

Subject: Response to CMA Early Years Education and Childcare Services Market Study
– Statement of Scope

Dear CMA Early Years Market Study Team,

I am responding as the owner and director of a small group of three nursery settings in England. Approximately 150 children attend our settings each day, and we employ around 65–70 staff.

My response relates mainly to the experience of private, voluntary and independent providers in the South West of England, although many of the issues raised are national.

We welcome the CMA's recognition that the study should consider private, voluntary and independent providers, school-based providers, childminders, different ownership models and providers ranging from single settings to large groups. However, the study must ensure that its evidence-gathering reflects the actual composition of the sector. Single-setting nurseries, owner-managed businesses and small private groups must be actively and fairly represented, rather than the study becoming dominated by large national groups, private equity-backed providers, trade bodies or public-sector organisations.

The Statement of Scope records that the median provider received only approximately £1.01 of income for every £1 of cost in 2025. That is not evidence of a healthy or resilient market, particularly when providers are also expected to rely on "optional" fees from parents to cover additional services. No other business is expected to operate on this basis, especially when government guidance and messaging actively discourage parents from paying those additional charges. Instead, it is evidence of a sector operating with virtually no margin for investment, unexpected expenditure or further government-imposed cost increases.

Our answers are set out below.

Q1: DO YOU AGREE WITH OUR PROPOSED SCOPE, BOTH THE SERVICES AND GEOGRAPHIC SCOPE, FOR THIS MARKET STUDY? IF NOT, WHAT AREAS WOULD YOU SUGGEST WE INCLUDE, EXCLUDE OR PRIORITISE, AND WHY?

We agree with the proposed inclusion of childminders, group-based nurseries, PVI providers, school-based settings and providers of different sizes and ownership structures. However, the study must not treat these as directly comparable businesses without properly examining their very different funding arrangements, cost bases, regulatory burdens and commercial freedoms.

The CMA should give particular attention to the experience of single-setting providers and small independent groups. These businesses provide a substantial proportion of nursery places, local choice and employment, but do not have the central resources, purchasing power, access to capital or ability to absorb losses available to larger organisations. Their participation cannot be secured simply through general calls for evidence. The CMA should hold dedicated roundtables and undertake detailed financial case studies involving small providers from different regions.

The scope must include the interaction between government funding policy and ordinary commercial decision-making. This should examine whether funded rates cover the full cost of delivery; restrictions on providers charging parents; delayed or altered local-authority payments; the retention of funding by local authorities; mandatory participation conditions; wage and regulatory increases imposed without matching funding; and the extent to which providers are expected to subsidise funded places through optional parent-paid services.

The study should also examine the expansion of state-maintained and school-based nursery provision, particularly where new places are created without evidence of unmet local demand. Publicly supported provision may have access to premises, administration, utilities, pensions, staffing support and financial protection that private providers must fund themselves.

The study should also examine the government's repeated suggestion that providers can simply choose not to offer funded places. This is technically true, but it is not a realistic commercial choice for most nurseries now that funded hours are widely available and expected by parents. A provider that refuses funded places may lose a large part of its market to nearby settings that accept them. Presenting participation as entirely voluntary allows government to avoid addressing whether the funding rate is adequate and whether the rules attached to it are commercially workable.

The geographical scope of England is understandable, but the CMA should examine substantial regional differences in property costs, wages, occupancy, funding rates, recruitment and parental demand. A national average can conceal local markets that are already becoming commercially unviable.

Q2: DO YOU AGREE WITH OUR ARTICULATION OF THE CHARACTERISTICS OF A “WELL-FUNCTIONING MARKET” FOR CHILDCARE SERVICES? IF NOT, WHAT SHOULD BE CHANGED AND WHY?

We do not consider the proposed definition sufficiently balanced. It is framed mainly around outcomes for families and the delivery of government policy objectives. A childcare market cannot be described as “well functioning” unless it is also financially sustainable for the providers expected to deliver the service.

A well-functioning market must allow efficient providers to recover the full and reasonable cost of delivering regulated childcare, maintain an appropriate operating margin, invest in buildings and resources, reward and retain staff, manage unexpected costs and plan for the future. Provider sustainability should therefore be a central characteristic, not a secondary consideration under affordability or cost drivers.

The current description also assumes that effective competition can operate normally. However, providers do not control the main price for a growing proportion of their services. Government sets the funded rate, controls eligibility and frequently restricts how providers may structure charges. At the same time, government controls major cost drivers through minimum wages, pension requirements, regulation, staffing ratios and qualification expectations. This is not a conventional competitive market.

The definition should clearly recognise the need for fair competition between provider types. State-maintained and school-based settings should not be able to expand using public buildings, shared staff, subsidised overheads or institutional financial support without the effect on existing local PVI provision being assessed.

A well-functioning market should include sustainable and predictable provider funding, fair competition between public and private provision, freedom for providers to recover legitimate costs transparently, a sufficient range of provider types and educational approaches, realistic workforce availability, proportionate regulation, reliable local-authority administration and genuine long-term parental choice.

A market designed solely around immediate affordability and availability for parents, while transferring unrecoverable costs and commercial risk to providers, is not well functioning.

Q3: DO YOU CONSIDER THAT THE CHILDCARE SECTOR CURRENTLY DISPLAYS THE CHARACTERISTICS OF A “WELL-FUNCTIONING MARKET” SET OUT IN PARAGRAPH 30?

FOR EACH “YES” AND “NO” RESPONSE, PLEASE EXPLAIN WHY YOU CONSIDER THIS TO BE THE CASE, WHAT IS DRIVING THIS, AND FOR “NO” RESPONSES HOW THIS COULD BE REMEDIED.

No. The sector does not currently display the characteristics of a well-functioning market.

There is no genuine market price for a substantial and increasing proportion of childcare. The government decides what it will pay while presenting the offer to families as “free childcare”. Providers are then expected to deliver highly regulated services at a rate they cannot negotiate, despite having no control over increases in wages, National Insurance, pensions, food, utilities, rent, insurance and compliance.

The government sometimes responds to concerns about inadequate funding by saying that providers are free not to offer funded places. Although this is technically correct, it is not a meaningful choice in practice. Funded hours are now offered so widely that most parents expect to use them, and few providers could afford to withdraw without losing substantial numbers of families. This argument is therefore disingenuous and avoids the central issue: whether providers who are effectively required by market conditions to participate are being paid enough to deliver the places sustainably.

Many providers rely on parent-paid hours, meals, consumables or other optional services to make up for the funding shortfall. Yet government guidance and public messaging frequently discourage these charges or imply that parents should not have to pay them. No ordinary business would be expected to survive through optional income that its main funder actively restricts and encourages customers to avoid.

Effective competition is also distorted by differences between PVI and state-maintained provision. Schools may benefit from publicly funded premises, shared management, central administration, established infrastructure and the ability to absorb nursery losses elsewhere. Independent nurseries must meet every cost from their own income.

The result is fragile provision, reduced investment, recruitment difficulties, staff burnout, owner exhaustion, closures and consolidation. This may ultimately reduce parental choice, particularly where distinctive, small or locally responsive providers disappear.

Remedies should include independently calculated funding rates that cover the full cost of delivery and provide a reasonable margin; automatic funding adjustments when statutory employment costs increase; freedom to charge a transparent

shortfall where funding is insufficient; honest government communication to parents; proper impact assessments before opening new state provision; and consistent local-authority administration.

Provider sustainability should be measured over several years, not merely by whether settings remain temporarily open.

Q4: NO QUESTION NUMBERED Q4 APPEARS IN THE PUBLISHED STATEMENT OF SCOPE

The published list moves from Q3 to Q5, so we have followed the numbering used in the CMA's Statement of Scope.

Q5: ARE THERE ANY SPECIFIC AREAS WE SHOULD FOCUS ON IN RELATION TO THE CONSUMER JOURNEY AND CHOICE, INCLUDING FAMILIES' ABILITY TO MAKE INFORMED CHOICES, ACCESS AND SWITCH CHILDCARE SERVICES, OR ASPECTS OF THE CONSUMER EXPERIENCE? WHY?

The CMA should examine the effect of the government's use of the term "free childcare". The provision is not free to deliver, and the funded rate does not necessarily cover providers' costs. The wording leads many parents to believe that all elements of their childcare place should be supplied without charge and that any additional payment is an unfair provider charge rather than a consequence of the funding model.

Parents should receive clear information distinguishing between government-funded hours, the amount paid by government, the hours and weeks covered, and additional services such as meals, consumables, extended sessions and non-funded periods.

For the government to be completely honest with parents, it must acknowledge that the funding paid to many settings does not cover the actual cost of delivering those places. The entitlement should therefore be described as "funded" or "subsidised" childcare, not "free childcare". Calling it "free" gives parents the misleading impression that providers have been paid in full and that any additional charges are unnecessary or unfair. In reality, many settings must rely on charges for additional services simply to make funded provision financially workable.

The CMA should also examine whether apparent consumer choice is genuine. A parent may appear to have several providers nearby, but not all will offer funded hours on commercially sustainable terms, have places for the required days, accept babies, support SEND, provide extended hours or operate throughout the year. For example, many state-maintained settings do not operate year-round.

Switching is not comparable to changing an ordinary service provider. Children form attachments, parents require confidence in safeguarding, and available places may be limited. Settings must also plan staffing based on booked sessions. Reasonable notice periods and deposits are therefore legitimate business protections and should not automatically be described as barriers.

Information should allow meaningful comparison without forcing providers into a misleading single headline price. Providers offer different opening hours, staffing models, environments, meals, resources and educational approaches. Consumer transparency must recognise these differences rather than encouraging comparison based on price alone.

Providers are increasingly expected to offer parents a very high level of flexibility over session times to suit individual working patterns and preferences, often with little recognition of how nurseries must operate.

It is not possible for settings to provide unlimited flexibility. Nurseries have fixed session times, statutory staffing ratios and staff costs that continue whether a child arrives late, leaves early or uses only part of a booked session. For example, our costs do not simply stop at 3pm because a parent no longer needs the place for the rest of the day.

Greater flexibility can also create gaps that cannot realistically be filled by another child, while the nursery must still pay the staff needed to keep the place available. Providers need to plan staffing, rotas, rooms and capacity in advance.

The current system is too heavily weighted towards parental convenience, with insufficient regard for providers' working practices and financial realities. Reasonable session structures, minimum booking patterns and notice requirements are necessary to operate safely and sustainably. These should not automatically be treated as unfair simply because they do not offer complete flexibility to every family.

Providers are also prevented from requiring parents using funded hours, now the large majority of families, to pay a non-refundable deposit or reservation fee. This creates a serious imbalance between the rights and responsibilities of parents and providers.

A parent may reserve places at more than one setting and then cancel at very short notice without any financial consequence. By that stage, the nursery may already have recruited or committed staff, prepared rotas, reserved the place and turned away other children. The income may disappear immediately, but the staffing and operating costs remain.

Funded childcare is a substantial taxpayer-funded benefit. In return, it is reasonable to expect parents to meet basic conditions, such as making a genuine booking, giving proper notice and not reserving multiple places they do not intend to use.

Providers should be allowed to charge a reasonable reservation deposit, which could be refunded or credited once the child starts, together with fair cancellation charges where insufficient notice is given. These protections should not be treated as barriers to funded childcare. They are basic safeguards that allow settings to plan staffing and occupancy responsibly and prevent the financial risk from being placed entirely on the provider.

Q6: ARE THERE ANY SPECIFIC AREAS THAT WE SHOULD FOCUS ON BECAUSE THEY HAVE THE POTENTIAL TO DISPROPORTIONATELY AFFECT VULNERABLE CONSUMERS?

The study should focus particularly on children with SEND and their families. Providers frequently face substantial additional staffing, training, administration and resource costs, while additional funding can be delayed, insufficient or difficult to access. Settings may be expected to provide one-to-one or enhanced support without receiving funding that reflects the actual cost.

The CMA should assess whether local SEND funding systems unintentionally discourage providers from accepting children with higher needs, and whether the burden falls unfairly on providers committed to inclusion. Funding should follow the child promptly and reflect the support actually required.

Low-income families may also be disadvantaged by misleading descriptions of “free childcare”. They may budget on the assumption that no additional costs will arise and then be surprised by charges for meals, consumables, additional hours or holiday periods. The answer is not to prevent providers from recovering legitimate costs, but to make the limits of government funding clear and ensure that the rate genuinely covers the promised provision.

Vulnerable families may need flexible arrangements, but flexibility creates cost and staffing pressures. Late changes, irregular attendance and unpredictable hours cannot always be absorbed by small providers without compensation.

The study should also consider children in areas where small independent providers are closing. A reduction in provider choice may affect families without transport, parents working non-standard hours and children who need smaller or more specialised environments most severely.

Consumer vulnerability must not be considered in isolation from provider vulnerability. A financially unstable provider may have fewer resources to support

complex needs, invest in staff or remain open. Sustainable provision is therefore itself a consumer protection issue.

Q7: NO QUESTION NUMBERED Q7 APPEARS IN THE PUBLISHED STATEMENT OF SCOPE

The published list moves from Q6 to Q8, so we have followed the numbering used in the CMA's Statement of Scope.

Q8: ARE THERE ANY SPECIFIC ISSUES WE SHOULD FOCUS ON IN TERMS OF HOW, AND THE EXTENT TO WHICH, CHILDCARE PROVIDERS COMPETE TO GAIN CONSUMERS AND ARE INCENTIVISED OR DISCIPLINED TO MEET CONSUMERS' PREFERENCES AND NEEDS? WHY?

The CMA should avoid assuming that stronger price competition will necessarily improve outcomes. Staffing is the largest cost in childcare, and quality depends heavily on stable, experienced and appropriately trained employees. Pressure to reduce prices where funding already fails to cover costs may lead to lower investment, larger groups, reduced staff benefits, less experienced workforces and provider closures.

Providers already compete extensively through reputation, Ofsted outcomes, educational approach, premises, outdoor space, opening hours, food, communication, flexibility and relationships with families. Small providers often set themselves apart through personal leadership and responsiveness to local needs.

However, their ability to respond is limited by regulation, staffing ratios, qualification requirements, workforce shortages and government-controlled funding. A provider cannot sustainably meet every parental preference where the income attached to a place does not cover its cost.

The CMA should investigate unequal competitive conditions between provider types. Publicly supported settings may be able to offer lower apparent prices because premises, management, utilities or administration are subsidised elsewhere. They may also open provision in response to policy objectives rather than proven unmet demand.

The study should examine whether public funding is being used to create additional places that displace sustainable existing provision rather than address genuine shortages.

Competition policy must also recognise the importance of diversity. The loss of independent and small-group nurseries could leave parents with fewer meaningful

choices, even where the total number of places is maintained by larger groups or schools.

The aim should not simply be lower prices. It should be transparent quality, fair funding, financial accountability, regulatory compliance and the ability of families to choose between genuinely sustainable providers.

Q9: ARE THERE ANY PARTICULAR TYPES OF CONDUCT OR PRACTICES WE SHOULD FOCUS ON THAT MAY ADVERSELY AFFECT CONSUMERS OR COMPETITION? WHAT ARE THEY AND WHY SHOULD WE FOCUS ON THEM?

The CMA should examine government and public-body practices as well as provider conduct.

First, the description of funded entitlements as “free childcare” should be reviewed. It creates unrealistic consumer expectations and places providers in conflict with parents when they seek to recover costs not covered by funding.

Second, the CMA should investigate whether local authorities apply funding rules consistently, pay providers promptly, explain changes clearly and avoid imposing conditions that go beyond national requirements.

There is evidence that local authorities interpret government funding guidance in different ways and sometimes place restrictions on providers that are not actually required by national guidance. Because the local authority controls the release of funding, it can be extremely difficult for an individual setting, particularly a small provider, to challenge these requirements without risking delays, disputes or financial consequences.

There are numerous examples of local authorities overstepping their role or applying an unnecessarily strict interpretation of funding guidance. Some also require private providers to disclose commercially sensitive information about private fees, turnover, income and profitability, even where it is unclear why that level of information is necessary or proportionate.

The CMA should examine the balance of power between local authorities and providers, whether local authorities are acting consistently within the national framework, and whether there is any realistic and independent route for settings to challenge local decisions. Delayed, unpredictable or conditional payments can cause serious cash-flow problems, especially for single settings and small nursery groups.

Third, there should be scrutiny of decisions to open or expand state-maintained nursery provision without transparent evidence of unmet demand or an assessment

of the effect on nearby providers. Public bodies should not use subsidised assets to displace otherwise sustainable independent businesses.

Fourth, the study should assess provider practices fairly and in context. Clear fee schedules, deposits, notice periods, minimum sessions and charges for meals or consumables can be commercially necessary. They should not be treated as inherently unfair simply because parents would prefer greater flexibility.

The CMA may reasonably consider unclear pricing, unexpected compulsory charges, misleading descriptions and disproportionate cancellation terms. However, it must distinguish between exploitative practices and legitimate measures required to manage fixed staffing costs and insufficient public funding.

The study should also investigate whether consolidation and acquisition strategies result in reduced local choice, increased fees, excessive extraction of returns, high debt burdens or the closure of less profitable settings. This analysis must not lead to all private providers being treated as equivalent to private equity-backed groups.

Small owner-managed nurseries should be assessed separately from large corporate operators.

Q10A: WE ARE INTERESTED IN WHETHER THE REGULATORY FRAMEWORKS IN THIS SECTOR, AND THEIR ENFORCEMENT, ALONG WITH COMPLAINT AND REDRESS MECHANISMS, SUPPORT GOOD COMPETITION AND CONSUMER OUTCOMES. ARE THERE ANY PARTICULAR AREAS WE SHOULD CONSIDER? WHY?

The regulatory framework is necessary to protect children, but the combined burden has become considerable, particularly for smaller providers without dedicated compliance, human resources, finance or legal departments.

The CMA should consider duplication and inconsistency between Ofsted, local authorities, the Department for Education, environmental health, planning authorities, safeguarding partnerships and funding teams. Providers may receive different interpretations of national requirements from different local authorities or individual officers.

Regulatory change is often introduced without sufficient assessment of the cost, staffing implications or administrative burden. Providers are expected to implement new requirements while the funding rate remains unchanged.

Complaint and redress mechanisms must protect families, but providers also need protection from malicious, vexatious or demonstrably inaccurate complaints. An allegation can cause significant reputational and operational damage before it has

been investigated. Processes should be timely, balanced and evidence-based.

The CMA should also examine whether parents receive clear information about the correct route for different complaints. Ofsted, local authorities and providers have distinct responsibilities, and confusion can result in concerns being directed to organisations without the power to resolve them.

Regulation should be consistent across provider types. Equivalent services should meet equivalent safeguarding, staffing, information and accountability standards, whether they are delivered by a school, charity, private company or childminder.

Finally, funding guidance should be sufficiently clear that providers can structure lawful charges with confidence. Constant uncertainty about what may be charged creates disputes with parents, discourages investment and makes financial planning extremely difficult.

Q10B: ARE THERE ELEMENTS OF THESE REGULATORY FRAMEWORKS THAT CREATE UNNECESSARY OR DISPROPORTIONATE BARRIERS TO COMPETITIVE DYNAMICS, SUCH AS ENTERING THE CHILDCARE SECTOR, EXPANDING EXISTING BUSINESSES OR INTRODUCING NEW BUSINESS MODELS?

Yes. Ofsted registration timescales, planning requirements, building works, recruitment, qualification requirements and uncertainty over local-authority funding arrangements can create significant barriers to entry and expansion.

A new provider may incur rent, professional fees, construction costs, equipment purchases, insurance and staffing expenditure for months before registration is completed and income begins. Delays can therefore make otherwise viable projects impossible.

Planning requirements are inconsistent between areas and can be disproportionate where premises already have an educational, community or similar use. Greater national consistency and clearer guidance would help responsible providers.

The greatest barrier, however, is uncertainty over future income. Providers may invest hundreds of thousands of pounds in premises and fit-out but cannot predict future funded rates, wage increases, entitlement rules or restrictions on parent charges. Few businesses can make sound investment decisions where government controls both revenue and major costs but offers no stable multi-year framework.

Smaller providers face a greater burden because the same regulatory and administrative requirements are spread across one or two settings rather than a large group.

The CMA should consider whether approval and registration processes can run at the same time, whether providers can receive earlier guidance on likely decisions and whether public bodies can better coordinate their requirements.

New models should not be blocked simply because they differ from traditional term-time or sessional provision. However, innovation must not be used as a reason to weaken child safety or staff protections. The objective should be simpler, clearer and proportionate regulation, not deregulation at the expense of quality.

Q11: MORE GENERALLY, ARE THERE ANY BARRIERS TO ENTERING THE PROVISION OF CHILDCARE SERVICES, OR TO EXPANDING EXISTING BUSINESSES, THAT YOU BELIEVE ARE UNNECESSARY OR DISPROPORTIONATE? IF YES, PLEASE EXPLAIN. ARE THERE ANY PARTICULAR BARRIERS FOR SMALLER BUSINESSES?

The main barrier is the absence of a reliable commercial model.

Providers face high initial capital costs, strict staffing ratios, substantial employment costs, registration delays, planning uncertainty and limited access to suitable premises. They then enter a system in which government determines the price of a growing proportion of their service without guaranteeing that the price covers delivery costs.

This is particularly damaging to small providers. They cannot spread management, safeguarding, training, human resources, finance, marketing and compliance costs across dozens of settings. They are also less able to withstand delayed funding, temporary reductions in occupancy, staff absence or unexpected repairs.

Recruitment is a major constraint. Wage increases may be necessary and socially desirable, but they must be matched by funding. Repeated increases in statutory employment costs above the increase in the funded rate directly discourage recruitment and expansion. Recent changes to employment law particularly to SSP entitlement and the increase in statutory pay for younger workers has discouraged employment and expansion.

Business rates, rent, utilities, insurance and premises compliance also create significant barriers. Schools expanding nursery provision may not face these costs on the same basis, creating an uneven market.

Access to finance is difficult because lenders can see that future revenue depends heavily on political decisions. A provider cannot offer credible long-term projections where funding rates, eligibility and charging rules may change each year.

The CMA should recommend multi-year funding settlements; automatic adjustments

for statutory employment-cost increases; faster registration; proportionate planning rules; consistent local-authority administration; and impact assessments before publicly supported nursery places are created.

Most importantly, the study must speak directly to a substantial number of single-setting nurseries and small groups. A process dominated by large operators will produce a distorted understanding of entry, expansion and sustainability.

CONCLUSION

The CMA's market study is an important opportunity to examine the early years sector as an interconnected economic system rather than treating provider sustainability, parental affordability, public provision and government funding as separate issues.

A market cannot be considered successful simply because it delivers the greatest possible number of hours to families at the lowest apparent direct cost. It must also allow competent and efficient providers to remain financially viable, invest, employ staff responsibly and offer genuine long-term choice.

Policy cannot be designed solely in the interests of parents and state-maintained provision while assuming that the PVI sector will absorb every funding shortfall and cost increase. If smaller independent providers continue to leave the sector, the long-term consequences will include reduced parental choice, greater concentration, lost employment—particularly female employment—and increased dependence on state provision.

We would welcome the opportunity to take part in further evidence-gathering, including provider roundtables or detailed financial case studies involving small nursery groups.

We are content for this response to be published and attributed to our organisation, subject to the removal of personal contact details.

Yours faithfully,

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