

UK Private Capital Response - CMA Childcare Market Study Statement of Scope

<https://www.gov.uk/cma-cases/early-years-education-and-childcare-market-study>

Summary

UK Private Capital is the industry body and public policy advocate for the private equity (PE), venture capital (VC) and private credit ecosystem in the UK. With a membership of 600 firms, we represent UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors.

The private equity, venture capital and private credit industry has a vital role to play in driving national and regional growth. Currently 13,000 companies, employing 2.5 million people, are backed by private capital investment in the UK.

UK Private Capital welcomes the CMA's engagement with the private capital industry and supports an evidence-based assessment of competition and consumer outcomes across the childcare sector.

Private equity-backed providers operate alongside independent businesses, charities, publicly listed companies and other provider models, contributing to the expansion of childcare capacity and the creation of new places. PE-backed providers have delivered high levels of quality while supporting greater professionalism across the sector through investment in facilities, systems and operational standards.

The study should therefore assess outcomes consistently and proportionately across all provider types. This is particularly important when considering geographic provision, where differences in availability and capacity may reflect funding, workforce, planning and local market conditions rather than ownership structure.

Q1: Do you agree with our proposed scope (both the services and geographic scope) for this market study, as set out in paragraphs 23-26, 28. If not, what areas would you suggest we include, exclude or prioritise, and why?

We broadly agree with the proposed scope and welcome the CMA's focus on market outcomes.

The childcare sector includes a wide range of ownership models, including independent businesses, charities, publicly listed companies, employee-owned businesses and private capital-backed providers. The study should assess whether outcomes differ materially between providers and, in cases where differences are identified, it should identify and examine the factors responsible rather than assume that ownership is itself the cause.

UK Private Capital analysis finds that the largest PE-backed nursery groups account for approximately 10% of nursery places in England. Private capital has supported the growth and professionalisation of childcare businesses, including through investment in new places, facilities, management systems, workforce development and operational standards. The CMA should therefore consider the role of investment in expanding capacity and improving provision.

Geographic provision should similarly be examined across all provider types. Any assessment should distinguish between the effect of ownership and wider factors affecting the commercial

viability of provision in particular areas, including funding rates, workforce availability, property and planning constraints, and local demand. Conclusions about private equity ownership should therefore be proportionate to its share of the market.

These are not proposed additions to the scope, but areas where focused analysis would help the CMA distinguish between issues arising from providers' practices and those caused or amplified by the design and administration of the wider system.

Q2: Do you agree with our articulation of the characteristics of a 'well-functioning market' for childcare services as set out in paragraph 30? If not, what should be changed and why?

We agree that a well-functioning market should deliver positive outcomes for consumers through high-quality consistent supply and a well-designed regulatory system, alongside competition across quality, suitability, flexibility, curriculums and value.

Private capital backed providers have achieved high levels of quality and have supported investment, growth and professionalisation across the sector.

However, we would also add that childcare differs from many consumer markets because government funding and public administration are major determinants of market outcomes. The definition should recognise to a much greater extent the significant role played by government and public bodies: funding rates, eligibility rules, local authority administration, regulation, planning and decisions about public provision all influence prices, market entry, expansion, financial sustainability, parental choice and the availability of services.

Q3: Do you consider that the childcare sector currently displays the characteristics of a 'well-functioning market' set out in paragraph 30?

UK Private Capital is not best placed to offer a comprehensive assessment of the childcare market. However, the CMA should distinguish carefully between issues arising from provider conduct and those resulting from structural conditions - the regulatory, funding, workforce, and economic characteristics of the childcare sector, which influence providers and market outcomes.

Availability and capacity are likely to be influenced by a combination of public funding, workforce constraints, planning and property costs, local demand and the ability of providers to invest.

Providers cannot always respond efficiently to demand where funding is unpredictable, local rules differ materially, or the necessary workforce and premises are unavailable. Geographic differences in provision should therefore be assessed across all provider types and should not be attributed to any single ownership model without clear evidence.

The CMA should also recognise that access to long-term capital can support a well-functioning market by enabling providers to improve facilities, expand capacity, strengthen standards and reporting.

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?

Choice of providers is important in a well-functioning childcare market. Families have different needs depending on location, working patterns, affordability, age of child and the type of provision they require. A diverse market of independent, charitable, public company and private capital-backed providers can help support parental choice, improve responsiveness to demand and create incentives for providers to invest in quality, facilities and standards.

Good childcare provision also has wider economic value. It supports parental participation in the labour market, helps employers retain skilled workers and contributes to productivity by making work viable for more families. The availability of high-quality provision across the UK should therefore be considered not only as a consumer issue, but as part of the wider economic infrastructure needed to support growth.

Private capital plays an important role in that provision by supplying long-term investment to create additional places, improve facilities, supply management expertise and support for expansion. The CMA should therefore consider how access to investment can support consumer choice and sustainable supply.

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/disciplined to meet consumers' preferences and needs? Why?

Private capital is one of several ownership models present within the childcare sector. Private capital-backed providers account for a relatively small share of the overall market and compete alongside independent operators, publicly listed companies, charities and other provider models.

Where the CMA examines market concentration, consumer choice or competitive dynamics, we would encourage it to assess these issues across the sector and in light of the role of government funding rather than focussing on specific ownership structures.

Private capital provides the long-term investment needed to open or acquire settings, create additional places, improve facilities and professionalise systems, standards and reporting. These contributions should form part of the CMA's assessment of how investment and scale affect competition and consumer outcomes. However, responsiveness is constrained by factors outside providers' direct control that increase provider costs, including workforce availability, public funding rates, planning and premises, local authority rules, specialist support and the timing of SEND funding.

If the CMA identifies differences in outcomes, it should test whether these are caused by ownership or by other factors such as provider size, local market conditions, workforce availability or the age and condition of individual settings.

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?

No response.

Q10a: We are interested in whether the regulatory frameworks in this sector, and their enforcement, along with complaint and redress mechanisms, support good competition/consumer outcomes. Are there any particular areas we should consider? Why?

No response.

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, introducing new business models?

Access to capital is an important factor in supporting business expansion and the creation of additional capacity, as well as investment in existing facilities. Private capital provides the long-term investment, with an average investment period of around 6 years, in contrast to less than a year in public markets. This long-term investment is needed for providers to open or

acquire settings, create additional places, improve facilities and professionalise systems, standards and reporting.

The CMA may wish to consider whether any aspects of the regulatory or planning framework create barriers to investment, entry or expansion across the sector.

UK Private Capital does not take a view on the overall design of childcare regulation. However, regulation should protect quality and safety while encouraging responsible investment and the expansion of high-quality provision.

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 CMA should consider the barriers facing providers seeking to enter the market, to expand existing settings or to open provision in underserved areas.

These may include access to suitable premises, planning restrictions, workforce availability, registration requirements, funding rates and the upfront cost of creating and delivering new capacity. Providers may face challenges in absorbing these costs or accessing the capital required to expand.

Suitable premises can be difficult and expensive to secure: planning processes, conversion costs, rent, business rates, outdoor-space requirements, access to capital and uncertainty over funding rates are all barriers to entering or increasing provision.

Private capital helps providers overcome some of these barriers by supplying long-term investment, management expertise and support for expansion. This can enable successful providers to create additional places, improve facilities and introduce stronger systems and professional standards.

However, investment cannot by itself resolve underlying viability constraints. Where these constraints make provision less viable, competitive pressure alone will not create sustainable capacity.

Conclusion

Private capital-backed providers have delivered high-quality provision and supported growth, investment and professionalisation of the sector.

UK Private Capital welcomes that the CMA will assess quality, competition, geographic provision and consumer outcomes consistently across all provider types and ownership models. If differences are identified, the CMA should establish whether they are attributable to ownership or instead reflect provider size, local demand, workforce constraints, regulation funding, planning, or other market conditions.

Any conclusions about private equity ownership should be proportionate to its share of the market and supported by robust comparative evidence. UK Private Capital would welcome continued engagement with the CMA and is ready to provide further evidence on the role of private capital investment in supporting childcare provision.