Two years	£8.78	£9.52	+£0.74 (+8.4%)	Approx. +0.6%

The 2026 rate for children aged nine months to two years is more than twice the rate for three- and four-year-olds. Younger children require tighter staffing ratios, so some difference is understandable. However, the scale of the difference has a direct commercial effect: it makes younger places essential to subsidising older funded places and creates an incentive for providers to favour age groups whose funding is closer to the cost of delivery.

3.2 Cost pressures

The reduction in the three- and four-year-old rate has occurred while the cost base has moved sharply in the opposite direction. Our costs include staffing, premises, food, utilities, insurance, training, safeguarding, administration, regulatory compliance, resources, cleaning, waste, technology and professional support. Staffing costs cannot be reduced below statutory adult-to-child ratios, and safe operation requires additional management and cover capacity.

We also estimate that inflation affecting childcare businesses has been around 14% over the relevant period.

3.3 The gap between the funded rate and delivery cost

Our day-to-day experience is that £6.67 per hour does not cover the full cost of delivering a three- or four-year-old place to the quality and level of compliance required. That calculation should distinguish between a marginal staffing calculation and the full economic cost of provision. A funded hour relies not only on the practitioner in the room, but also on management, administration, recruitment, training, safeguarding, SEND work, preparation, cleaning, premises, utilities, insurance, food handling, systems, professional fees, resources and contingency cover.

4. Cross-Subsidy and Additional Charges

Our setting remains viable only because losses or inadequate margins on three- and four-year-old funded hours are supported by other income. In practical terms, we cross-subsidise older funded places using the higher funding received for younger children and the income generated from separately charged goods and services.

Our current additional charges are:

- Meals: £10 per day.
- Consumables: £0.50 per funded hour.
- Enrichment activities: £0.50 per funded hour.

These charges are not a disguised price for the funded hours and are not designed to generate excessive profit. They recover part of the cost of items and activities that the funded rate does not adequately support. Without cross-subsidy and additional income, our ability to offer funded places—particularly for three- and four-year-olds—would be materially reduced.

A market assessment that focuses on the visibility or presentation of charges, without establishing why those charges are necessary, risks treating the symptom as the cause. Greater transparency is sensible, but transparency alone cannot eliminate a structural funding shortfall.

5. Recruitment and Retention

Recruitment and retention difficulties are not separate from the funding issue. Childcare is labour-intensive and requires staff to work on site, maintain statutory ratios, safeguard children, document learning and development, support families and respond to complex needs.

The sector continues to experience the long-term effects of the qualification rules introduced in 2014 requiring GCSE English and mathematics for practitioners seeking Level 3 status. Although policy subsequently changed, the requirement reduced the pipeline of qualified practitioners and its effects have not disappeared.

Since the COVID-19 pandemic, the labour market has also changed. Flexible and home-based roles compete with childcare jobs that require attendance on site and carry significant responsibility. At the same time, National Living Wage increases have compressed salary structures. Experienced and qualified practitioners can earn only marginally more than new entrants, even though they carry greater responsibility for safeguarding, curriculum, SEND and supervision.

We would like to pay higher salaries and create clearer progression, but the funded income does not provide sufficient headroom. The result is a cycle in which inadequate funding restricts pay, restricted pay worsens recruitment and retention, and instability increases recruitment, agency, training and management costs.

6. Increasing Statutory and Public-Service Expectations

6.1 Scope creep in ordinary provision

Local authorities increasingly expect providers to deliver a broad range of support as part of Ordinary Available Provision. In our experience, the practical meaning of ordinary provision has expanded considerably. Work that was once undertaken or closely supported by specialist public services is increasingly expected to be initiated, coordinated, documented and delivered by the nursery within the standard funded rate.

6.2 SEND identification, referral and evidence

Our responsibilities now include, among other things:

- undertaking speech and language checks for children, including checks at age two;
- making referrals to Speech and Language Therapy, Occupational Therapy and Physiotherapy;
- preparing and reviewing My Support Plans and targeted strategies;
- gathering detailed observations and evidence for Education, Health and Care Plan applications;
- attending or contributing to local authority panels and professional meetings;
- implementing recommendations while specialist assessment or funding is awaited; and
- supporting transitions to school through reports, meetings and visits.

EHCP evidence is particularly time-consuming, yet plans and associated funding are often not secured while a child remains in nursery. Panel processes can be lengthy and support can arrive late in the child's time with us. During the delay, the setting remains responsible for meeting the child's needs safely and inclusively.

6.3 Increasing complexity of need

We are seeing increasing numbers of children with autism spectrum disorder, ADHD, combined autism and ADHD presentations, selective mutism, speech and language delay, sensory processing difficulties, emotional regulation needs, and physical or medical requirements. We use these descriptions carefully and do not diagnose children. The point is that the level and complexity of support required in ordinary nursery provision has increased.

Supporting children well may require additional staffing, specialist equipment, environmental adaptation, extensive liaison, individual planning, repeated observation and staff training. These costs are not consistently or promptly met by additional funding.

6.4 Family support and public health

The nursery's role in supporting families has also expanded. Staff increasingly provide practical and sensitive support with delayed toilet training, sleep routines, healthy eating, behaviour, emotional regulation, school readiness and children's dependence on tablets or other screens during meals and routines.

This is not criticism of parents. Families face significant pressures, and constructive partnership is an essential part of early years practice. It is, however, evidence that providers now deliver a wider family-support function that requires skilled staff time and management oversight.

Providers may also be expected to participate in public-health initiatives such as supervised toothbrushing. Each initiative may be worthwhile in isolation, but the cumulative workload is substantial and is rarely reflected in the base funding rate.

7. Local Authority Relationship and Public-Body Conduct

The role of local authorities and other public bodies should remain a named part of the CMA's work. Providers depend on local authorities not only to pass through entitlement funding, but also to administer inclusion funding, interpret statutory guidance, set provider-agreement terms, offer professional advice and coordinate specialist support.

In our experience, practical local authority support has reduced. Experienced Early Years Advisers have been replaced by lower-graded or less specialist roles, and the advice available to settings is less extensive than it was. At the same time, applications for specialist funding and support have become lengthy, panel-based and administratively burdensome.

We ask the CMA to examine, across local authority areas:

- the proportion of central government funding that reaches frontline providers and the basis for any retained amounts;
- the consistency, legality and commercial effect of provider-agreement conditions;
- whether local conditions or administrative requirements go beyond statutory guidance;
- the speed, transparency and evidential burden of SEND and inclusion-funding decisions;
- whether providers are being required to absorb the cost of services previously delivered by local authorities or health bodies; and
- how variation between local authority areas affects competition, entry, sustainability and parental access.

8. Impact on Our Business and Quality

These combined pressures have changed how our business operates. Management time that would previously have been used for pedagogical improvement, staff development and enhancing the environment is increasingly consumed by cash-flow planning, recruitment, SEND paperwork, referrals, funding applications, compliance and liaison with public bodies.

The practical consequences include:

- cross-subsidising older funded places from younger age groups;
- introducing charges for meals, consumables and enrichment;
- considering age mix and admissions through the lens of financial sustainability;
- delaying or reducing investment in resources, premises and quality enhancements;
- operating with very limited resilience against maternity leave, illness, vacancies, occupancy changes or unexpected costs; and
- finding it increasingly difficult to sustain the enhancements associated with an Outstanding judgement.

We continue to prioritise safeguarding and statutory requirements. The risk is not that providers simply cease complying; it is that discretionary quality, innovation, staff development and individualised support are gradually squeezed out before a setting eventually becomes unviable.

9. Impact on Families, Competition and Market Structure

The present funding structure affects more than individual provider profitability. It changes supply decisions and therefore affects families. When one age group is funded substantially below cost and another is funded at a materially higher rate, providers have a rational incentive to adjust their age mix, admissions, session structures and availability.

The likely market effects include:

- fewer financially sustainable places for three- and four-year-olds;
- greater reliance on separately charged meals, consumables or additional services;
- reduced parental choice where small local providers close or restrict provision;
- greater consolidation as standalone settings lack the resilience of larger groups;
- loss of diversity in business models and local provision; and
- a risk that children with additional needs become harder to place where support funding is delayed or inadequate.

Small independent nurseries are not simply smaller versions of large groups. Their cost structure, access to finance, management capacity, purchasing power and exposure to local occupancy are different. The CMA

should therefore ensure that evidence from large corporate operators is not treated as representative of the whole sector. Evidence gathering should include standalone nurseries, small chains, voluntary providers, pre-schools and childminders.

10. What Is Working Well

Despite the pressures described above, the sector delivers important benefits. The funded entitlements help families access childcare and support parental employment. Strong local settings provide continuity, trusted relationships, early identification of need and valuable support before school. Our own Outstanding judgement reflects the commitment and skill of the workforce.

The problem is not the principle of funded early education or partnership with public bodies. It is that the financial and administrative framework does not consistently pay for the service now expected. Reform should preserve access and quality while making the underlying economics transparent and sustainable.

11. Recommendations to the CMA

We respectfully ask the CMA to:

4. **Keep funding adequacy fully within scope.** Establish the full economic cost of delivering funded hours by age group and provider type, rather than relying only on headline funding allocations or marginal staffing assumptions.
5. **Examine cross-subsidy directly.** Assess the extent to which younger-child funding, private fees, meals, consumables and enrichment support underfunded entitlement hours.
6. **Analyse incentives created by age-related rates.** Consider how large differences between rates affect admissions, age mix, capacity, competition and parental choice.
7. **Investigate local authority conduct.** Review pass-through, retained funding, provider agreements, administrative conditions, inclusion funding, panel processes and variation between areas.
8. **Use a representative provider evidence base.** Gather detailed evidence from standalone settings, childminders, voluntary providers and small groups, not only large corporate operators.
9. **Recognise the full public-service workload.** Include SEND, referrals, family support, public health, transition work and compliance in any assessment of provider costs and productivity.
10. **Distinguish transparency remedies from funding remedies.** Clear presentation of charges may help families, but it cannot remove charges that arise because the funded rate is below cost.
11. **Protect quality and inclusion.** Assess whether current incentives reduce investment in quality or make places for children with additional needs harder to sustain.
12. **Make a section 131 market investigation reference.** The problems are structural, involve the interaction of government-set funding, local public bodies and provider behaviour, and may require remedies beyond non-binding recommendations.

12. Request for a Market Investigation Reference under Section 131

We expressly ask the CMA to make a market investigation reference under section 131 of the Enterprise Act 2002. In our view, a market study producing recommendations alone is unlikely to address the root causes of the problems described in this submission.

The difficulties are structural rather than cosmetic. The price paid for a major part of the service is set through public funding arrangements; local authorities influence how funding and support reach providers; statutory ratios constrain cost reduction; providers must meet extensive regulatory and public-service

expectations; and families need reliable local supply. Additional charges, cross-subsidy, changes in age mix and consolidation are consequences of those structures.

Any reference should retain the adequacy and design of the funded rate, the operation of age-related funding, cross-subsidy, provider sustainability, and the conduct of local authorities and other public bodies within scope. Without those elements, the study risks concentrating on the presentation of charges at the nursery gate while leaving the mechanism that makes those charges necessary untouched.

13. Conclusion

Our setting is a small, high-quality independent nursery that has achieved an Outstanding Ofsted judgement and serves its local community. We want to continue providing that service. However, the funding and delivery framework increasingly makes high-quality provision commercially fragile.

For three- and four-year-olds, our hourly rate has fallen in cash terms while unavoidable costs have risen. We survive through cross-subsidy, younger-child funding and additional charges. At the same time, we carry a growing burden of SEND, referral, public-health, transition and family-support work, while practical local authority support has reduced.

This is not a complaint that childcare should be free from scrutiny or that charges should be opaque. Providers should be transparent and accountable. But an evidence-based review must begin with the true cost of the service required and the amount of public funding that reaches the frontline. It is not greed; it is arithmetic.

We therefore ask the CMA to keep the scope broad, gather representative evidence from small independent settings, examine the conduct of public bodies, and make a full market investigation reference under section 131.

